WIFO ■ REPORTS ON AUSTRIA
1/2025

Fiscal Consolidation Hampered by Sluggish GDP Growth.

Economic Outlook for 2025 and 2026

Stefan Ederer, Stefan Schiman-Vukan

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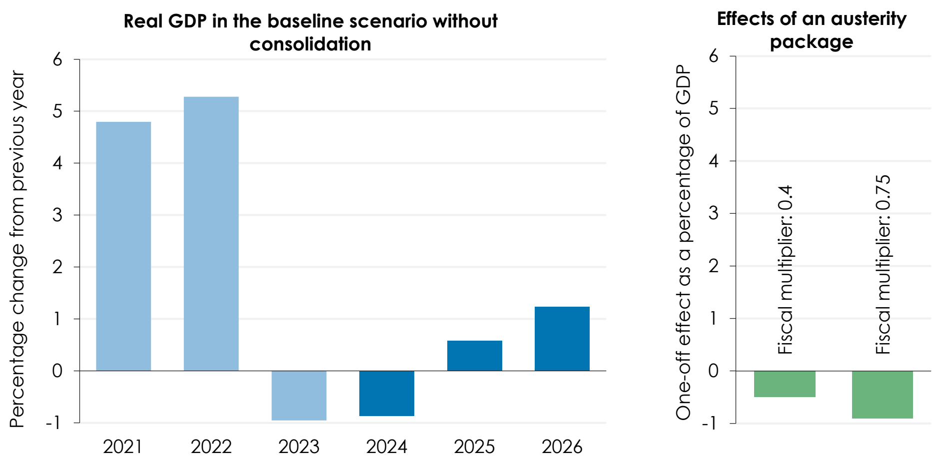
- Economic policy uncertainty in Austria is high. Considerable savings in public budgets are to be expected over the forecast period, the effects of which cannot be estimated at present.
- The starting position for fiscal consolidation is difficult, as Austria's economic output contracted again by almost 1 percent in 2024.
- Moderate real GDP growth of 0.6 and 1.2 percent is expected in 2025 and 2026 respectively.
- The unemployment rate rose to 7.0 percent in 2024 and will increase further to 7.4 percent in 2025. It will fall back to 7.0 percent in 2026.
- Inflation is expected to average 3 percent in 2024 and slow to 2 percent by 2026.

Economic impact of fiscal consolidation in Austria



"A reduction of the budget deficit to below 3 percent of GDP in 2025 would further dampen the already weak Austrian economy. Instead of moderate growth, there is a risk of another recession in this case."

In the absence of fiscal consolidation measures, real GDP growth is projected to be 0.6 percent in 2025 and 1.2 percent in 2026. A reduction of the budget deficit from 4.2 to 3 percent of economic output in 2025 would reduce GDP growth by 0.5 or 0.9 percentage points, depending on the assumed fiscal multiplier (source: Statistics Austria, Fiscal Advisory Council, WIFO).

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January 2025

Fiscal Consolidation Hampered by Sluggish GDP Growth. Economic Outlook for 2025 and 2026

In Austria, the public sector is expected to make substantial savings over the next few years, the impact of which cannot yet been foreseen. The starting position for fiscal consolidation is difficult, especially as Austria's economic output contracted again by almost 1 percent in 2024 and will grow only hesitantly over the forecast period (2025 +0.6 percent, 2026 +1.2 percent). The unemployment rate will rise to 7.4 percent in 2025 and fall slightly to 7 percent in 2026.

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

Economic policy uncertainty in Austria is currently high. A new federal government faces the task of a significant budget consolidation, the effects of which cannot yet be foreseen. This forecast therefore describes the current economic situation and has been prepared under the assumption of unchanged economic policy conditions. However, a rough estimate has been made of the impact of possible savings in public budgets on economic developments.

The starting position for fiscal consolidation is difficult, especially as Austria's economic output is likely to have contracted again by almost 1 percent in 2024. Industry and construction are still in recession. In addition, private households are unusually reluctant to spend.

There are currently no signs of a turnaround. Business sentiment remains predominantly pessimistic, although there are signs of a slight improvement outside the industrial sector. The expected rise in energy prices at the beginning of 2025, due to higher network charges, has led to a further deterioration of consumer confidence. The global industrial economy and global trade in goods are only gradually regaining momentum. Against this backdrop, the Austrian economy is expected to grow by 0.6 percent in 2025. A slight economic recovery is expected in the second half of the year, which will be reflected in GDP growth of 1.2 percent in 2026.

The persistently weak economic development resulted in a noticeable increase in the unemployment rate to 7.0 percent in 2024. Employment growth will only pick up slightly towards the end of 2025, causing the unemployment rate to rise to 7.4 percent in 2025 before falling back to 7.0 percent in 2026. Inflation slowed to 3 percent in 2024 and will continue to ease over the forecast period, but will still average slightly above 2 percent in 2025 due to the rise in household energy prices at the beginning of the year (2026: 2 percent).

The budget deficit is projected to rise to more than 4 percent of GDP in 2025 without further measures. A sharp reduction in the deficit to the limit of 3 percent of economic output set out in the EU treaties would dampen GDP growth by ½ to 1 percentage point, depending on the nature and timing of the measures.

Table 1: **Main results**

	2021	2022	2023	2024	2025	2026
	Percentage changes from previous year					
Gross domestic product, volume	+ 4.8	+ 5.3	– 1.0	– 0.9	+ 0.6	+ 1.2
Manufacturing	+ 10.9	+ 6.7	– 1.8	– 4.5	± 0.0	+ 1.5
Wholesale and retail trade	+ 4.5	+ 0.7	– 5.7	– 2.0	+ 0.6	+ 1.6
Private consumption expenditure[1], volume	+ 4.8	+ 4.9	– 0.5	– 0.3	+ 0.8	+ 1.5
Consumer durables[2]	+ 6.4	– 4.5	– 5.4	+ 0.5	+ 1.0	+ 2.0
Gross fixed capital formation, volume	+ 6.0	+ 0.4	– 3.2	– 2.9	– 0.4	+ 1.6
Machinery and equipment[3]	+ 7.7	+ 1.9	+ 2.4	– 1.6	– 1.1	+ 1.7
Construction	+ 4.1	– 1.3	– 9.3	– 4.4	+ 0.5	+ 1.6
Exports, volume	+ 9.5	+ 10.0	– 0.4	– 2.9	+ 1.4	+ 2.3
Exports of goods, fob	+ 12.4	+ 6.0	– 0.4	– 4.5	+ 1.5	+ 2.0
Imports, volume	+ 14.1	+ 7.1	– 4.6	– 2.5	+ 1.7	+ 2.3
Imports of goods, fob	+ 14.8	+ 3.0	– 7.4	– 4.9	+ 2.0	+ 3.0
Gross domestic product, value	+ 6.8	+ 10.3	+ 5.6	+ 3.6	+ 2.5	+ 3.4
billion €	406.23	448.01	473.23	490.16	502.49	519.46
Current account balance as a percentage of GDP	1.7	– 0.9	1.3	2.4	2.0	2.1
Consumer prices	+ 2.8	+ 8.6	+ 7.8	+ 3.0	+ 2.3	+ 2.0
GDP deflator	+ 1.9	+ 4.8	+ 6.6	+ 4.5	+ 1.9	+ 2.1
General government net lending, Maastricht definition as a percentage of GDP	– 5.7	– 3.3	– 2.6	– 3.7	– 4.2	– 4.1
Persons in active dependent employment[4]	+ 2.5	+ 3.0	+ 1.2	+ 0.2	+ 0.4	+ 0.9
Unemployment rate, national definition[5]	8.0	6.3	6.4	7.0	7.4	7.0
Command-based GDP per capita[6]	+ 3.8	+ 1.1	– 1.9	+ 0.1	+ 0.3	+ 1.1
At-risk-of-poverty rate[7] percent	14.8	14.9	15.4	15.4	15.8	15.3
Income quintile ratio[8] ratio	4.3	4.3	4.5	4.5	4.5	4.5
Greenhouse gas emissions[9]	+ 4.9	– 6.0	– 6.4	– 3.4	– 1.5	– 1.2
million t CO_2 equivalent	77.53	72.84	68.17	65.84	64.87	64.08

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 (60 percent of the national median equivalised disposable income). From 2023: forecast. – [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 2023: forecast. – [9] 2023: estimate according to Environmental Agency Austria. From 2024: forecast.

1. Introduction

This forecast is characterised by a high degree of economic policy uncertainty. In Austria, government negotiations are in full swing, and it is not yet possible to predict which economic policy course will be taken in the current legislative period. In view of the high budget deficit, cuts in government spending and increases in taxes and duties are to be expected, at least in the medium term. The size and timing of these measures and their composition in an overall fiscal consolidation package will have a significant impact on the economy. Against this backdrop, it is difficult to present a forecast that can withstand the actual economic development in 2025 and 2026. WIFO has therefore prepared its forecast under the assumption that no budget consolidation will take place, in order to provide a solid planning basis and to highlight the need for consolidation. However, the possible effects of budget consolidation on the business cycle were roughly estimated by determining how a sharp reduction of the deficit to 3 percent of GDP would affect economic output.

In addition to domestic fiscal policy, the international environment is also currently a source of great uncertainty. The newly elected president in the USA has announced a number of fiscal and trade policy measures, the concrete design of which remains to be seen. This forecast takes account of this by assuming tariffs on a number of products in several countries. In addition, it is still unclear how the budget consolidation demanded by the European Commission will be implemented in the coming years. Important EU countries, such as

Germany and France, do not currently have a government supported by a parliamentary majority. Last but not least, European industry is also facing a crisis that is both structural and cyclical in nature. The production structures and sales markets of many EU economies are undergoing change in the aftermath of the multiple crises, and it is not yet possible to assess whether the weak demand for European industrial goods is only temporary or reflects a permanent adjustment.

2. Moderate expansion in the global economy

Donald Trump's economic policy could strengthen the economy in the USA in the short term. Tariffs will dampen global trade in the longer term.

The global economy showed a moderate upward trend in autumn 2024. Global industrial production has been growing again since mid-2023 and global trade in goods has gained momentum since spring 2024. The economy is particularly robust in the USA and Asia, with the exception of China, but particularly weak in Western Europe. The moderate global economy is also reflected in commodity prices, which have remained largely stable overall in recent months, as measured by the HWWI index in dollar terms. However, natural gas became noticeably more expensive over the course of 2024, while the price of crude oil fell. Nevertheless, at the beginning of November, natural gas on the European market was around 15 percent cheaper than in the previous year, as the seasonal price increase has so far been weaker than in autumn 2023.

The major central banks in the developed world have recently cut their key interest rates. The interest rate corridor in the USA is now between 4.50 to 4.75 percent, the bank rate in the UK is 4.75 percent and the deposit rate in the euro area is 3 percent. Monetary policy has therefore become less restrictive but is still dampening economic activity and price increases. Accordingly, financial markets are anticipating further key interest rate cuts, leading to partially inverted yield curves.

The moderate expansion of the global economy is expected to continue in 2025 and 2026. Easing inflation in industrialised countries and rising real incomes will support consumer demand, and investment will be boosted by the gradual easing of monetary policy. Higher trade tariffs will not come into effect immediately after Donald Trump takes office, but rather in the course of 2025, exacerbating existing trade diversions. This will primarily affect the USA's bilateral trade with China, some of which will shift to other countries. The forecast assumes that the USA will gradually introduce targeted tariffs against China, Mexico, Canada and the EU in 2025 (see box "On the economic policy measures of the new administration in the USA"). The tariff increases are likely to have a pull-forward effect, meaning that global trade will pick up in the first half of 2025 but then gradually slow down. All in all, global output will increase by a good 2½ percent in each of the years 2024 to 2026.

The economy in the USA expanded strongly in 2024. Private consumption remained buoyant until recently, partly because the inflation rate had fallen to just below 2½ percent by the autumn, resulting in rising real incomes. However, public consumption, investment in machinery and equipment and exports have also risen significantly recently. The robustness of the economy in the USA is also reflected in the fact that the unemployment rate has so far remained low at around 4 percent, although employment growth has been losing momentum for more than a year. As the revision of the National Accounts suggests, the growth potential of the economy in the USA is higher than previously assumed. The upper turning point of the current economic cycle has probably not yet been reached, meaning that expansion can continue unabated in view of the favourable environment. Inflation is trending down, and consumer confidence remains high. Although the increase in trade tariffs will push up consumer prices, the continued extremely expansionary fiscal policy will favour overall economic development. Overall, GDP in the USA is expected to grow by 2.5 percent in 2025 and 2.4 percent in 2026.

European industry is currently suffering from both cyclical and structural problems. Germany has been particularly hard hit.

In the euro area, economic output grew by 0.4 percent in the third quarter of 2024 compared to the previous quarter – the strongest increase in two years. Spain again showed the strongest momentum, but France also recorded robust GDP growth, which was partly due to the positive impetus from the Summer Olympics. However, industrial production has trended downwards in recent months and business sentiment remains pessimistic. In particular, order books were reported to be significantly lower than recently. It is therefore unlikely that European industry has yet overcome the crisis. In contrast, consumer confidence has improved in most euro area countries, probably also because inflation fell to 2¼ percent in autumn and real incomes are rising noticeably. In addition, the labour market remains robust. Private consumption should therefore gradually pick up. Industrial activity, on the other hand, will be slow to recover, partly because investment will take time to pick up. European fiscal policy is not expected to provide any stimulus over the forecast period, as many of the support measures adopted in previous years have expired and economic policy is again focussing more on the high levels of government debt in some countries. Overall, economic output in the euro area will increase by 1¼ percent in both 2025 and 2026.

Table 2: **International economy**

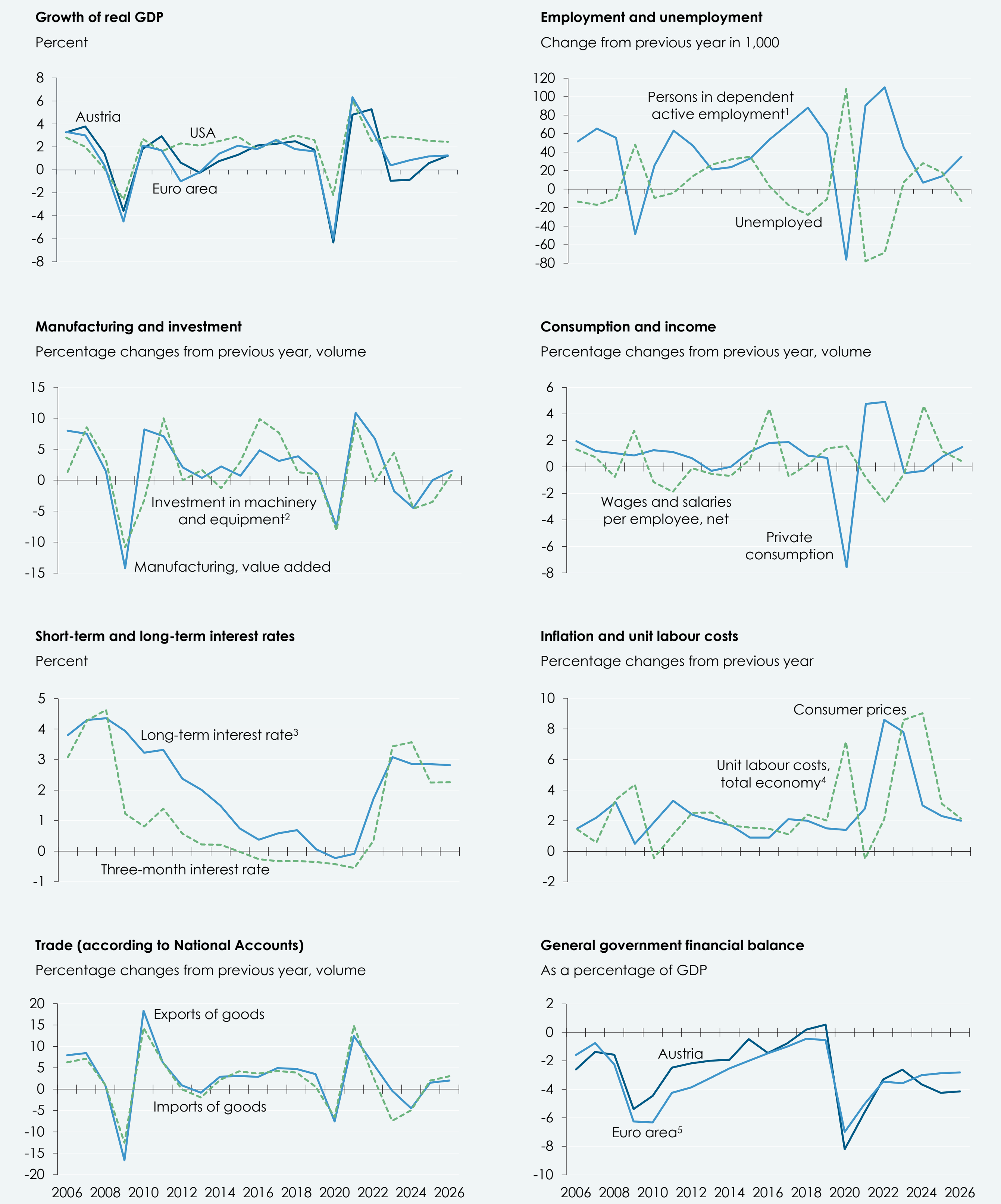
	Percentage shares 2021		2021	2022	2023	2024	2025	2026
	Austria's exports of goods	World GDP[1]	GDP volume, percentage changes from previous year					
EU 27	68.4	14.7	+ 6.3	+ 3.5	+ 0.4	+ 1.0	+ 1.4	+ 1.5
Euro area	52.4	10.3	+ 6.3	+ 3.5	+ 0.4	+ 0.8	+ 1.2	+ 1.3
Germany	29.1	3.2	+ 3.7	+ 1.4	– 0.3	– 0.1	+ 0.4	+ 0.8
Italy	6.1	1.9	+ 8.9	+ 4.7	+ 0.7	+ 0.5	+ 0.7	+ 0.7
France	3.6	2.3	+ 6.9	+ 2.6	+ 0.9	+ 1.1	+ 0.8	+ 1.1
Spain	1.6	1.4	+ 6.7	+ 6.2	+ 2.7	+ 3.1	+ 2.4	+ 1.5
CEEC 5[2]	15.0	2.2	+ 6.3	+ 4.1	+ 0.1	+ 1.8	+ 2.4	+ 2.8
Poland	3.7	1.0	+ 6.9	+ 5.3	+ 0.1	+ 2.4	+ 2.5	+ 2.8
Hungary	3.6	0.2	+ 7.1	+ 4.3	– 0.9	+ 0.6	+ 1.9	+ 2.8
Czech Republic	3.6	0.3	+ 4.0	+ 2.8	– 0.1	+ 1.0	+ 2.6	+ 2.8
USA	7.3	15.0	+ 6.1	+ 2.5	+ 2.9	+ 2.8	+ 2.5	+ 2.4
Switzerland	5.2	0.4	+ 5.6	+ 3.0	+ 0.7	+ 1.3	+ 1.2	+ 1.8
UK	2.7	2.2	+ 8.6	+ 4.8	+ 0.3	+ 0.9	+ 1.4	+ 1.7
China	2.5	18.7	+ 8.4	+ 3.0	+ 5.2	+ 4.6	+ 4.3	+ 4.1
Total[3]								
PPP-weighted[4]		51	+ 7.1	+ 3.1	+ 2.9	+ 2.8	+ 2.8	+ 2.8
Export weighted[5]	86		+ 5.2	+ 2.6	+ 0.7	+ 0.9	+ 1.3	+ 1.5
Market growth[6]			+ 11.0	+ 5.7	– 3.2	+ 0.1	+ 3.3	+ 3.5
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			70.8	98.9	82.2	80	71	70
Natural gas price								
Dutch TTF, € per MWh			45.9	121.5	40.6	35	45	35
Electricity price Austria								
Base, € per MWh			107.2	261.6	102.2	81	102	89
Peak, € per MWh			116.8	275.5	103.9	81	112	99
Exchange rate								
$ per €			1.184	1.054	1.082	1.08	1.05	1.05
Key interest rate								
ECB main refinancing rate[7], percent			0.0	0.0	0.0	0.6	3.8	4.1
10-year government bonds yields Germany, percent			– 0.5	– 0.4	– 0.4	1.1	2.4	2.3

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 2023. – [5] Weighted by shares of Austrian goods exports in 2023. – [6] Real import growth of trading partners, weighted by shares of Austrian goods exports. – [7] Fixed rate.

Germany's GDP stagnated in 2024, and German industry in particular is currently struggling with weak global demand, which is both cyclical and structural in nature. China's increasing ability to produce the intermediate and capital goods required to manufacture machinery and equipment itself has led to a decline in Chinese demand for these goods, which were traditionally imported from Germany. Exports have also been reduced as parts of the energy-intensive German industry have moved abroad in the wake of the energy crisis. Private consumption also failed to grow in 2024. However, there were signs of a slight recovery in the second half of the year, which is likely to continue over the forecast period. However, German industry will continue to struggle with structural change in the medium term and is likely to recover only slowly. Germany's economic output will therefore grow only moderately in 2025 and 2026.

Inflation will continue to decline over the forecast horizon in both the USA and the euro area, particularly as wage momentum and thus the upward pressure on service prices will slow. In addition, given the high storage levels of natural gas and the advanced stage of Europe's decoupling from Russian supplies, energy prices are not expected to rise sharply. In the USA, consumer prices will rise by a good 2 percent in both forecast years. In the euro area, inflation is expected to slow to 2 percent in 2025 and further to 1.8 percent in 2026.

Figure 1: **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.

On the economic policy measures of the new administration in the USA

The election of Donald Trump as the 47th President of the USA has changed the economic policy framework compared to the last WIFO Economic Outlook from October 2024. Fiscal policy in the USA is likely to be even looser in 2025 than before. On the one hand, tax cuts that were introduced in 2017 during Trump's first presidency and would have expired in 2025 are likely to be extended, while on the other hand military spending is likely to increase further. In total, this will result in a positive GDP effect of 0.3 percentage points for the USA in 2026[1].

In addition, tighter restrictions on immigration would dampen labour supply and thus reduce unemployment in the short term and productivity in the long term. A tighter labour market would result in higher wage increases, higher inflation, higher interest rates and a higher external value of the dollar than assumed in the last forecast. These effects will be amplified by the tariff policy. However, as Trump's announcements are to be understood not only as actual plans but also as tactical threats, the design of the tariffs is still unclear.

WIFO makes the following assumptions with regard to tariff policy: the USA gradually imposes flat-rate tariffs of 30 percent on Chinese exports[2], to which China responds with retaliatory tariffs of 25 percent. The USA imposes selective tariffs on steel, aluminium and motor vehicles on other countries. A tariff rate of 25 percent is assumed for these products for the EU, and a rate of 10 percent for Canada, Mexico, Japan, South Korea and Vietnam. Overall, the effective tariff rate for the USA will rise from 3 percent to just under 6 percent. However, as experience from Trump's first term in office has shown, the higher tariffs will not come into effect immediately, but with a delay of up to a year. WIFO expects them to take effect at the end of 2025, which will lead to pull-forward effects and a revival of global trade.

However, if the president-elect follows through on his campaign promises, tariffs could rise to 10 percent on all imports and to 60 percent on Chinese goods. In this case, the USA's effective tariff rate would climb to around 17 percent, a level last seen in the 1930s. Such high tariffs would have a significant impact on global trade and the global economy. The USA would be burdened by higher import costs, which would affect real incomes and consumption at home, while retaliatory tariffs imposed by trading partners would impact the competitiveness of the USA's export industry and lead to higher costs in the countries themselves. According to calculations by Oxford Economics, real GDP in the USA would be ½ percent lower in 2026 than in the baseline scenario and would shrink by around 1½ percent by 2029. Austria would lose only 0.1 percent of GDP in 2026, but almost 1 percent by 2029. Exports and imports would be lower than in the baseline scenario on both sides, but the USA's trade balance would be higher and Austria's lower.

[1] See Oxford Economics, World Economics Monthly, November 2024. – [2] The USA's average tariff rate vis-à-vis China is currently 14 percent.

3. Austria: difficult starting position for fiscal consolidation

The future Austrian federal government is likely to make significant savings in public budgets, the size and timing of which are currently unforeseeable. Austerity measures would further dampen the already sluggish growth in 2025.

Economic policy uncertainty is currently particularly high in Austria. Government negotiations are in full swing in December 2024. It is not clear what a future government will look like, nor what economic policy course it will pursue. However, the European Commission has announced that it will reassess at the beginning of 2025 whether to open an Excessive Deficit Procedure (EDP) for Austria. The assessment will be based on a package of measures that the new federal government is due to report to Brussels. Against this backdrop, and in view of a budget deficit of well over 3 percent in 2024, the government negotiations are likely to result in spending cuts and increases in taxes and duties, the size and timing of which are not yet foreseeable. As the economic impact of such measures varies, it is currently not possible to assess how the package of fiscal consolidation measures will affect the Austrian economy. In its forecast, WIFO therefore assumes an unchanged economic policy ("no policy change") in order to be able to quantify the extent of the necessary savings in public budgets and to present the initial situation for budget consolidation. However, the economic effects of consolidation have been roughly estimated (see box "Effects of fiscal consolidation on GDP growth").

The starting point for fiscal consolidation at the end of 2024 is difficult, as Austria's economic output shrank again by around 1 percent in 2024. According to National Accounts data published at the beginning of December, total economic output stagnated in the first three quarters of 2024 and was ½ percent below the previous year's level in the summer. The global weakness in demand for industrial goods led to a recession in Austrian manufacturing. Value added in the domestic construction industry has been declining for several years. In addition, private household consumption, which usually stabilises economic activity during downturns, has been falling for the second year in a row. Although real incomes are now rising significantly again, consumers have probably not yet fully overcome the high inflation of recent years.

Economic activity hardly gained any momentum in autumn. According to the WIFO-Konjunkturtest (business cycle survey), the companies surveyed were still predominantly pessimistic. Uncertainty about the coming months is particularly high in industry. Consumer confidence deteriorated significantly again towards the end of the year. This is not only due to the pessimistic assessment of the general economic development, but also to the expected rise in energy prices at the beginning of 2025. Austria's economic output is therefore likely to stagnate in the first few months of 2025.

However, the economy will begin to recover in the course of 2025, albeit hesitantly. Private consumption should gradually pick up, partly because real incomes will continue to rise. In contrast, demand in industry and construction will only pick up towards the end of 2025. Overall, GDP will only increase by a good ½ percent compared to the previous year. Even if the pace of the upswing remains subdued until the end of the forecast period, economic output will grow by around 1¼ percent in 2026 due to the better starting position.

Table 3: **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	– 3.3	– 2.6	– 3.7	– 4.2	– 4.1
General government primary balance	– 4.6	– 2.4	– 1.4	– 2.3	– 2.8	– 2.6
General government total revenue	50.3	49.7	50.1	50.8	50.8	50.8
General government total expenditure	56.0	53.0	52.7	54.4	55.1	55.0
General government gross dept[1]	82.4	78.4	78.6	80.1	83.1	84.5
	Percent					
Monetary policy						
Three-month interest rate	– 0.5	0.3	3.4	3.6	2.3	2.3
Long-term interest rate[2]	– 0.1	1.7	3.1	2.9	2.9	2.8

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

Effects of fiscal consolidation on GDP growth

Government net lending is projected to amount to –3.7 percent of GDP in 2024 and rise to –4.2 percent in 2025 without further measures. The increase is due to the lagged indexation of monetary social benefits, a sharp increase in the number of pensioners and rising spending by the federal states and municipalities in the areas of the environment, housing, education, health, and care as part of the Future Fund. In contrast, support for private households in the wake of the energy crisis will be phased out. In 2026, the deficit relative to GDP is expected to remain almost constant as a number of measures from previous years expire.

A rough estimate of the economic impact of possible savings in public budgets is based on the difference between the projected budget balance in 2025 and the maximum deficit limit of 3 percent of GDP stipulated in the EU treaties. This results in a consolidation requirement of 1.2 percent of GDP (around 6 billion €). Based on the fiscal multipliers used by the Fiscal Advisory Council in its last annual report on public finances (0.4 and 0.75)[1], a one-off saving of the magnitude described would result in a reduction in GDP of 2.5 and 4.7 billion € (0.5 and 0.9 percent of GDP respectively). If this effect is deducted from the expected real GDP growth in 2025 according to the present forecast, this results in a residual GDP increase of 0.1 percent or a decline in economic output of 0.3 percent, depending on the multiplier.

This estimate should be interpreted with caution, as the actual fiscal multipliers of economic policy measures can vary widely. They depend on the design of the measure and the economic environment in which it is implemented. However, this also presents an opportunity: measures that dampen economic activity as little as possible in the short term could be combined with instruments that strengthen the productivity of the Austrian economy in the medium term.

[1] Fiscal Advisory Council (2024), Public finance report 2023-2028 (Summary).

3.1 Private household consumption subdued

Despite rising real incomes, private consumption declined in 2024. The savings rate is expected to remain high over the forecast period.

Private household consumption weakened as a result of the sharp rise in energy prices from spring 2022 and fell by ½ percent in 2023 due to the decline in real incomes. As inflation eased, consumer confidence improved again, leading to a slight increase in private consumer spending in early 2024. However, unemployment expectations deteriorated significantly, leading to a renewed decline in consumption. Consumer confidence deteriorated again in autumn, mainly due to far more pessimistic assessments of the economy and households' financial situation. Overall, private consumption in 2024 is estimated to have been around ¼ percent lower than in the previous year, despite a significant increase in real income.

The reluctance of private households to spend is reflected in a sharp rise in the savings rate from 8.7 percent in 2023 to 11.4 percent in 2024. Disposable income will also increase significantly in 2025, which will lead to a gradual recovery in consumption. However, it is likely to take a few months for the renewed rise in energy prices expected in early 2025 to be digested and for the increase in purchasing power to be reflected in higher spending. The savings rate will therefore rise noticeably again in 2025 and remain high in 2026. Private consumption is expected to increase by less than 1 percent in 2025 and by 1½ percent in 2026.

Table 4: **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	267.36	267.17	269.15	272.26	+ 0.0	– 0.1	+ 0.7	+ 1.2
Households[1]	190.19	189.62	191.13	194.00	– 0.5	– 0.3	+ 0.8	+ 1.5
General government	77.17	77.56	78.02	78.26	+ 1.2	+ 0.5	+ 0.6	+ 0.3
Gross capital formation	90.43	88.38	89.10	90.21	– 13.0	– 2.3	+ 0.8	+ 1.2
Gross fixed capital formation	90.50	87.88	87.54	88.97	– 3.2	– 2.9	– 0.4	+ 1.6
Machinery and equipment[2]	31.52	30.07	29.02	29.31	+ 4.4	– 4.6	– 3.5	+ 1.0
Construction	37.16	35.52	35.70	36.27	– 9.3	– 4.4	+ 0.5	+ 1.6
Other investment[3]	22.40	22.96	23.42	24.01	– 0.3	+ 2.5	+ 2.0	+ 2.5
Domestic demand	359.46	357.21	359.94	364.19	– 3.5	– 0.6	+ 0.8	+ 1.2
Exports	231.72	225.04	228.19	233.53	– 0.4	– 2.9	+ 1.4	+ 2.3
Travel	16.01	16.20	16.44	16.77	+ 13.9	+ 1.2	+ 1.5	+ 2.0
Minus imports	210.61	205.24	208.82	213.58	– 4.6	– 2.5	+ 1.7	+ 2.3
Travel	10.24	10.77	10.83	11.09	+ 14.8	+ 5.2	+ 0.6	+ 2.4
Gross domestic product	381.39	378.09	380.28	384.98	– 1.0	– 0.9	+ 0.6	+ 1.2
Value	473.23	490.16	502.49	519.46	+ 5.6	+ 3.6	+ 2.5	+ 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).

Table 5: **Private consumption, income and prices**

	2021	2022	2023	2024	2025	2026
	Percentage changes from previous year					
Private consumption expenditure[1]	+ 4.8	+ 4.9	– 0.5	– 0.3	+ 0.8	+ 1.5
Durable goods[2]	+ 6.4	– 4.5	– 5.4	+ 0.5	+ 1.0	+ 2.0
Non-durable goods and services[2]	+ 4.6	+ 6.0	+ 0.1	– 0.4	+ 0.8	+ 1.5
Private household disposable income, volume	+ 2.1	+ 1.7	– 0.5	+ 2.8	+ 1.6	+ 1.6
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	11.4	8.8	8.7	11.4	12.0	12.1
Excluding adjustment for the change in pension entitlements	10.9	8.2	8.1	10.9	11.6	11.7
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 6.6	+ 5.0	+ 0.7	+ 0.8	+ 1.1	+ 2.0
Consumer prices						
National	+ 2.8	+ 8.6	+ 7.8	+ 3.0	+ 2.3	+ 2.0
Harmonised	+ 2.8	+ 8.6	+ 7.7	+ 3.1	+ 2.3	+ 2.0
Core inflation[3]	+ 2.3	+ 5.1	+ 7.3	+ 3.9	+ 2.2	+ 2.1

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.

3.2 Goods exports rise moderately

The weak global demand for industrial goods is hitting Austria's foreign trade hard. Exports of goods are estimated to have fallen by a total of 4½ percent in 2024, with a particularly sharp decline in the first half of the year. Exports stabilised somewhat in the summer, with sales of chemicals and products from the automotive supply industry in Germany contributing to this for the first time after a slump. The USA and China were important pillars of foreign trade in 2024. Chemical and pharmaceutical products and exports of electronic products made positive contributions to growth. Exports of

In line with the global economy, exports will grow moderately in 2025 and 2026. Structural change in industry and a high level of uncertainty regarding the USA's tariff policy are weighing on foreign trade.

machinery and vehicles, on the other hand, declined sharply.

In the forecast period, exports of goods are likely to increase moderately in line with the global economy. However, there are still no signs of a rapid recovery. Domestic companies continue to assess their foreign order backlogs as weak, with the negative trend continuing until recently, especially for primary products and capital goods. They also continue to assess their competitiveness as extremely low. The economic slump in Germany and other EU countries remains the biggest obstacle to Austria's foreign trade. Structural change in industry, particularly in the automotive sector, and a high level of uncertainty about the USA's tariff policy are also weighing on exports. However, tariff policy could also trigger pull-forward effects in foreign trade in 2025, especially with the USA. In addition, the real effective exchange rate for industrial goods, which rose in 2023 and 2024, is expected to stabilise over the forecast horizon. Nevertheless, real exports of goods will only increase by 1.5 percent and 2.0 percent in 2025 and 2026 respectively.

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	4.42	4.55	4.55	4.55	– 2.7	+ 3.0	± 0.0	± 0.0
Manufacturing including mining and quarrying	72.39	69.13	69.13	70.17	– 2.3	– 4.5	± 0.0	+ 1.5
Electricity, gas and water supply, waste management	10.21	9.80	9.85	9.95	+ 8.1	– 4.0	+ 0.5	+ 1.0
Construction	16.34	15.75	15.83	16.09	– 7.5	– 3.6	+ 0.5	+ 1.6
Wholesale and retail trade	39.88	39.08	39.31	39.94	– 5.7	– 2.0	+ 0.6	+ 1.6
Transportation	18.69	18.41	18.50	18.69	– 2.5	– 1.5	+ 0.5	+ 1.0
Accommodation and food service activities	10.70	10.75	10.86	11.07	+ 5.4	+ 0.5	+ 1.0	+ 1.9
Information and communication	16.10	16.43	16.51	16.67	+ 3.0	+ 2.0	+ 0.5	+ 1.0
Financial and insurance activities	16.85	17.87	17.96	18.20	– 8.1	+ 6.1	+ 0.5	+ 1.3
Real estate activities	31.33	31.49	31.64	31.90	+ 0.5	+ 0.5	+ 0.5	+ 0.8
Other business activities[1]	36.20	35.51	35.80	36.44	– 0.7	– 1.9	+ 0.8	+ 1.8
Public administration[2]	59.89	60.79	60.79	61.10	+ 2.2	+ 1.5	± 0.0	+ 0.5
Other service activities[3]	8.92	8.87	8.92	9.00	+ 4.7	– 0.5	+ 0.5	+ 1.0
Total gross value added[4]	340.92	337.78	339.05	343.12	– 1.2	– 0.9	+ 0.4	+ 1.2
Gross domestic product at market prices	381.39	378.09	380.28	384.98	– 1.0	– 0.9	+ 0.6	+ 1.2

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.

3.3 Industrial production likely to stagnate in 2025

The Austrian manufacturing sector is still mired in a recession with no end in sight. The production index showed a downward trend until October 2024, and the assessments of manufacturing companies are predominantly pessimistic according to the WIFO-Konjunkturtest. The majority of companies expect production to decline in the coming months. The crisis in industry is also reflected in investment in machinery and equipment: according to the WIFO-Konjunkturtest, the majority of companies in most sectors anticipate a reduction in investment activity in 2025. According to the WKÖ Economic Barometer, most of the companies surveyed currently cite the replacement of existing equipment as the main motive for planned investments.

Value added in manufacturing fell sharply in 2024 (–4.5 percent) and is not expected to increase in 2025 either. Industry is not expected to contribute to growth again until 2026.

The change in the credit regulation should be particularly positive for the construction sector in 2026.

3.4 Construction will not benefit from less restrictive lending until 2026

2024 was the second difficult year in a row for the Austrian construction industry since key interest rates were raised to curb inflation. Construction investment is likely to have contracted significantly again in 2024, although it stabilised somewhat over the course of the year. Residential construction remains at the centre of the crisis, while non-residential construction (industrial construction, commercial construction, civil engineering) improved again in summer 2024. As the employment data shows, the downturn is increasingly spreading to the ancillary construction sector, which is now feeling the effects of the slump in residential construction with a time lag.

Table 7: **Productivity**

	2021	2022	2023	2024	2025	2026
	Percentage changes from previous year					
Total economy						
GDP, volume	+ 4.8	+ 5.3	− 1.0	− 0.9	+ 0.6	+ 1.2
Employment[1]	+ 2.4	+ 2.7	+ 1.0	+ 0.0	+ 0.3	+ 0.8
Production per person employed	+ 2.3	+ 2.5	− 2.0	− 0.9	+ 0.2	+ 0.4
Hours worked per person employed[2]	+ 2.5	− 0.3	− 0.1	− 1.0	− 0.1	+ 0.1
Hourly productivity[3]	− 0.2	+ 2.8	− 1.9	+ 0.1	+ 0.4	+ 0.3
Manufacturing						
Gross value added, volume	+10.9	+ 6.7	− 1.8	− 4.5	± 0.0	+ 1.5
Employment[1]	+ 0.6	+ 2.3	+ 1.2	− 1.2	− 0.4	+ 0.4
Production per person employed	+10.2	+ 4.3	− 2.9	− 3.3	+ 0.4	+ 1.1
Hours worked per person employed[2]	+ 4.3	− 0.8	− 0.3	− 0.6	− 0.4	− 0.3
Hourly productivity[3]	+ 5.6	+ 5.1	− 2.6	− 2.8	+ 0.8	+ 1.4

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.

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	+ 6.9	+ 7.8	+ 3.4	+ 2.5
Real[2]						
Gross	− 0.1	− 3.4	− 0.9	+ 4.7	+ 1.1	+ 0.5
Net	− 0.8	− 2.7	− 0.5	+ 4.6	+ 1.2	+ 0.4
Wages and salaries per hour worked[3]						
Real, net[2]	− 4.0	− 2.4	− 0.5	+ 5.9	+ 1.3	+ 0.4
	Percent					
Wage share, adjusted[4]	62.4	62.1	63.6	66.6	67.8	67.9
	Percentage changes from previous year					
Unit labour costs, nominal[5]						
Total economy	− 0.5	+ 2.1	+ 8.6	+ 9.0	+ 3.1	+ 2.1
Manufacturing	− 6.5	− 0.4	+ 9.7	+12.9	+ 3.8	+ 0.7
Effective exchange rate – manufactured goods[6]						
Nominal	+ 0.6	− 1.5	+ 1.9	+ 1.0	+ 0.0	+ 0.5
Real	+ 0.2	− 1.8	+ 3.4	+ 1.1	− 0.3	+ 0.2

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.

Sentiment in the construction industry remains weak, although there were signs of a bottoming out in autumn. However, noticeable growth is not expected until the course of 2025. In non-residential construction, particularly in other building construction, investment activity is expected to remain low for the time being due to the weak economy. The housing and construction package passed by the National Council in spring 2024 should stimulate investment in residential construction in 2025. The amendment to the Regulation on Real Estate Financing Measures in Credit Institutions (KIM-V), which was passed in summer 2024, is likely to provide positive impetus in 2026 in particular, as the easing of property financing will initially stimulate property purchases and only subsequently revitalise construction. As a result, construction value added will barely grow in 2025 and only moderately in 2026.

3.5 Unemployment on the rise

The unemployment rate will rise further in 2025 and is not expected to fall again until 2026.

The persistent economic weakness is also weighing on the Austrian labour market. Employment rose only slightly in 2024. Particularly in industry and construction, the number of employees has fallen sharply. In the area of labour leasing, which is particularly sensitive to economic cycles, the slowdown in economic momentum has already been reflected in a year-on-year decline in employment since November 2022. Employment in the distributive trades also fell in 2024, while the number of persons employed in public administration in the broad sense (NACE 2008, sections O to Q) and in some service sectors increased compared to the previous year.

Table 9: **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	+ 48.0	+ 9.0	+ 17.0	+ 41.0
Employees[1]	+ 90.4	+ 110.2	+ 44.8	+ 7.0	+ 14.0	+ 35.0
National employees	+ 28.1	+ 22.9	– 9.0	– 17.0	– 14.0	– 8.0
Foreign employees	+ 62.4	+ 87.4	+ 53.8	+ 24.0	+ 28.0	+ 43.0
Self-employed[2]	+ 6.5	+ 6.0	+ 3.2	+ 2.0	+ 3.0	+ 6.0
Labour supply						
Population of working age						
15 to 64 years	+ 5.4	+ 48.6	+ 36.9	– 2.5	– 20.3	– 22.1
Labour force[3]	+ 19.0	+ 47.6	+ 55.7	+ 37.0	+ 35.0	+ 28.0
Labour surplus						
Unemployed	– 77.9	– 68.6	+ 7.7	+ 28.0	+ 18.0	– 13.0
Unemployed persons in training	+ 13.2	– 0.8	+ 1.0	+ 5.0	– 4.0	– 1.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[4]	6.2	4.8	5.1	5.2	5.4	5.2
As a percentage of total labour force	7.2	5.6	5.7	6.3	6.6	6.3
As a percentage of dependent labour force	8.0	6.3	6.4	7.0	7.4	7.0
	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	+ 0.4	+ 0.9
Unemployed	– 19.0	– 20.7	+ 2.9	+ 10.3	+ 6.0	– 4.1
Persons (in 1,000)	331.7	263.1	270.8	298.8	316.8	303.8

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.

The decline in economic output will be partly offset by a decline in working hours; working hours per employee are expected to have fallen by around 1 percent in 2024. The loss of jobs in industry and construction, which are dominated by full-time work, will dampen average working hours in the overall economy. These compositional effects are also overlaid by a decline in overtime and a trend increase in part-time work. The volume of hours worked fell in almost all sectors in 2024.

Unemployment, on the other hand, increased significantly. According to the national calculation method, the average unemployment rate for 2024 was 7.0 percent, a good ½ percentage point higher than in the previous year. An increase in unemployment with hardly any growth in employment was last observed in the years 2012 to 2015. This is typical of periods of stagnation or weak real GDP growth, as the increase in the potential labour force is then not absorbed by a corresponding increase in employment. This trend will continue in 2025, with the unemployment rate rising further and not falling again until 2026. The longer-term trend of declining working hours is expected to overshadow the economic recovery; working hours per employee are therefore not expected to increase until the end of 2026. This is reflected in a slight increase in productivity in both forecast years.

3.6 Inflation continues to fall

Inflation has eased significantly since the beginning of 2023 and fell to below 2 percent in autumn 2024 due to the sharp drop in energy prices, especially mineral oil products. Consumer prices are estimated to have risen by 3 percent on average in 2024. However, prices for services still rose by well over 4 percent.

A noticeable increase in energy prices is expected in early 2025 as the electricity price brake expires, energy taxes on electricity and natural gas return to their normal levels and subsidies for green electricity come back into force. In addition, network charges and the CO_2 price will be increased. This will push consumer price inflation back up to 2½ percent at the beginning of the year. However, the slowdown in wage growth should dampen inflation over the course of the year. Consumer prices are expected to rise by an annual average of 2.3 percent in 2025 and 2.0 percent in 2026.