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Public Finances Under Substantial Consolidation Pressure. Medium-term Budget Projection 2025 to 2029

Simon Loretz, Hans Pitlik

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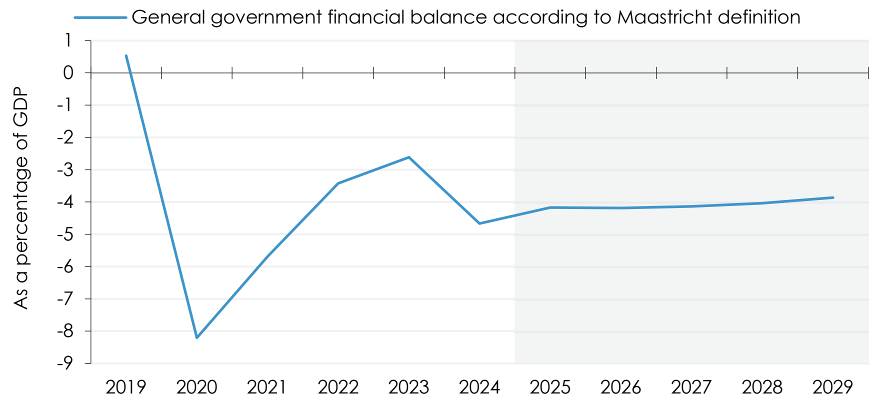
- The budget notification from March 2025 shows a Maastricht deficit of 4.7 percent of GDP for 2024, signalling a sharp increase in the need for fiscal consolidation.
- The government programme contains consolidation and offensive measures, the scope and specifics of which are still partly open.
- The WIFO's medium-term budget projection assumes a "no policy change" scenario, thereby excluding any additional consolidation measures not known as of 14 April 2025 under the planned twin budget for 2025-26. The projection thus serves as a reference path to identify the need for fiscal action.
- In the absence of further consolidation, the general government deficit would remain around 4 percent of GDP until 2029, with the debt-to-GDP ratio rising above 90 percent.
- Structural reforms are required to ensure fiscal stability in the long term.

General government fiscal balance



The general government budget balance will only be reduced slightly from –4.7 to –4.2 percent of GDP in the current year with the savings, revenue and offensive measures planned by mid-April 2025. Without further consolidation measures, the deficit will only decrease very slowly in the medium term to 3.9 percent of GDP in 2029 (source: Statistics Austria, WIFO calculations. European Commission method . . . WIFO estimate using the parameterisation according to the European Commission's November 2024 forecast).

"The budget stabilisation measures announced by the federal government by mid-April will not be enough to sustainably reduce the general government deficit. Without further steps, the fiscal balance in all forecast years would be close to –4 percent of GDP and therefore well above the Maastricht requirements."

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May 2025

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The medium-term budget projection for 2025 to 2029 indicates a persistently high need for fiscal consolidation in Austria's public finances. If the consolidation measures announced by mid-April remain unchanged, the general government deficit would remain close to 4 percent of GDP throughout the projection period, thus clearly violating the Maastricht threshold. The targeted consolidation volumes set out in the government programme are unlikely to be achieved in 2025 and 2026. Without ambitious reforms to improve efficiency across all levels of government, the debt-to-GDP ratio would rise to over 90 percent by 2029. The projection assumes a hypothetical "no policy change" scenario and does not account for any potential additional measures in the scheduled 2025-26 dual-year budget.

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1. Initial situation following the budget notification in spring 2025

The general government Maastricht deficit was unexpectedly high in 2024 at 22.5 billion € or 4.7 percent of GDP.

Austria recorded a general government Maastricht deficit of 22.5 billion € or 4.7 percent of GDP in 2024 – the highest level since the pandemic year 2020. Although it had already become apparent over the course of 2024 that the deficit ceiling of 3 percent of GDP would not be met (Glocker & Ederer, 2024), the budget notification in spring 2025 was unexpectedly negative. At the same time, government debt reached a level of 394.1 billion € or 81.8 percent of GDP. The high deficit and the significant increase in government debt in 2024 not only reflect the effects of the recession[1], but are also due to inflation-indexed increases in public sector wages, pensions, and social transfers, as well as rapidly rising interest payments. In addition, structural expenditure pressures – particularly due to demographic ageing and demands from climate and security policy – are increasingly contributing to fiscal imbalances.

On the revenue side, the abolition of "cold progression" and the reduction of corporate income tax have weighed on the budgets of all levels of government. The strained fiscal position also reflects the aftermath of the COVID-19 pandemic and extensive measures to cushion the inflation and energy price crises.

The federal level accounted for the largest share of the increase in the general government deficit in 2024. However, deficits also rose in other sub-sectors of government.

The surge in the general government deficit in 2024 was primarily attributable to the federal government, which totalled –17.1 billion € or –3.5 percent of GDP[2]. However, the other sub-sectors of the general government also made a significant contribution to new borrowing, totalling 5.4 billion € (1.2 percent of GDP), with the City state of Vienna alone

[1] The business cycle deteriorated significantly over the course of 2024: according to preliminary data from Statistics Austria's national accounts, gross domestic product shrank by 1.2 percent in volume in 2024.

[2] Of this, 2.5 billion € was attributable to non-budgetary federal units. The Maastricht balance is also burdened by the inclusion of special payments from the recognition of prior service periods totalling 0.8 billion €.

accounting for 1.6 billion €, the remaining municipal sector for around 1 billion € and the federal states (excluding Vienna) for 2 billion €. The social security fund reported a deficit of 0.8 billion €. The increase in the deficit of 10.1 billion € compared to 2023 was mainly attributable to the federal government sub-sector (+8.2 billion €) and the federal states excluding Vienna (+1.4 billion €); the deficit of the state of Vienna increased by 0.4 billion €. By contrast, net lending/borrowing of the municipal sector (excluding Vienna) improved marginally by 40 million €, while the social security sector's balance deteriorated by 130 million €.

Table 1**: Net lending or borrowing and debt of the general government and the subsectors**

	2019	2020	2021	2022	2023	2024
			Billion €			
Fiscal balance						
General government sector, total	2.12	– 31.20	– 23.13	– 15.33	– 12.38	– 22.48
Federal level	1.48	– 28.13	– 21.01	– 17.58	– 8.85	– 17.07
State level (excluding Vienna)	0.62	– 2.07	– 1.82	1.88	– 0.58	– 2.02
Vienna	0.11	– 0.66	– 1.03	0.23	– 1.26	– 1.61
Municipal level (excluding Vienna)	– 0.28	– 0.39	0.61	0.66	– 0.99	– 0.95
Social security sector	0.20	0.05	0.12	– 0.51	– 0.70	– 0.83
			As a percentage of GDP			
General government sector, total	0.5	– 8.2	– 5.7	– 3.4	– 2.6	– 4.7
Federal level	0.4	– 7.4	– 5.2	– 3.9	– 1.9	– 3.5
State level (excluding Vienna)	0.2	– 0.5	– 0.4	0.4	– 0.1	– 0.4
Vienna	0.0	– 0.2	– 0.3	0.1	– 0.3	– 0.3
Municipal level (excluding Vienna)	– 0.1	– 0.1	0.2	0.1	– 0.2	– 0.2
Social security sector	0.0	0.0	0.0	– 0.1	– 0.1	– 0.2
			Billion €			
Debt level						
General government sector, total	281.0	316.4	334.7	351.1	371.5	394.1
Federal level	242.3	273.7	289.2	306.9	323.6	341.2
State level (excluding Vienna)	21.3	22.7	24.5	23.8	25.4	27.5
Vienna	7.2	8.3	9.9	9.6	10.9	12.7
Municipal level (excluding Vienna)	9.1	9.7	9.8	9.9	10.4	11.4
Social security sector	1.0	2.0	1.3	0.9	1.2	1.3
			As a percentage of GDP			
General government sector, total	71.0	83.2	82.4	78.4	78.5	81.8
Federal level	61.2	72.0	71.2	68.5	68.4	70.8
State level (excluding Vienna)	5.4	6.0	6.0	5.3	5.4	5.7
Vienna	1.8	2.2	2.4	2.2	2.3	2.6
Municipal level (excluding Vienna)	2.3	2.5	2.4	2.2	2.2	2.4
Social security sector	0.3	0.5	0.3	0.2	0.3	0.3

Source: Statistics Austria.

However, the interpretation of sub-sectoral balances is limited by the interwoven nature of Austria's fiscal equalisation system. Intergovernmental transfers and shared tax revenues create mutual dependencies among the sub-sectors. Federal states and municipalities are heavily reliant on shared taxes and transfers, which in turn worsen the federal budget balance. In 2024, measures agreed under the fiscal equalisation system (Bittschi et al., 2024) in areas such as early childhood education, healthcare, and long-term care increased the revenues of states and municipalities but were offset by sharp increases in personnel expenditures. General government personnel spending rose by 10.0 percent year-on-year in 2024, with the strongest increases in the federal states (+11.1 percent) and municipalities (+11.2 percent).

Against this backdrop, the need for consolidation is not exclusively a federal issue. The budgets of federal states, municipalities and social security institutions are equally under considerable pressure to adjust in view of structurally driven expenditure dynamics (Pitlik et al., 2018; Loretz & Pitlik, 2024).

2. Consolidation and offensive measures in the government programme

Following the coalition negotiations concluded in February 2025, the new tripartite government presented a fiscal consolidation plan aimed at avoiding an excessive deficit procedure under the EU Stability and Growth Pact. However, given the unexpectedly poor budgetary position and the further increased consolidation requirement, this objective appears increasingly out of reach.

The announced consolidation package is unlikely to achieve the targeted savings volume.

The federal government's announced consolidation package is projected to amount to 6.3 billion € in 2025 and 8.7 billion € in 2026. The Budget Consolidation Measures Act primarily specifies revenue side consolidation measures. Further measures, many of which have not yet been formulated in detail, were announced in a Council of Ministers presentation. Planned savings in the federal ministries will be concretised in the 2025-26 twin budget, which will be presented in mid-May 2025. However, on the expenditure side in particular, the level of detail and quantification of planned savings remains insufficient. WIFO's assessment of the realistically achievable savings volume and the expected implementation timeline diverges in part significantly from the assumptions laid out in the government programme (Bundeskanzleramt, 2025).

On the expenditure side, the abolition of the climate bonus (–1.9 billion €), planned cuts and efficiency improvements in subsidies (–0.9 billion €) and savings from the reduction of material expenditure in the federal ministries will have a consolidating effect in the current year. However, only about half of the targeted savings from ministry spending cuts are likely to materialise in 2025; WIFO expects a volume of 1.1 billion € in 2026 and the full effect of 1.3 billion € from 2027. Additional savings are expected from the abolition of educational leave, although its replacement scheme from 2026 onwards will dampen the long-term effect. Overall, WIFO estimates that the total expenditure-side consolidation in 2025 will amount to 3.8 billion €, rising to 4.5 billion € in 2026. For the subsequent years 2027 to 2029, WIFO expects the savings volume to gradually increase up to 5.0 billion € per year.

On the revenue side, planned special dividends from publicly owned companies in 2025, a two-year increase in the stability levy to 0.5 billion €, the increase in health insurance contributions for pensioners and the early termination of VAT benefits for photovoltaic systems will contribute to improving the financial balance. The agreed suspension of the final third of the fiscal drag ("kalte Progression") will only have a budgetary impact from 2026. According to WIFO estimates, this will result in total additional revenue of 1.8 billion € in the current year and 2.1 billion € in 2026 (excluding the green electricity subsidy contribution)[3]. After that, the consolidation volume on the revenue side will gradually increase to 2.4 billion € in 2029.

Table 2**: Expected budget impact of planned consolidation and offensive measures**

	2025	2026	2027	2028	2029	2025 to 2029 Total
	Billion €					
Consolidation measures						
On the expenditure side	3.8	4.5	4.8	4.9	5.0	23.0
On the revenue side	1.8	2.1	2.0	2.2	2.4	10.5
Total	5.6	6.6	6.8	7.1	7.4	33.5
Offensive measures						
On the expenditure side	0.5	1.2	0.6	0.6		2.9
On the revenue side	0.2	0.2	0.1	0.1	0.1	0.6
Total	0.7	1.4	0.7	0.7	0.1	3.5
Balance effect (net)	4.9	5.3	6.1	6.4	7.3	30.0

Source: WIFO calculations.

In total, the budget-relevant consolidation volume in 2025 is estimated at 5.6 billion €, falling €0.7 billion short of the government's announced target. A consolidation effect of 6.6 billion € is expected for 2026, rising to 7.4 billion € by 2029.

In addition to the more or less concretely formulated consolidation plans, the government programme includes various stimulus measures intended both to support economic activity and to cushion the social impacts of necessary structural reforms. However, no budget funds have been explicitly allocated for many of these offensive measures; moreover, their implementation from 2027 is often subject to a funding proviso. In terms of expenditure, the measures primarily affect the areas of labour market policy, social affairs, education and health. According to WIFO estimates, the costs will initially amount to 0.5 billion € (2025) and 1.2 billion € (2026) and will shrink to 0.6 billion € p.a. in subsequent years. Revenue-side

[3] The previously agreed reinstatement of the green electricity subsidy, which was suspended in 2023 and 2024, will generate revenue of around 0.7 billion € in 2025, but is not included in the consolidation measures.

relief, such as the tax-free employee bonus or new flat-rate regulations for small and medium-sized companies, will total between 0.1 billion € and 0.2 billion €.

Taking these offensive measures into account, the net budgetary effect on net lending is reduced to 4.9 billion € (2025) and 5.3 billion € (2026). For 2029, WIFO expects a net relief effect of 7.3 billion €. In total, the consolidation volumes of 6.3 and 8.7 billion € are unlikely to be realised either in the current year or in 2026 with the measures currently known.

Several additional policy announcements with fiscal implications could not be included – or only partially included – in the projections due to a lack of detailed information. These include, for example, a planned partial compensation for the abolition of the climate bonus targeting commuters from 2026 onwards. The agreed increase in national defence spending up to 2 percent of GDP in 2032 is not (yet) fully reflected in the current budget planning. The projection does account for increased military procurement expenditure amounting totalling 6.4 billion € over the period from 2025 to 2029[4].

Announced offensive measures reduce the budgetary consolidation effects.

3. Projection of budgetary development 2025-2029

In the years ahead, the development of public finances will be shaped by the ongoing economic weakness and the fiscal consolidation path – which, however, still requires further adjustments to comply with the European fiscal framework. Furthermore, the forecast for the macroeconomic environment is currently subject to unusually high uncertainty (Scheiblecker & Ederer, 2025; Baumgartner & Kaniovski, 2025).

Therefore, the budget path presented below should not be interpreted as a forecast in the strict sense, but rather as a technical projection based on the – albeit unrealistic – assumption that no further fiscal consolidation measures will be implemented beyond those presented by early April 2025 ("no further policy change"). Moreover, the projection does not capture potential feedback effects of fiscal policy on the macroeconomy.

Under the assumptions outlined above regarding planned savings, additional revenues, and stimulus measures, the general government budget balance is projected to improve only marginally from –22.5 billion € (–4.7 percent of GDP in 2024) to –20.5 billion € (–4.2 percent of GDP in 2025). The structural primary balance would improve from –2.3 percent of GDP (2024) to –1.4 percent of GDP, provided that the special dividends are not categorised as one-off income. To achieve the deficit target of –3.0 percent in 2025, an additional 5.8 billion € in consolidation measures – on top of the already considered 5.6 billion € – would be required.

In its hypothetical 2026 projection – which does not account for any additional measures that might be included in the federal twin budget 2025-26 or future adjustments at the subnational level – WIFO likewise expects a general government deficit of 4.2 percent of GDP. This reflects, on the one hand, the phasing out of one-off revenues from special dividends and, on the other, the announced stimulus spending in education, health, labour market, and tax policy, which together are expected to amount to 1.4 billion €. On the other hand, the wage agreement for public sector employees – set to exceed the rolling inflation rate by 0.3 percentage points – will act as a further driver of expenditure.

From 2027 onwards, spending cuts should be reflected in a moderate decline in public consumption. As a result, the share of public consumption in GDP would fall from 22.3 percent (2025) to 21.9 percent of GDP (2029) in the medium term. This assumes that public sector wage increases from 2027 onwards will not exceed the rolling inflation rate. Savings in federal ministries' material expenditures are also expected to prompt more restrictive discretionary spending practices in the budgets of states, municipalities, social security institutions, and off-budget entities. Furthermore, WIFO's projection assumes that planned and partially implemented pension reforms – including the

The general government budget balance will improve only slightly to –4.2 percent of GDP in the current year. In the following years up to 2029, the deficit would be close to 4 percent of GDP without additional budget stabilisation measures.

[4] An increase in expenditure for national defence (according to the COFOG system) of up to +1.5 percent of GDP above the reference value of 2.4 billion € (military expenditure in 2021) remains exempt from the European Commission's assessment of the budget path until 2028, provided that Austria activates the newly created national escape clause for military expenditure (European Commission, 2025). This means that the additional expenditure already planned by the previous government for four years up to 2028 is formally exempt from the application of the European fiscal rules and could therefore be implemented despite the tight budget situation. Budgetary flexibility is thus created exclusively for defence spending, even for member states with a significantly strained budget situation. See Guttenberg and Redeker (2025) for a critical assessment.

introduction of partial pensions and restrictions on corridor pensions, modifications to phased retirement schemes, employment incentives for older workers, and a gradual increase in the statutory retirement age for women – will lead to a gradual rise in the effective retirement age, thereby dampening the dynamic growth in monetary social benefits.

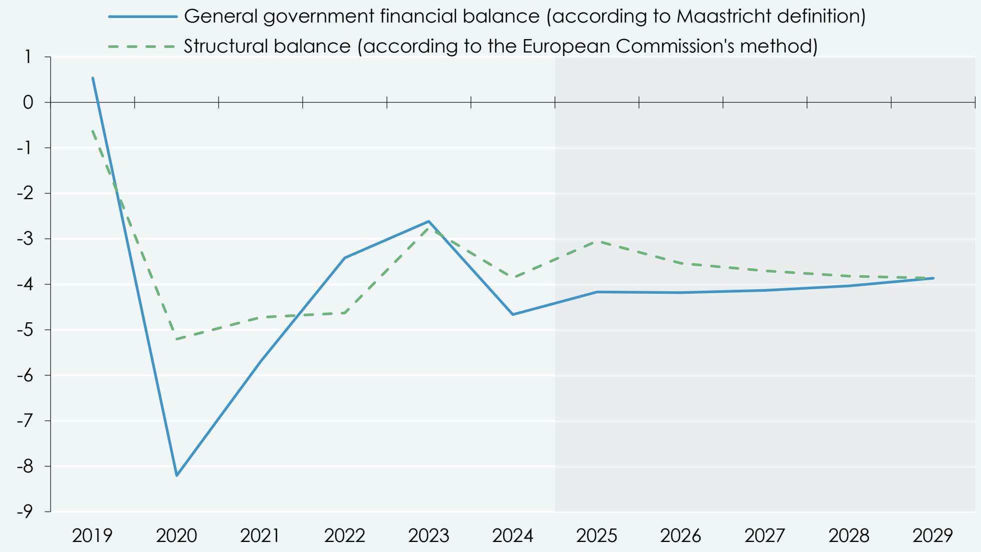
Table 3: **Main results of the medium-term budget projection**

	2024	2025	2026	2027	2028	2029	Ø 2020-2024	Ø 2025-2029
General government financial balance according to Maastricht definition								
Billion €	– 22.5	– 20.5	– 21.3	– 21.7	– 21.9	– 21.6	– 20.9	– 21.4
As a percentage of GDP	– 4.7	– 4.2	– 4.2	– 4.1	– 4.0	– 3.9	– 4.9	– 4.1
				As a percentage of GDP				
Government spending	56.3	56.4	56.3	56.1	56.0	55.9	55.1	56.1
Public consumption	22.2	22.3	22.1	22.0	21.9	21.9	21.3	22.0
Interest expenses	1.5	1.7	1.8	1.9	2.0	2.1	1.2	1.9
Government revenue	51.6	52.2	52.1	51.9	52.0	52.0	50.2	52.1
Tax burden[1]	44.5	45.0	45.0	45.0	45.1	45.1	43.2	45.0
Structural balance								
Methodology of the European Commission	– 3.9	– 3.0	– 3.5	– 3.7	– 3.8	– 3.9	– 4.2	– 3.6
Structural primary balance	– 2.3	– 1.4	– 1.8	– 1.8	– 1.8	– 1.7	– 3.0	– 1.7
National debt	81.8	84.4	86.1	87.8	89.4	90.6	80.8	87.7

Source: WIFO calculations. – [1] Indicator 2, excluding EU levies.

Figure 1: **General government financial balance and structural balance**

As a percentage of GDP



Source: Statistics Austria, WIFO calculations. Method of the European Commission . . . WIFO estimate using the parameterisation according to the European Commission's forecast of November 2024.

However, the fiscal relief from consolidation measures adopted will also be diminished by rising interest expenditures, which already reached 1.5 percent of GDP in 2024. Interest expenditure is expected to rise to 1.7 percent of GDP in 2025 and reach 2.1 percent of economic output in value terms by 2029.

Revised budget forecast and 2025 budget projection

In the WIFO Economic Outlook published on 27 March 2025, a general government budget deficit of 3.3 percent of GDP was expected for the current year. This estimate was based on the assumption that budget stabilisation measures announced by the federal government would lead to an improvement in the budget balance of 0.8 percentage points compared to 2024. A (provisional) deficit of 4.1 percent of GDP was assumed for 2024. On 31 March 2025, however, Statistics Austria unexpectedly published significantly less favourable data: the deficit for 2024 was revised upwards to 4.7 percent of GDP. This correction was accompanied by extensive revisions to the quarterly data on government expenditure and revenue and significantly worsened the budgetary starting position for the current year.

Based on these new figures and an updated assessment of the realistic implementation of the consolidation and stimulus measures known as of early April, WIFO now expects a more limited reduction in the deficit to 4.2 percent of GDP in 2025 – a decline of just 0.5 percentage points relative to the newly revised 2024 reference value. This downward revision is mainly attributable to lower-than-expected revenues from special dividends and the green electricity levy, as well as implementation risks concerning savings in subsidies, ministerial expenditures, and educational leave. In the twin budget 2025-26 expected for May 2025, the federal government is likely to announce additional consolidation measures in view of the deteriorated starting position, which will have a significant impact on the future budget path. As these measures were not yet known in April, they could not be taken into account in this projection.

Overall, the projected budget path – based on the (admittedly unrealistic) assumption of no further fiscal consolidation – shows only a sluggish improvement in the deficit to –3.9 percent of GDP (2029). The Maastricht deficit would therefore remain well above the 3 percent threshold in all projection years without additional budget stabilisation measures.

In the absence of additional measures, government spending would only decline very slowly from 56.4 percent (2025) to 55.9 percent of GDP (2029). On average for the years 2025 to 2029, the expenditure ratio would be 56.1 percent of GDP and thus even exceed the average for the 2020-2024 period (55.1 percent), which included extraordinary budget burdens caused by the COVID-19 pandemic and the inflation and energy crisis. Government revenues, which stood at 51.6% of GDP in the previous year, is projected to rise further to 52.2 percent of GDP in 2025 as part of the planned budget restructuring and only fall slightly to 52.0 percent in subsequent years. The tax ratio (excluding EU levies) is projected to increase from 44.5 percent (2024) to 45.0 percent of GDP on average in 2025-2029. This would place Austria among the countries with the highest tax burdens both within the EU and among OECD member countries[5].

Austria's debt-to-GDP ratio, which was still 78.5 percent of GDP in 2023, could rise to 84.4 percent of economic output in 2025 and 86.1 percent in 2026. In the context of persistently high primary deficits and weak real GDP growth, debt would exceed 90 percent of GDP by 2029 without additional corrective measures. At around 2 percent of GDP, the resulting interest burden on the public sector will still be well below the levels of the 1990s (3½ to 4 percent), but the increase is dynamic and is also driven by factors largely beyond the immediate control of the federal government.

4. Conclusions

Continued and sustainable fiscal consolidation will require structural reforms aimed at curbing expenditure dynamics across all levels of government.

In light of the unexpectedly unfavourable budget notification of March 2025, the persistently subdued macroeconomic outlook, and mounting fiscal challenges – particularly in the areas of climate policy, national defence, long-term care, and healthcare – the need for fiscal consolidation in Austria remains substantial. This is not merely a question of complying with the EU's fiscal rules or avoiding the now almost inevitable excessive deficit procedure, but above all of restoring and safeguarding the government's fiscal capacity to act in the years ahead.

The consolidation measures announced in the government programme represent only an initial and still insufficient step towards fiscal consolidation. As part of the ongoing budget preparation, further measures can be expected, along with a more concrete elaboration of the yet vaguely formulated announcements. Additional steps to curb expenditure dynamics are urgently needed, particularly in the areas of pensions, public administration (specifically personnel costs), and the healthcare and long-term care sectors. For example, adjusting pensions and public sector wages each by 1 percentage point below the rolling inflation rate would yield annual savings of around 1.3 billion €.

Against the backdrop of persistent economic weakness and a macroeconomic environment characterised by high economic and geopolitical uncertainty, the potential feedback effects of planned spending cuts and tax adjustments on output and employment must be assessed with particular

[5] See also https://taxation-customs.ec.europa.eu/taxation/economic-analysis/data-taxation-trends_en.

caution. Fiscal consolidation typically reduces aggregate demand, which tends to result in lower tax revenues and higher social spending as unemployment rises. Likewise, short-term savings in climate policy should not be considered in isolation. It is crucial to integrate the long-term economic and fiscal costs of failing to meet climate policy targets into the overall strategic framework.

A comprehensive reform of federalism would be particularly effective in containing long-term expenditure dynamics. Such a reform should not only aim to disentangle responsibilities for tasks and funding across government levels but also significantly strengthen the tax autonomy of all subnational authorities. The goal would not merely be to sustainably reduce administrative costs, but also to create targeted incentives – through greater fiscal responsibility at all levels – for realising efficiency gains in the provision of public services.

Moreover, a comprehensive and efficiency-oriented reform of the tax and transfer system is called for. In Austria, the tax burden on labour – a particularly growth-inhibiting form of taxation – is exceptionally high, while other, less distortionary taxes, such as those on property or inheritances, remain low. A fundamental tax reform could stimulate economic growth while simultaneously lowering the overall tax burden (see Baumgartner et al., 2021).

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