Austria is Slowly Returning to Growth.

Economic Outlook for 2025 and 2026

Christian Glocker, Stefan Ederer

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- After two years of recession (−1.0 percent in both years), GDP will stagnate in 2025 and grow by 1.2 percent in 2026.

- Weak demand will result in a decline in value added in the secondary sector and stagnation in the market-related services sector in the current year.

- In 2026, all economic sectors are likely to contribute to the recovery of the total economy, fuelled by stronger foreign demand.

- Inflation will remain high in 2025 despite the weak demand and will only slow down in 2026 as a result of the assumed decline in energy prices.

- The unemployment rate will initially continue to rise and will only fall in 2026 as soon as economic activity picks up again.

- Economic policy tends to be neutral over the forecast horizon. Necessary fiscal consolidation is contrasted by monetary and macroprudential easing.

Growth contribution of economic sectors to gross value added, volume
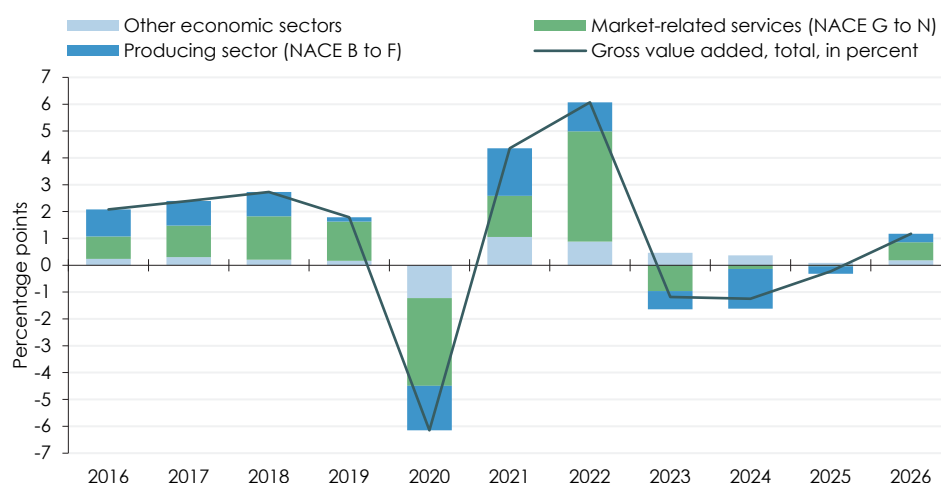
"In 2025, a negative contribution to growth from the secondary sector will once again shape economic activity. However, in 2026, all sectors should contribute to the recovery"

The growth contributions indicate the extent to which the two components (producing sector and market-related services) contribute to the increase in gross value added. The growth contribution of a component is calculated by dividing the absolute change in the component compared with the previous period by the value of gross value added in the previous period (source: WIFO; Statistics Austria; WDS – WIFO Data System, Macrobond. 2025 and 2026: forecast).

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July 2025

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After two years of recession, Austria's economic output is likely to stagnate in 2025. WIFO expects GDP growth of 1.2 percent in 2026. The upturn in the global economy should then give the Austrian economy some momentum again, driven by both exports and domestic demand.

1. Introduction

The Austrian economy is currently experiencing its longest period of weakness in the post-war era. However, the cyclical trough appears to have been passed, with increasing signs of recovery emerging, albeit tentatively and subject to potential setbacks. On the one hand, geopolitical risks and uncertainties regarding a reorientation of international trade policy are clouding the external economic environment and thus the outlook for the export industry – the most important driver of domestic economic activity. On the other hand, inflation remains high by international standards. This reduces price competitiveness and thus the sales opportunities of Austrian companies. The necessary fiscal consolidation is also holding back economic growth.

In the absence of expansionary stimuli from domestic and foreign markets, Austria's economic output is expected to stagnate in 2025. As a result of subdued final demand and high inventories of finished goods, the recession in industry will continue for the time being. The underutilisation of production capacity and the decline in capital income due to production losses are hampering investment in machinery and equipment and construction and causing a further reduction in employment in the secondary sector. Consequently, the risk of job losses remains elevated, which keeps uncertainty among private households high and is reflected in spending restraint. A rapid revival of private consumption is not to be expected despite the strong real wage growth in the previous year. Wage policy therefore is caught between two production-inhibiting factors: in addition to the lack of demand, which results, among other things, from the loss of price competitiveness due to the high nominal wage increases in previous years, the shortage of labour force is hampering production. While wage restraint could counteract the lack of demand by improving price competitiveness, it would further exacerbate the shortage of labour force due to negative labour supply effects.

Industrial production is expected to recover only gradually from 2026, once export activity picks up in response to improving international demand. However, a stronger and

sustained recovery is unlikely in view of the expected loss of market share resulting from the unfavourable competitive price

environment. Accordingly, the total economy will remain underutilised in 2026.

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	− 1.0	± 0.0	+ 1.2
Manufacturing		+ 10.9	+ 6.7	− 1.8	− 5.2	− 1.1	+ 1.5
Wholesale and retail trade		+ 4.5	+ 0.7	− 5.7	− 1.7	− 0.2	+ 1.2
Private consumption expenditure[1], volume		+ 4.8	+ 4.9	− 0.5	+ 0.4	+ 0.4	+ 1.3
Consumer durables[2]		+ 6.4	− 4.5	− 5.4	+ 1.3	+ 1.5	+ 1.5
Gross fixed capital formation, volume		+ 6.0	+ 0.4	− 3.2	− 2.1	− 0.7	+ 1.4
Machinery and equipment[3]		+ 7.7	+ 1.9	+ 2.4	+ 0.5	− 0.8	+ 2.0
Construction		+ 4.1	− 1.3	− 9.3	− 5.3	− 0.5	+ 0.6
Exports, volume		+ 9.5	+ 10.0	− 0.4	− 3.5	− 0.5	+ 1.3
Exports of goods, fob		+ 12.4	+ 6.0	− 0.4	− 5.4	− 1.1	+ 0.7
Imports, volume		+ 14.1	+ 7.1	− 4.6	− 3.3	+ 0.1	+ 1.3
Imports of goods, fob		+ 14.8	+ 3.0	− 7.4	− 5.4	− 0.4	+ 1.3
Gross domestic product, value		+ 6.8	+ 10.3	+ 5.6	+ 2.3	+ 2.7	+ 3.2
	billion €	406.23	448.01	473.23	484.22	497.53	513.62
Current account balance							
	as a percentage of GDP	1.7	− 0.9	1.3	2.4	2.2	2.0
Consumer prices		+ 2.8	+ 8.6	+ 7.8	+ 2.9	+ 2.9	+ 2.2
GDP deflator		+ 1.9	+ 4.8	+ 6.6	+ 3.3	+ 2.8	+ 2.0
Persons in active dependent employment[4]		− 5.7	− 3.4	− 2.6	− 4.6	− 4.1	− 3.9
Unemployment rate, national definition[5]		+ 2.5	+ 3.0	+ 1.2	+ 0.2	+ 0.2	+ 0.8
Command-based GDP per capita[6]		8.0	6.3	6.4	7.0	7.5	7.3
At-risk-of-poverty rate[7]	percent	+ 3.8	+ 1.1	− 1.9	− 0.6	− 0.1	+ 0.8
Income quintile ratio[8]	ratio	14.8	14.9	14.3	14.1	14.4	14.1
Greenhouse gas emissions[9]		4.3	4.3	4.3	4.4	4.4	4.4
	million t CO$_2$ equivalent	+ 4.5	− 5.8	− 6.6	− 3.0	− 0.9	− 2.5

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 2024: 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 2024: forecast. – [9] From 2024: forecast.

The price of domestically produced goods and services rose by 3.3 percent in 2024 (according to the GDP deflator). WIFO expects prices to rise by 2.8 percent in the current year and by 2.0 percent in 2026. Provided there is no renewed price shock for imported energy as in 2022, consumer prices are likely to follow a similar trajectory (+2.9 percent in 2025, +2.2 percent in 2026 after +2.9 percent in 2024). Persistently high inflation in the services sector, due to the continued high cost pressure and the widespread use of inflation-indexed price adjustments, is making it difficult to quickly reduce inflation.

The labour market is developing robustly despite the weakness of the real economy. Dependent active employment is expected to grow by 0.2 percent in 2025, as in the previous year, and by 0.8 percent in 2026. In the current year, this growth will be driven exclusively by the services sector, while employment in the secondary sector will decline. Due to the strong expansion of the labour supply, unemployment will continue to rise in 2025 and only fall in the following year due to the more favourable development in the secondary sector. The unemployment rate (according to the national definition) will rise from 7.0 percent in 2024 to 7.5 percent, before falling back to 7.3 percent in 2026.

2. The starting position

In 2024, economic activity continued to be shaped by the consequences of the supply shock in previous years, which manifested itself in the form of high energy and labour

costs. Total value added shrank while prices rose sharply as a result of cost pressure. The significant decline in export demand had a negative impact on industrial value added.

The recession was further exacerbated by tight monetary policy – new lending for residential construction projects barely increased after falling by 55 percent in 2023. As a consequence, the decline in construction investment and value added in construction continued. The latter exacerbated the industrial recession as a result of value-added interdependencies. The resulting underutilisation of industrial capacity depressed investment in machinery and equipment. The significant contraction in capital income, which was attributable to the weak sales performance of many companies, further exacerbated the decline in investment and also led to many insolvencies. The strong rise in wage income did not stimulate consumption due to the high level of uncertainty among private households and the resulting precautionary savings. The savings rate rose in 2024 and the net financial balance of private households was exceptionally high at over 30 billion €. This surplus led to an increase in the current account surplus, despite a higher financing deficit of non-financial corporations and the general government sector.

The persistent upward pressure on prices in 2024 clearly reflects the high cost pressure faced by companies as a result of the supply shock. The GDP deflator, which measures the price trend for domestically produced goods and services, rose strongly again at +3.3 percent, but at a slower rate than in 2023 (+6.6 percent). The increase was largely driven by private and public consumption prices (+4.3 percent), while investment prices rose more slowly (+3.0 percent).

The labour market developed robustly despite the weakness of the real economy. Employment rose by a total of 0.4 percent (according to the national accounts), but this increase was mainly due to growth in public-sector-related areas. In the secondary sector and in numerous market-related services, however, the number of employees shrank, in some cases significantly.

3. The framework conditions of the forecast

This forecast is based on the information available in mid-June 2025 with regard to assumptions about the direction of economic policy and the development of the global economy, exchange rates, commodity prices and interest rates. The forecast period extends from the second quarter of 2025 to the fourth quarter of 2026.

3.1 Framework conditions for the international economy

The international economic environment is currently unclear. This is due in particular to the reorientation of trade policy in the USA. Since taking office, the USA government has introduced a series of tariffs, most of which have subsequently been suspended. The trade conflict with China escalated in April before the two countries agreed to temporarily suspend tariffs at the beginning of May. At the end of May, the USA increased the pressure on the EU by threatening to introduce tariffs of 50 percent. The actual structure of the tariffs in the forecast period – the countries or products affected as well as the duration, possible exemptions and countermeasures – is currently almost impossible to predict.

The spectrum of possible developments ranges from a return to the status quo before tariffs were raised on the one hand, to a renewed escalation of the trade war, for example with China or the EU, on the other. To account for to this uncertainty, an optimistic and a pessimistic tariff scenario were formulated and the effects of the respective tariff rates on economic output were simulated (see box "On the international effects of different tariff scenarios"). The base scenario of this forecast assumes that the tariff rates in force at the end of May 2025 will remain in place until the end of 2026. The USA tariffs on imports from the EU are therefore assumed to be 10 percent, with the exception of steel, aluminium and motor vehicles (50 and 25 percent respectively) as well as some other products such as pharmaceuticals and microprocessors. For Austria, the baseline scenario implies an increase in effective tariffs of around 11.4 percentage points[1].

Uncertainty regarding the realignment of tariff policy is likely to have slowed the business cycle in the USA in the spring. While sentiment among manufacturing companies brightened until May, consumer confidence fell significantly in April and the savings rate rose again. As households in the USA are expecting higher inflation due to the tariffs, the momentum of consumer spending is likely to have remained subdued in the spring. Economic policy uncertainty increased significantly in the USA in April. Companies are therefore likely to remain reluctant to invest in the coming months until there is clarity on tariff policy. In addition, there were probably renewed pull-forward effects in the spring, as companies used the tariff break until the summer to fill their inventories. The measurement of economic output in the USA is

[1] This value was calculated as a weighted average of the tariff increases in various product groups, taking into account both the amount of the individual product-specific tariffs and the share of the respective product groups in Austria's total exports to the USA. The average value takes into account the tariff increase of 4 June 2025 for steel and aluminium (to 50 percent).

therefore likely to be distorted in the second quarter of 2025.

The tariffs will gradually feed through to inflation as soon as inventories are depleted and new imports are associated with higher costs; however, they are only likely to accelerate inflation temporarily. Crude oil prices fell significantly in the spring, but returned to levels similar to those at the start of the year following Israel's attack on Iran in mid-June. Inflation will ease again in 2026 due to the expected economic slowdown in the USA. Accordingly, the Federal Reserve will cut key interest rates further from the end of 2025. Despite the predicted economic slowdown, the USA is unlikely to slip into a recession.

In the euro area, the uncertainty surrounding the realignment of tariff policy has had little impact so far. Sentiment among companies and private households even improved again somewhat in the spring. Nevertheless, the threat of tariffs totalling 50 percent exposes the business cycle to considerable risks. Companies' willingness to invest is likely to remain subdued until the situation has cleared up. Low inflation and lower interest rates will support economic activity in the forecast period. Although the high level of uncertainty is prompting private households to be more cautious, the savings rate – which is above average in a long-term comparison – is likely to fall in the forecast period, which will stimulate consumption. In Germany, the measures included in the coalition agreement should also support the economy in 2026.

Table 2: **International economy**

	Percentage shares 2023		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	14.6	+ 6.3	+ 3.5	+ 0.4	+ 1.0	+ 1.2	+ 1.4
Euro area	52.4	10.3	+ 6.3	+ 3.5	+ 0.4	+ 0.9	+ 1.0	+ 1.1
Germany	29.1	3.2	+ 3.7	+ 1.4	– 0.3	– 0.2	+ 0.3	+ 1.5
Italy	6.1	1.9	+ 8.9	+ 4.8	+ 0.7	+ 0.7	+ 0.5	+ 0.5
France	3.6	2.3	+ 6.9	+ 2.7	+ 1.4	+ 1.2	+ 0.5	+ 0.7
Spain	1.6	1.4	+ 6.7	+ 6.2	+ 2.7	+ 3.2	+ 2.5	+ 1.7
CEEC 5[2]	15.0	2.2	+ 6.4	+ 4.1	+ 0.3	+ 2.1	+ 2.5	+ 2.7
Poland	3.7	1.0	+ 6.9	+ 5.3	+ 0.2	+ 2.9	+ 3.3	+ 3.1
Hungary	3.6	0.2	+ 7.2	+ 4.3	– 0.8	+ 0.5	+ 0.9	+ 2.5
Czech Republic	3.6	0.3	+ 4.0	+ 2.8	– 0.1	+ 1.1	+ 2.4	+ 2.1
USA	7.3	14.9	+ 6.1	+ 2.5	+ 2.9	+ 2.8	+ 1.4	+ 1.7
Switzerland	5.2	0.4	+ 5.6	+ 3.0	+ 0.7	+ 1.3	+ 0.8	+ 1.0
UK	2.7	2.2	+ 8.6	+ 4.8	+ 0.4	+ 1.1	+ 1.2	+ 0.9
China	2.5	19.1	+ 8.4	+ 3.0	+ 5.2	+ 5.0	+ 4.2	+ 3.9
Total[3]								
PPP-weighted[4]		51	+ 7.1	+ 3.1	+ 2.9	+ 3.0	+ 2.4	+ 2.4
Export weighted[5]	86		+ 5.2	+ 2.6	+ 0.7	+ 1.0	+ 1.0	+ 1.4
Market growth[6]			+ 11.0	+ 5.7	– 3.2	+ 0.4	+ 1.5	+ 1.0
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			70.8	98.9	82.2	79.8	66	64
Natural gas price								
Dutch TTF, € per MWh			45.9	121.5	40.6	34.3	40	35
Electricity price Austria								
Base, € per MWh			107.2	261.6	102.2	82.1	100	93
Peak, € per MWh			116.8	275.5	103.9	81.4	101	101
Exchange rate								
$ per €			1.184	1.054	1.082	1.082	1.11	1.16
Key interest rate								
ECB main refinancing rate[7], percent			0.0	0.6	3.8	4.2	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 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.

On the international impact of different tariff scenarios

In order to take account of the uncertainty surrounding the USA tariff policy, the range of possible developments was estimated in addition to the base scenario on which the forecast is based. To this end, an optimistic and a pessimistic tariff scenario were formulated and the macroeconomic effects simulated using the Global Economic Model (GEM) from Oxford Economics[1].

In the optimistic scenario, from summer 2025 tariff rates fall back to their level at the end of 2024 before the start of the first round of tariff increases. In the pessimistic scenario, on the other hand, it is assumed that the negotiations over the coming weeks and months will remain inconclusive and that tariffs will be raised again in the summer to the level of April 2025. In the pessimistic scenario, the USA also raises the tariffs on imports from the EU to the threatened 50 percent. The two scenarios illustrate the range of possible developments and thus allow an assessment of the forecast uncertainty depending on the further development of tariff policy.

Figure 1: **Forecast range for different tariff scenarios**
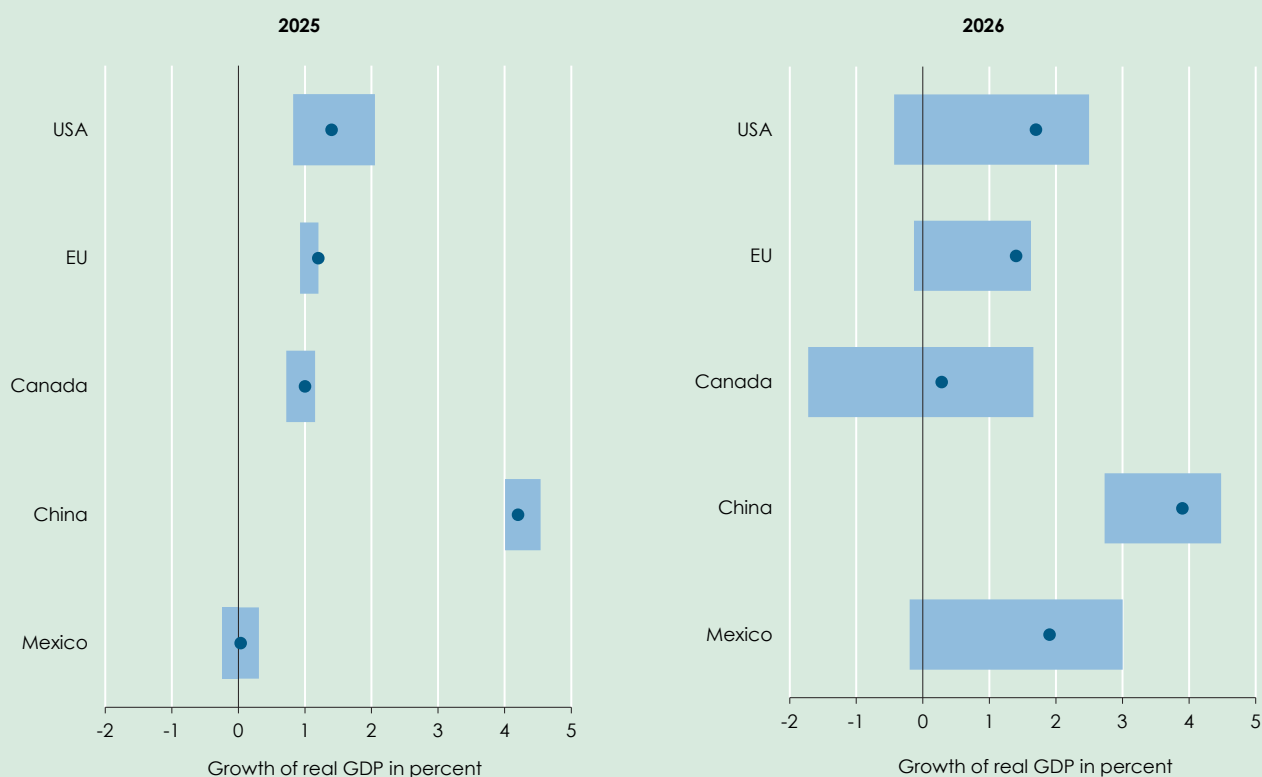
Source: Oxford Economics, WIFO calculations. Dots show the base scenario; the coloured bars represent the range of the forecast between the optimistic and pessimistic scenarios.

The GEM is a world model that uses structural equations to depict both international trade links and macroeconomic relationships within countries. An increase in tariff rates initially increases domestic inflation and dampens real income, which reduces consumer demand. This results in weaker development of the total economy, which subsequently dampens other demand aggregates, in particular imports from other countries, which in turn has an impact on global trade, the monetary policy of the various currency areas and exchange rates. The simulations do not include the effects of higher or lower uncertainty as a result of tariff policy. The assumed tariff rates apply in both scenarios from the third quarter of 2025 until the end of the forecast period.

The ranges of growth of real GDP depending on tariff policy are considerable (Figure 1). In the case of the USA, GDP growth in 2026 differs by almost 3 percentage points between the optimistic and pessimistic scenarios. In the pessimistic case, the USA would even face a recession. The other countries are affected very differently depending on their trade links with the USA and the level of tariffs. The greatest differences between the scenarios can be seen in Canada and Mexico. In the EU, downside risks prevail due to the assumed 50 percent tariff rates in the pessimistic scenario.

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[1] See Wollmershäuser, T., Ederer, S., Fourné, F., Lehmann, R., Link, S., Schaching, M., Wibault, T., Wolf, G., & Zarges, L. (2025). Ifo Economic Forecast Summer 2025. Recovery draws closer – economic policy uncertainties remain high. Ifo Institute Munich.
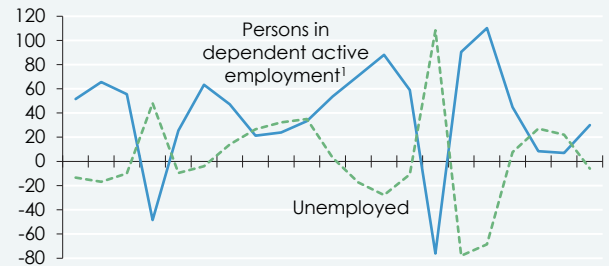
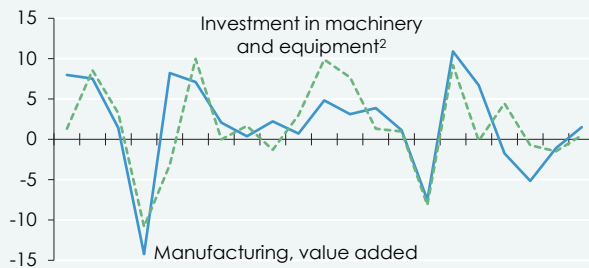## Figure 2: **Indicators of economic performance**

Growth of real GDP
Percent

USA, Euro area, Austria

Employment and unemployment
Change from previous year in 1,000

Persons in dependent active employment[1]

Unemployed

Manufacturing and investment
Percentage changes from previous year, volume

Investment in machinery and equipment[2]

Manufacturing, value added

Consumption and income
Percentage changes from previous year, volume

Wages and salaries per employee, net

Private consumption
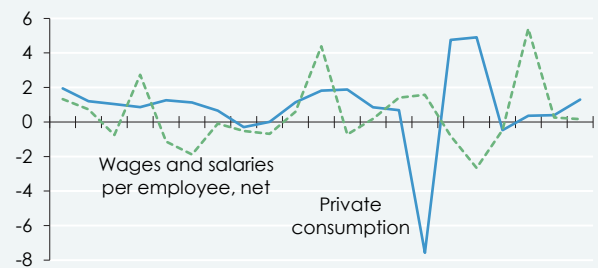
Short-term and long-term interest rates
Percent

Three-month interest rate

Long-term interest rate[3]

Inflation and unit labour costs
Percentage changes from previous year

Consumer prices

Unit labour costs, total economy[4]
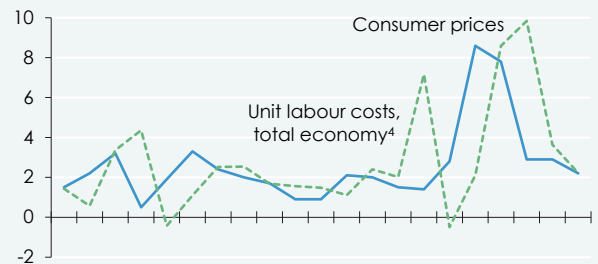
Trade (according to National Accounts)
Percentage changes from previous year, volume

Exports of goods

Imports of goods

General government financial balance
As a percentage of GDP

Austria

Euro area[5]

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.

3.2 Economic policy framework conditions

This forecast takes into account all economic policy measures that have already been adopted or sufficiently specified and whose implementation is therefore considered likely. In addition to the above-mentioned assumptions regarding the USA tariff policy, WIFO assumes that the EU will not impose retaliatory tariffs.

3.2.1 Monetary policy

The European Central Bank (ECB) has eased its monetary policy since the summer of 2024. The three most important key interest rates were lowered in several steps, most recently by 25 basis points each in March, April and June 2025. At the same time, the ECB is continuing to reduce its balance sheet.

After the interest rate cut in June 2025, WIFO does not expect any further easing steps for the time being. The main refinancing rate is likely to be at 2.5 percent in the medium term.

3.2.2 Macroprudential policy

At around −14 percentage points, the credit-to-GDP gap remained well below the critical threshold of 2 percentage points in the fourth quarter of 2024. At its meeting in June 2025, the Financial Market Stability Board (FMSB) therefore recommended leaving the countercyclical capital buffer at 0 percent of risk-weighted assets.

A decisive innovation is the expiry of the Regulation for sustainable lending standards for residential real estate financing (KIM-VO) on 30 June 2025. The KIM-VO was intended

to increase financial market stability in Austria and was aimed at mortgage borrowers (loan-to-value ratio, debt service ratio, maximum repayment term, etc.). The expiry of the regulation will make lending more flexible and enable higher loan amounts. This should further fuel the already lively growth in new mortgage lending (April 2025 +72 percent year-on-year) in an environment of low risk weights (according to the FMSB, especially for commercial property loans) and thus reinforce the effect of monetary easing. The environment is currently characterised by a historically high corporate debt ratio. All of this is fuelling the build-up of risks beneath a seemingly calm surface, which is characterised by a moderate expansion in the total loan portfolio and an incipient recovery in the total economy and the construction sector in particular.

3.2.3 Fiscal policy

The structural deficit will remain high in the forecast period and the general government deficit above the Maastricht limit. EU proceedings due to an excessive deficit are currently likely. A comprehensive consolidation package on the expenditure and revenue side was therefore adopted in the 2025-26 federal budget. In addition, targeted measures were introduced to cushion the social impact of the austerity measures and to support the labour market.

The budgetary effects of the measures are assessed differently by WIFO and the Federal Ministry of Finance. The WIFO Economic Outlook does not take into account any consolidation contributions from the federal states and municipalities, as the corresponding measures are not yet known.

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	− 3.4	− 2.6	− 4.6	− 4.1	− 3.9
General government primary balance	− 4.6	− 2.5	− 1.4	− 3.1	− 2.4	− 2.2
General government total revenue	50.3	49.7	50.1	51.4	52.0	52.0
General government total expenditure	56.0	53.1	52.7	56.0	56.0	55.9
General government gross dept[1]	82.4	78.4	78.5	81.4	83.4	85.0
	Percent					
Monetary policy						
Three-month interest rate	− 0.5	0.3	3.4	3.6	2.3	2.2
Long-term interest rate[2]	− 0.1	1.7	3.1	2.8	3.1	3.1

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

On the expenditure side, the focus in 2025 will be on the abolition of the climate bonus (−2 billion €), cuts and efficiency improvements in the subsidy system (−0.7 billion €) and savings in the ministries (−0.6 billion €).

Further contributions will come from reforms to educational leave and the temporary suspension of the valorisation of family benefits. The adjustment of the ÖBB framework plan will also curb public investment. In total,

WIFO expects savings of 3.8 billion € (2025) and 5.3 billion € (2026). The pension reform is not expected to take effect until 2027.

On the revenue side, the temporary stability fee (0.5 billion €), higher health insurance contributions for pensioners, special distributions and the cancellation of VAT benefits for photovoltaics will generate additional revenue in 2025. These amount to a total of 1.6 billion € (2025) and 1.8 billion € (2026).

Offensive measures such as expanded AMS programmes and tax breaks for employee bonuses complete the package. According to WIFO, the net consolidation volume amounts to 4.7 billion € (2025) and 5.6 billion € (2026). However, the fiscal balance will only improve moderately from –4.1 percent (2025) to –3.9 percent (2026) of GDP, and the debt ratio will rise to 85 percent by 2026.

4. Prospects for the Austrian economy

Economic activity in Austria is expected to gain momentum only slowly. No significant recovery is yet in sight for 2025. However, there are also no signs of another pronounced recession. The now more optimistic outlook reflects, on the one hand, revised industrial data resulting in stronger overall economic output than previously reported. On the other hand, sentiment in manufacturing has brightened noticeably, placing the economy in a better starting position than at the time of the WIFO Economic Outlook in March 2025.

According to the WIFO-Konjunkturtest (business cycle survey) from May 2025, the assessment of the situation in the manufacturing sector has improved steadily since the end of 2024 and recently reached its highest value since mid-2023. At the same time, business expectations have also brightened since the beginning of 2025. Although the majority of manufacturing companies remain pessimistic, assessments in the consumer goods sub-sector are now more positive than average, while they are still below average in the intermediate goods and capital goods industries despite the recent improvement. The UniCredit Bank Austria Purchasing Managers' Index paints a similar picture. It is now only slightly below the growth threshold. The deceleration in the decline of new orders is another encouraging sign, further improving the outlook for production.

The brightening of sentiment in manufacturing since the beginning of the year contrasts with a deterioration in the market-related services. Here, sentiment has deteriorated in accommodation and food service activities in particular. It is also still below average in construction.

The lack of demand continues to be the most important obstacle to production in all sectors, although there has been a trend towards an improvement since the beginning of 2025.

Consumer confidence is still below average. However, uncertainty has recently decreased somewhat, especially as the subjectively perceived risk of job losses has fallen. Although this indicator is still at an above-average level, it recently reached its lowest value in six months. As uncertainty on the part of private households decreases, the outlook for consumption is brightening somewhat.

The new macroeconomic shock caused by the USA's reorientation of its tariff policy was already partially taken into account by WIFO in its March 2025 forecast. Since then, the lack of clarity regarding the final design of the tariffs has fuelled uncertainty. Uncertainty shocks usually lead directly to spending restraint and thus dampen consumption and investment. While uncertainty has recently increased among American households, this was not the case for Austrian companies and households. The dampening effects of the trade policy realignment are therefore limited to domestic goods exports to the USA. According to the KITE model, this results in a negative effect on Austrian GDP of around 0.3 percent (see box "USA tariffs and Austrian exports: volume effect and tariff incidence").

4.1 The dichotomy of the economy is dissolving

According to the latest quarterly data from the national accounts, the Austrian economy has already passed the trough of its recent weak phase. Although the recession of previous years was more moderate compared to the financial market and economic crisis and the COVID-19 crisis, it lasted much longer. According to the leading indicators, it will continue this year in manufacturing and construction, albeit less pronounced, while services will develop more favourably. In total, this will result in stagnation for the overall economy (±0.0 percent; 2024 –1.0 percent; Figure 3, Table 5).

Although the Austrian economy has now passed the cyclical trough of the economic downturn, it is only expected to recover slowly.

Leading indicators show a brightening of sentiment in industry. Uncertainty remains high, particularly among private households and in parts of industry and construction, but has not increased further recently.

The opposing value added trends in the market-related services on the one hand and industry and construction on the other are likely to be completely resolved in 2026.

Table 4: **Gross value added**

At basic prices

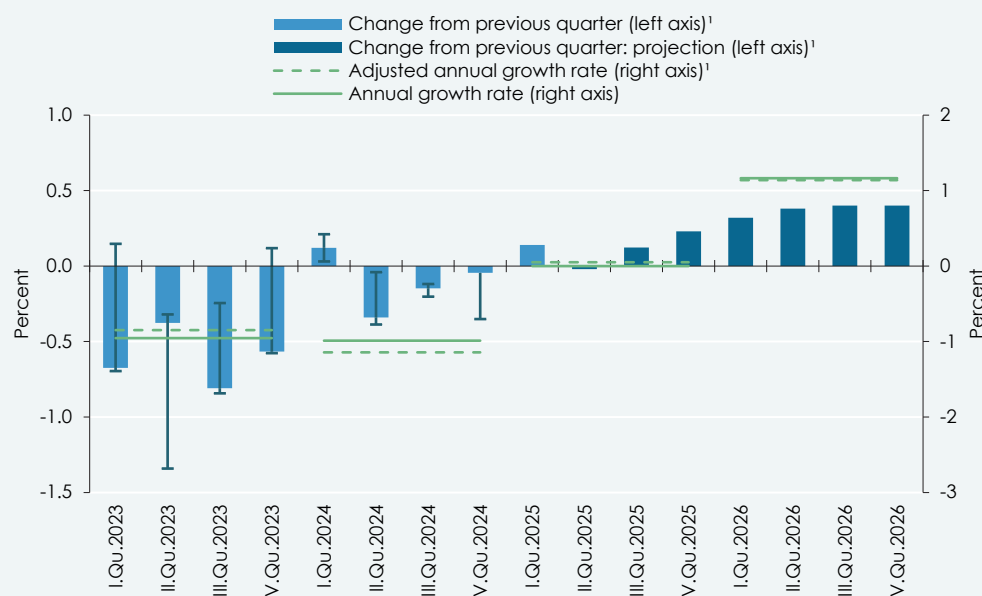|	2023	2024	2025	2026	2023	2024	2025	2026
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.42	4.52	4.58	4.63	− 2.7	+ 2.4	+ 1.2	+ 1.2
Manufacturing including mining and quarrying	72.39	68.77	68.01	69.03	− 2.3	− 5.0	− 1.1	+ 1.5
Electricity, gas and water supply, waste management	10.21	9.34	9.06	9.15	+ 8.1	− 8.5	− 3.0	+ 1.0
Construction	16.34	15.64	15.57	15.66	− 7.5	− 4.3	− 0.5	+ 0.6
Wholesale and retail trade	39.88	39.20	39.12	39.59	− 5.7	− 1.7	− 0.2	+ 1.2
Transportation	18.69	18.45	18.31	18.58	− 2.5	− 1.3	− 0.8	+ 1.5
Accommodation and food service activities	10.70	10.48	10.28	10.23	+ 5.4	− 2.1	− 1.9	− 0.5
Information and communication	16.10	16.50	16.62	16.95	+ 3.0	+ 2.5	+ 0.7	+ 2.0
Financial and insurance activities	16.85	17.66	17.78	18.15	− 8.1	+ 4.8	+ 0.7	+ 2.1
Real estate activities	31.33	31.47	31.62	31.84	+ 0.5	+ 0.4	+ 0.5	+ 0.7
Other business activities[1]	36.20	35.53	35.50	36.24	− 0.7	− 1.8	− 0.1	+ 2.1
Public administration[2]	59.89	60.95	61.26	61.57	+ 2.2	+ 1.8	+ 0.5	+ 0.5
Other service activities[3]	8.92	8.95	8.87	9.09	+ 4.7	+ 0.4	− 1.0	+ 2.5
Total gross value added[4]	340.92	336.66	335.88	339.82	− 1.2	− 1.3	− 0.2	+ 1.2
Gross domestic product at market prices	381.39	377.62	377.59	382.10	− 1.0	− 1.0	± 0.0	+ 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.

Industry should increasingly gain momentum over the course of the year, especially as stocks of finished goods will no longer be sufficient to meet new orders. In addition to rising exports of goods, industry will also benefit from the increasing momentum in construction. The value added contributions of the individual sectors will therefore gradually no longer move in opposite directions. This will lead to a cyclical recovery of the overall economy, which should intensify in 2026 in particular as soon as all economic sectors make positive contributions to growth again or at least do not dampen expansion. Quarterly GDP growth rates should therefore increase in 2026, allowing for growth of 1.2 percent for the year as a whole.

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 5: **Technical breakdown of the real GDP growth forecast**

		2023	2024	2025	2026
Growth carry-over[1]	percentage points	+ 0.7	– 0.9	– 0.2	+ 0.2
Growth rate during the year[2]	percent	– 2.4	– 0.4	+ 0.5	+ 1.5
Annual growth rate	**percent**	**– 1.0**	**– 1.0**	**± 0.0**	**+ 1.2**
Adjusted annual growth rate[3]	percent	– 0.8	– 1.1	+ 0.0	+ 1.1
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 6: **Revision of the growth forecast**

GDP, volume

		2025	2026
WIFO Economic Outlook March 2025	percent	– 0.3	+ 1.2
Data revisions[1]	percentage points	+ 0.3	± 0.0
Forecast error for the first quarter of 2025[2]	percentage points	+ 0.2	– 0.0
Forecast revision	percentage points	– 0.1	– 0.1
WIFO Economic Outlook June 2025	**percent**	**± 0.0**	**+ 1.2**

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

The underlying quarterly pattern implies that the weak phase observed since the summer of 2022 will continue in the current year, but will gradually come to an end, meaning it would have lasted around three and a half years. While a negative inter-annual growth rate in 2024 combined with a negative statistical carry-over from the previous year led to a significant decline in GDP, the stagnation in 2025 is essentially the result of a slightly positive inter-annual growth rate combined with a small negative growth carry-over from the previous year. In 2026, a high inter-annual growth rate and a growth carry-over from 2025 will enable a positive annual growth rate (Table 5).

As the GDP growth expected for 2025 is significantly below potential growth of around 0.8 percent, the already negative output gap is likely to widen further and to only narrow in 2026. Although growth will exceed potential growth in 2026, the output gap will not close over the forecast horizon. The underutilisation of production factors will therefore continue and should continue to dampen inflation.

4.2 Foreign demand picks up

Foreign demand for Austrian goods and services is expected to continue to fall in 2025 despite the expected recovery of the international economy. The decline in goods exports will be offset by an expansion in services exports, which will stabilise overall exports somewhat. The effects of higher import tariffs in the USA will dampen exports of goods by an estimated 0.9 percent (see box "USA tariffs and Austrian exports: volume effect and tariff incidence"). Furthermore, unlike in previous years, the positive international economic stimuli are currently not translating into equivalent stimuli in the area of goods exports, as domestic goods have lost price competitiveness on foreign markets. According to the results of a survey conducted by the Austrian Economic Chambers, labour costs are the most frequently cited reason for the deterioration in competitiveness; 94 percent of companies in the industrial sector mention this factor. Last but not least, an unfavourable export structure hinders a stronger expansion of exports: the majority of Austrian goods exports are destined for countries with low expansion rates; emerging countries (e.g. BRICS countries), which have significantly higher market growth, are insufficiently served.

After –3.5 percent in the previous year, WIFO expects exports to fall by 0.5 percent in 2025. An increase of 1.3 percent is forecast for the following year, as exports of goods will expand alongside exports of services in 2026.

USA tariffs and Austrian exports: volume effect and tariff incidence

The USA's recent tariff increases on selected imported goods raise the question of their effects on Austria's goods exports to the USA and the distribution of the financial burden. This analysis attempts to quantify the effects while remaining as simple as possible (*Ockham's principle of parsimony*). The analytical foundation is a classic supply-demand model (S-D model):

Demand (American importers): $q = \alpha + \beta\, p,\ \beta < 0$

Supply (Austrian exporters): $q = \gamma + \delta\, p,\ \delta > 0$

where q denotes the quantity and p the price (in equilibrium). The tariff increase results in a higher price for importers, which reduces demand, and a lower price for exporters, which reduces supply. In order to determine the extent of the equilibrium quantity reduction, the model parameters (α, β, γ and δ) must first be defined. Then the tariff increase is simulated.

- **Determination of the model parameters:** the parameters are determined on the basis of the equilibrium (i.e. traded on the market) quantities ($\bar{q}$) and prices ($\bar{p}$) as well as an estimate of the price elasticity of demand ($\eta_N < 0$) and supply ($\eta_A > 0$). Using monthly data on Austrian goods exports to the USA in 2024, $\bar{q}$ was defined as the monthly volume of exports (in tonnes) and $\bar{p}$ as the average price in the same period (unit value). Using the price elasticities (η_N and η_A; explanation at the end of the box), the model parameters can be determined as follows: $\beta = \eta_N\, \bar{q}/\bar{p}$, $\alpha = \bar{q} - \beta\bar{p}$, $\delta = \eta_A\, \bar{q}/\bar{p}$, $\gamma = \bar{q} - \delta\bar{p}$.
- **Simulation of the tariff increase:** the quantity effect of the tariff increase is determined on the basis of an implicit tariff (τ) of 11.4 percentage points. Given the new prices for importers $p_N = p\,(1 + \tau)$ and for exporters $p_A = p\,(1 - \tau)$, this results in a reduction in the equilibrium quantity of around 11 percent, i.e. Austria's exports of goods to the USA fall by **11 percent** compared to 2024 as a result of the tariff increase. Taking into account the USA's share in Austrian exports of goods (8.5 percent) and the share of total exports of goods in GDP (39 percent), the tariff increase results in a **0.9 percent** decline in total exports of goods and a **0.3 percent** decline in GDP.
- **Tariff incidence:** the model makes it possible to quantify the distribution of the tariff burden between Austrian exporters and importers in the USA. According to the model, the USA treasury will gain additional revenue of **1.6 billion €** as a result of the tariff increase. Austrian exporters bear around **61 percent** of this (=$|\eta_N|/(\eta_A - \eta_N)$; **1 billion €**) and American customers **39 percent** (= $\eta_A/(\eta_A - \eta_N)$; **600 million €**). This finding reflects the difference in price elasticity: as Austrian exporters are more price inelastic than importers in the USA, they bear a larger share of the tariff burden.

Table 7 summarises the results. In total, a negative overall effect of 0.5 percent of GDP (base 2024) is observed, which is low compared to Austria's neighbouring countries.

Table 7: **Impact of tariff increases by the USA on goods exports and GDP**

	Austria			Germany[3]	Switzerland[4]
	Supply-demand model	KITE model[1]	Input-output model[2]	Supply-demand model	Supply-demand model
Tariff increase					
Percentage points	11.4	10.0	10.9	11.8	10.0
Goods exports to the USA					
Percentage change compared to 2024	– 10.7			– 11.6	– 3.9
Total goods exports					
Percentage change compared to 2024	– 0.9	– 0.8		– 1.2	– 0.6
GDP decline					
Percent	**0.32**	**0.33**	**0.31**	**0.44**	**0.34**
Billion € or CHF	1.5	1.6	1.5	19.1	2.8
USA tariff revenue					
Billion € or CHF	1.6			16.6	6.2
Tariff burden for the exporting country					
Percentage of total customs costs	60.8			56.6	52.7
Billion € or CHF	1.0			9.4	3.3
Total costs for the exporting country					
As a percentage of GDP	**0.5**			**0.7**	**0.7**
Billion € or CHF	2.5			28.5	6.1

Source: WIFO, OeNB. – [1] Mahlkow, H. (2025). New US Tariffs Significantly Burden Exports and the Economy in Europe. WIFO. https://www.wifo.ac.at/en/news/new-us-tariffs-significantly-burden-exports-and-the-economy-in-europe/ (accessed 15 June 2025). – [2] Schneider, M., & Sellner, R. (2025). Import tariffs in the USA: Which sectors of Austria's economy are particularly affected? OeNB. https://www.oenb.at/Presse/oenb-blog/2025/2025-05-06-us-importzoelle-welche-wirtschaftsbereiche-oesterreichs-sind-besonders-davon-betroffen.html (accessed 15 June 2025). – [3] The estimates of the price elasticity of demand and supply amount to –1.15 und 0.88. – [4] The estimates of the price elasticity of demand and supply amount to –0.41 und 0.39.

Annex for determining the price elasticities: let if $\eta_N = \frac{dq}{dp} \cdot \frac{p}{q} = \frac{d\ln(q)}{d\ln(p)} \rightarrow \eta_N\, d\ln(p) = d\ln(q)$, the following results after integration: $\eta_N \ln(p) = \ln(q)$, as well as an equivalent expression for the price elasticity of supply ($\eta_A \ln(p) = \ln(q)$). To estimate the two price elasticities, both expressions were embedded into a multivariate system of equations:

$$A\boldsymbol{x}_t = B(L)\, \boldsymbol{x}_t + \boldsymbol{u}_t, \text{ with } A = \begin{bmatrix} 1 & -\eta_N \\ -1/\eta_A & 1 \end{bmatrix}$$

Where $\boldsymbol{x}_t = \begin{bmatrix} \ln(q_t) & \ln(p_t) \end{bmatrix}'$ is the vector of endogenous variables, $B(L) = \sum_{i=1}^{m} B_i L^i$ is a lag polynomial and $\boldsymbol{u}_t$ is a (structural) error term. Austria's (monthly) volume of goods exports to the USA (in tonnes) was used for q_t and the corresponding deflator (unit values) for p_t . The model was estimated using Bayesian methods and the elasticities were determined according to Glocker and Piribauer (2025)[1] using sign restrictions on the rows of the A matrix. The estimated median values are at $\eta_N < -1{,}21$ and $\eta_A > 0{,}79$.

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[1] Glocker, C., & Piribauer, P. (2025). Consumer preferences and inflation diffusion. *Macroeconomic Dynamics*, 29, 1-23. https://doi.org/10.1017/S1365100525000070.

Table 8: **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	269.14	269.90	272.62	+	0.0	+	0.7	+	0.3	+	1.0
Households[1]	190.19	190.86	191.63	194.12	−	0.5	+	0.4	+	0.4	+	1.3
General government	77.17	78.29	78.29	78.52	+	1.2	+	1.4	±	0.0	+	0.3
Gross capital formation	90.43	85.87	85.40	86.86	−	13.0	−	5.0	−	0.5	+	1.7
Gross fixed capital formation	90.50	88.58	88.00	89.23	−	3.2	−	2.1	−	0.7	+	1.4
Machinery and equipment[2]	31.52	31.29	30.82	30.98	+	4.4	−	0.7	−	1.5	+	0.5
Construction	37.16	35.20	35.03	35.24	−	9.3	−	5.3	−	0.5	+	0.6
Other investment[3]	22.40	22.90	22.95	23.86	−	0.3	+	2.2	+	0.2	+	4.0
Domestic demand	359.46	356.35	357.50	361.83	−	3.5	−	0.9	+	0.3	+	1.2
Exports	231.72	223.70	222.56	225.37	−	0.4	−	3.5	−	0.5	+	1.3
Travel	16.01	16.40	16.48	16.78	+	13.9	+	2.4	+	0.5	+	1.8
Minus imports	210.61	203.57	203.68	206.32	−	4.6	−	3.3	+	0.1	+	1.3
Travel	10.24	10.95	11.22	11.27	+	14.8	+	6.9	+	2.5	+	0.5
Gross domestic product	381.39	377.62	377.59	382.10	−	1.0	−	1.0	±	0.0	+	1.2
Value	473.23	484.22	497.53	513.62	+	5.6	+	2.3	+	2.7	+	3.2

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).

Imports are likely to stagnate in 2025, driven by a weak expansion in consumption coupled with declining investments and exports. In combination with the decline in exports, this results in a negative contribution to GDP from foreign trade in purely arithmetical terms (–0.3 percentage points). In 2026, the contribution should be neutral due to the recovery in exports.

The expected path of goods exports will also determine the development of value added in industry. Earlier assumptions of a decoupling of these two variables[2] have been invalidated by a series of data revisions. Accordingly, value added in industry will also increase again in 2026 along with goods exports.

4.3 Domestic demand only slowly gaining momentum

Among the components of domestic demand, the significant decline in investment also stands out in 2025. Declines in machinery and equipment and construction investment (especially in civil engineering) are a consequence of fiscal consolidation, the ongoing recession in industry and the decline in capital income, as indicated by the business situation indicators of the WIFO-Konjunkturtest. According to the WKO Economic Barometer from June 2025, only 23 percent of companies are planning new investments in the next 12 months.

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[2] See the box "On the decoupling of industrial value added from goods exports" in Glocker, C., & Ederer, S. (2024). *High uncertainty keeps Austria's economy in stagnation. Forecast for 2024 and 2025*. WIFO. https://www.wifo.ac.at/publication/pid/52905241.

By contrast, investment in intangible assets is likely to continue to expand in 2025. Overall construction activity remains weak throughout the forecast horizon and is characterised by a dichotomy: while civil engineering is declining as a result of fiscal consolidation, building construction is beginning to recover in response to monetary and macroprudential easing.

Private consumption is expected to grow only moderately in 2025, but expand more strongly in 2026. The forecast, on the one hand, accounts for the impact of fiscal consolidation on private households in 2025-26, which will reduce disposable household income and thus the scope for spending. On the other hand, it is caught between two implications of the Euler equation. According to the increase in the real interest rate assumed in this forecast (2025: 0.2 percent, 2026: 0.9 percent), a slowdown in consumption momentum would be expected.

However, this effect is overshadowed by a second implication, namely the influence of uncertainty[3]. Despite the recent decline, it remains at a high level, continuing to drive increased savings due to precautionary motives. An improvement in consumer confidence and therefore a higher willingness to spend is not expected until 2026 as soon as the economic recovery has a positive impact on the labour market. Last but not least, the currently high level of accumulated financial assets also points to a more favourable development in 2026: on the one hand, bank deposits of Austrian households have increased significantly (April 2025 +5.4 percent year-on-year). On the other hand, they generated the highest financial surplus to date at over 30 billion € (2024). The decrease in uncertainty is likely to increase the willingness to direct existing financial assets into consumption – a development that is expected to materialise only in 2026.

Table 9: **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	+ 0.4	+ 0.4	+ 1.3
Durable goods[2]	+ 6.4	− 4.5	− 5.4	+ 1.3	+ 1.5	+ 1.5
Non-durable goods and services[2]	+ 4.6	+ 6.0	+ 0.1	+ 0.3	+ 0.3	+ 1.3
Private household disposable income, volume	+ 2.1	+ 1.7	− 0.5	+ 3.5	− 0.7	+ 0.7
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	11.4	8.8	8.7	11.7	10.8	10.2
Excluding adjustment for the change in pension entitlements	10.9	8.2	8.1	11.1	10.1	9.6
						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	+ 2.9	+ 2.2
Harmonised	+ 2.8	+ 8.6	+ 7.7	+ 2.9	+ 2.9	+ 2.2
Core inflation[3]	+ 2.3	+ 5.1	+ 7.3	+ 3.9	+ 2.9	+ 2.2

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.

4.4 Above-average real wage growth expected once again

Inflation moderation continued in 2024 but is now expected to slow. This is, on the one hand, reflected by leading indicators of the WIFO-Konjunkturtest on expected price adjustments: in the consumer goods and services sector in particular, more and more companies are expecting sales prices to rise in the coming months. In line with this, the inflation expectations of private households are also high again. On the other hand, producer prices for consumer goods also point

to an end of the slowdown in inflation. Price declines are currently only being recorded in the energy sector and for intermediate products and are counteracting the general inflationary pressure.

Inflation in domestically produced goods and services – as measured by the GDP deflator – will therefore weaken only slightly in both forecast years. After the price increase of 3.3 percent in 2024, WIFO expects growth rates of 2.8 percent and 2.0 percent respectively. The slowdown in inflation is primarily driven by the significant rise in import prices.

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[3] Analytically, this effect can be represented by a second-order Taylor approximation of the Euler equation, with expected consumption as the expansion point.

While these increases inherently dampen the GDP deflator, they simultaneously exert direct inflationary pressure on the respective demand components. No further slowdown in inflation is expected for private consumption in 2025 compared to the previous year (+2.9 percent, according to the CPI).

Table 10: **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	+ 8.3	+ 3.3	+ 2.7
Real[2]						
Gross	− 0.1	− 3.4	− 0.9	+ 5.3	+ 0.4	+ 0.5
Net	− 0.8	− 2.7	− 0.5	+ 5.4	+ 0.3	+ 0.2
Wages and salaries per hour worked[3]						
Real, net[2]	− 4.0	− 2.4	− 0.5	+ 7.0	+ 0.5	− 0.1
	Percent					
Wage share, adjusted[4]	62.4	62.1	63.5	67.6	68.6	68.7
	Percentage changes from previous year					
Unit labour costs, nominal[5]						
Total economy	− 0.5	+ 2.1	+ 8.6	+ 9.8	+ 3.6	+ 2.2
Manufacturing	− 6.5	− 0.4	+ 9.7	+12.0	+ 5.0	+ 1.1
Effective exchange rate – manufactured goods[6]						
Nominal	+ 0.6	− 1.5	+ 1.9	+ 1.1	+ 1.1	+ 0.7
Real	+ 0.2	− 1.8	+ 3.4	+ 0.9	+ 1.2	+ 0.6

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.

Table 11: **Productivity**

	2021	2022	2023	2024	2025	2026
	Percentage changes from previous year					
Total economy						
GDP, volume	+ 4.8	+ 5.3	− 1.0	− 1.0	± 0.0	+ 1.2
Employment[1]	+ 2.4	+ 2.7	+ 1.0	+ 0.4	+ 0.0	+ 0.6
Production per person employed	+ 2.3	+ 2.5	− 2.0	− 1.3	− 0.1	+ 0.6
Hours worked per person employed[2]	+ 2.5	− 0.3	− 0.1	− 1.4	+ 0.1	+ 0.4
Hourly productivity[3]	− 0.2	+ 2.8	− 1.9	+ 0.1	− 0.1	+ 0.2
Manufacturing						
Gross value added, volume	+10.9	+ 6.7	− 1.8	− 5.2	− 1.1	+ 1.5
Employment[1]	+ 0.6	+ 2.3	+ 1.2	− 1.2	− 1.3	+ 0.3
Production per person employed	+10.2	+ 4.3	− 2.9	− 4.0	+ 0.2	+ 1.2
Hours worked per person employed[2]	+ 4.3	− 0.8	− 0.3	+ 0.3	− 0.8	− 0.5
Hourly productivity[3]	+ 5.6	+ 5.1	− 2.6	− 4.3	+ 1.0	+ 1.7

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.

Consumer price inflation is not expected to fall to 2.2 percent until 2026. In addition to the assumed decline in energy prices, the negative output gap, indicating a significant underutilisation of capacity, from a total economy perspective is likely to contribute notably to a further slowdown in inflation. A base effect, caused by the expiry of the electricity price brake at the beginning of 2025, also favours a deceleration in inflation in 2026. However, this is offset by high inflation persistence in the services sector. This results from the continued high cost pressure due to the significant nominal wage increases and the widespread practice of inflation-indexed price adjustments.

Because of the practice of rolling adjustment, where nominal wage increases are tied to the inflation of the preceding period,

the increase in nominal wages will exceed the growth of various price indices in both forecast years. As a result, real wages will also grow again (2025 +0.4 percent; 2026 +0.5 percent; after +5.3 percent in 2024, in each case gross per employee; long-term average +0.3 percent). A problematic consequence of the long rolling period, however, is that it causes a decoupling between productivity and wage trends, which has a negative impact on employment. Thus, relatively high real wage increases once again contrast with an unfavourable productivity growth in 2025.

4.5 Further increase in employment with rising unemployment

The labour supply will continue to increase throughout the forecast period despite the weak economy. Several factors are responsible for this: the increase in the employment rate of older workers, partly due to past pension reforms[4], increases the domestic labour supply; at the same time, a further increase in the supply of foreign workers can be expected.

In 2025, the total number of persons in active dependent employment will be 0.2 percent higher than in the previous year; in 2026, the increase will be slightly stronger at +0.8 percent (2024 +0.2 percent). In 2025, the increase in employment will no longer be sufficient to enable a decline in unemployment given the expansion in the labour supply. According to national definition, the unemployment rate was 7.0 percent in 2024. For 2025, an increase to 7.5 percent is forecast, while 7.3 percent is projected for 2026.

Table 12: **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	+ 10.0	+ 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	– 17.0	– 5.0
Foreign employees	+ 62.4	+ 87.4	+ 53.8	+ 25.0	+ 24.0	+ 35.0
Self-employed[2]	+ 6.5	+ 6.0	+ 1.5	+ 3.4	+ 3.0	+ 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	+ 32.0	+ 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	5.4	5.3
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.

5. The risk environment

The forecast presented here describes the most likely scenario for economic development from today's perspective under the assumptions made. However, actual developments may deviate from this due to a variety of factors.

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[4] The employment rate will increase slightly, primarily due to the gradual increase in the statutory retirement age for women starting in 2024. From the beginning of 2026, the minimum age for the corridor pension will be raised and the access conditions tightened.

The greatest downside risks continue to emanate from geopolitical conflicts. The war initiated by Israel against Iran has led to a direct, but so far moderate, rise in crude oil prices. Nevertheless, a possible escalation of the conflict could significantly reduce global supply in the short term. This would immediately drive up prices on the global energy markets and increase inflationary dynamics.

Economic policy uncertainties also harbour downside risks. On the one hand, this applies to the USA tariff policy. Although the new tariffs could help reduce the USA current account deficit and thus strengthen the sustainability of foreign debt, the way they are implemented is proving highly detrimental for international trade relations. The inability to plan volumes and prices is fuelling uncertainty and impairing existing supply chains, which can have direct negative consequences for the real economy.

On the other hand, the necessary fiscal consolidation in Austria in connection with a possible EU deficit procedure also harbours an economic risk. It may be necessary to reduce the budget deficit more than previously planned. In addition, an EU excessive deficit procedure could damage Austria's reputation on the financial markets, which would increase the refinancing costs for Austrian government bonds and reduce debt sustainability.