

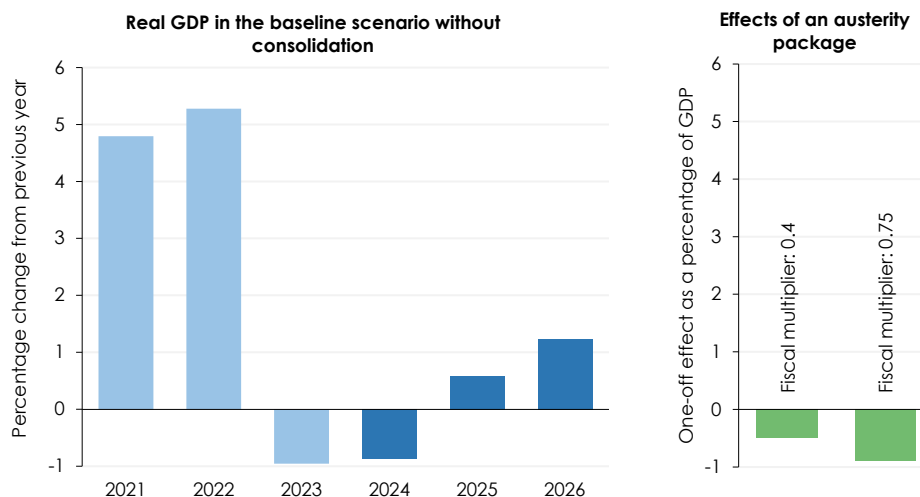
# Fiscal Consolidation Hampered by Sluggish GDP Growth

## 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 be 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.

"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", says Stefan Ederer, one of the authors of the current WIFO Economic Outlook.

Figure 1: **Economic impact of fiscal consolidation in Austria**



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).

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.

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 <sup>1</sup> , volume	+ 4.8	+ 4.9	– 0.5	– 0.3	+ 0.8	+ 1.5	
Consumer durables <sup>2</sup>	+ 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 <sup>3</sup>	+ 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 <sup>4</sup>		+ 2.5	+ 3.0	+ 1.2	+ 0.2	+ 0.4	+ 0.9
Unemployment rate <sup>5</sup>		8.0	6.3	6.4	7.0	7.4	7.0
Command-basis GDP per capita <sup>6</sup>		+ 3.8	+ 1.1	– 1.9	+ 0.1	+ 0.3	+ 1.1
At-risk-of-poverty rate <sup>7</sup>	percent	14.8	14.9	15.4	15.4	15.8	15.3
Income quintile share ratio <sup>8</sup>	ratio	4.3	4.3	4.5	4.5	4.5	4.5
Greenhouse gas emissions <sup>9</sup>		+ 4.9	– 6.0	– 6.4	– 3.4	– 1.5	– 1.2
	Million t CO <sub>2</sub> equivalents	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. 2024 to 2026: forecast. – <sup>1</sup> Including non-profit institutions serving households. – <sup>2</sup> WIFO calculation based on the shares of consumer durables according to the domestic concept. – <sup>3</sup> Including weapons systems and other investment. – <sup>4</sup> Excluding persons in valid employment contract receiving child care benefit or being in military service. – <sup>5</sup> As a percentage of dependent labour force, national definition. – <sup>6</sup> Nominal GDP deflated by the implicit price index of domestic demand. – <sup>7</sup> 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. – <sup>8</sup> 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. – <sup>9</sup> 2023: estimate according to Environmental Agency Austria. From 2024: forecast.

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.

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For further information, please contact on Friday, 20 December 2024, from 11 a.m. to 1 p.m., Dr. Stefan Ederer, Tel. (1) 798 26 01 – 464, [stefan.ederer@wifo.ac.at](mailto:stefan.ederer@wifo.ac.at)

For definitions, see "Methodological notes and brief glossary", <https://www.wifo.ac.at/wp-content/uploads/2024/01/WIFO-BusinessCycleInformation-Glossary.pdf>