MACRO OUTLOOK | AUSTRIA

Macro Outlook Austria 4Q/2025

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Key figures

	2024	2025e	2026e	2027e
Real GDP, y/y (%)	-1.0	-0.2	0.7	1.1
Inflation (%)	2.9	3.4	2.0	2.2
Unemployment rate (%)	5.2	5.4	5.2	5.2
Govt. deficit (% GDP)	-4.7	-4.5	-4.1	-3.5
Govt. Debt (% GDP)	81.8	84.2	86.1	87.0

Source: BMF, Eurostat, Fiscal Council, Erste Group Research

Ratings

Agency	LT	ST	Outlook
Fitch	AA	F1+	stable
Moody's	Aa1	P-1	negative
S&P	AA+	A-1+	stable
Morningstar DBRS	AAA	R-1	negative

Source: OeBFA, Erste Group Research

Contents

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Note: Information on past performance is not a reliable indicator of future performance

Austrian economy returns to growth path

The data on economic performance in 2Q25 paints a cautiously positive picture. Although gross domestic product (GDP) declined for the ninth consecutive quarter on an annual basis, it grew moderately compared with the previous quarter, marking the second consecutive quarter of growth. Investments and exports continued to decline on an annual basis, while private and public consumption and imports grew. Given the subdued sentiment indicators in the industrial and construction sectors, we expect economic development to remain weak in 2025. In 2026, we expect a noticeable increase in economic activity as a result of Germany's billion-euro fiscal packages, which should stimulate exports and, subsequently, investment in Austria. Electricity prices rose in 1H25, due to the expiry of electricity price brakes and rising grid fees. Despite lower wage growth in 2025, service inflation has remained high so far. Overall, we expect the inflation rate to increase in 2025. The current weak economic development will continue to weigh on the labor market in the coming quarters. We expect the unemployment rate to rise slightly in 2025.

The European Central Bank (ECB) began lowering its key interest rates at the beginning of June 2024. After a total of eight interest rate cuts, the deposit rate has stood at 2.0% since June of this year. In our view, the ECB should have reached the end of the current cycle of interest rate cuts for the time being, and we expect key interest rates to remain unchanged. German government bonds are currently caught between weaker US benchmarks and positive expectations due to the planned fiscal stimulus in the Eurozone. We expect a period of consolidation in the coming months. The risk premium on 10-year Austrian government bonds compared with 10-year German government bonds has narrowed slightly since the beginning of the year and most recently stood at just over 30 basis points. We expect risk premiums to fall to 30 basis points and remain stable at this level in the coming quarters.

Following the expiry of electricity price brakes and the increase in grid fees, combined with persistently high service inflation, Austrian inflation rose to 4.1% in August, twice the Eurozone average. The reasons for this lie, on one hand, in the composition of the Austrian basket of goods, which weights services and, consequently, core inflation several percentage points higher than the European average. On the other hand, high energy costs and high unit labor costs are weighing on service providers, who are passing these additional costs onto customers.

Economic outlook

GDP and economic growth

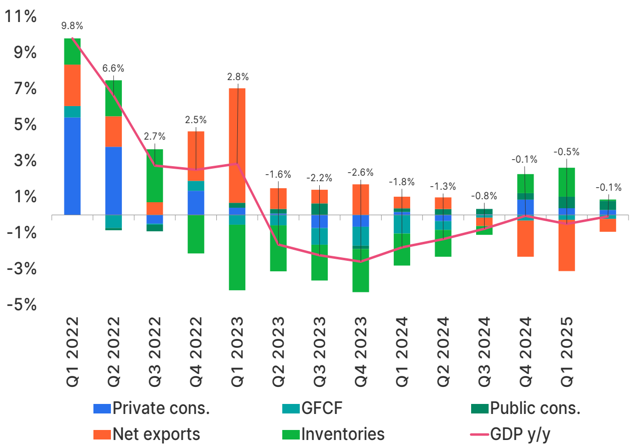
Recession in 2024 overall similar in scale to 2023

In 2024, the Austrian economy experienced a downturn with a real GDP decline of -1.0%. This meant that the economic decline was as severe as in 2023. According to preliminary estimates by Statistics Austria, GDP contracted in all quarters of last year. However, after a sharp decline of -1.8% y/y in 1Q24, the downturn gradually eased and amounted to -0.1% y/y in 4Q24.

Economic downturn continues to slow in second quarter

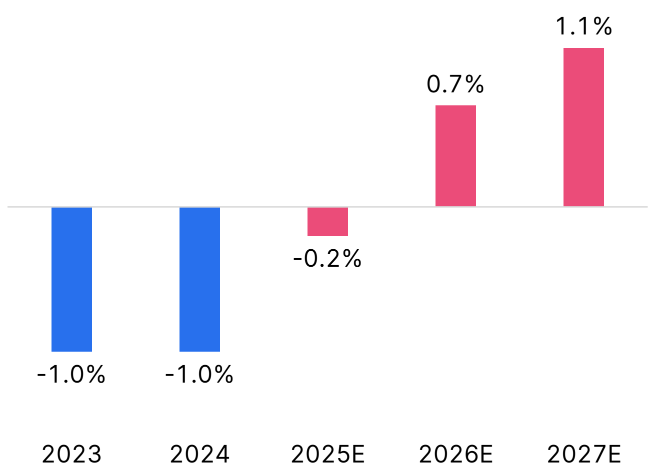
The downward trend in economic output slowed further in 2025 compared with the previous year. On a quarterly basis, the Austrian economy grew by +0.3% in 2Q, confirming the trend seen in the first quarter (+0.1% q/q). At the component level, it was still primarily investment and exports that had a negative impact on growth, with changes of -0.9% y/y and -0.8% y/y, respectively. Private and public consumption, on the other hand, showed growth of +0.6% y/y and +2.4% y/y, respectively. Imports grew moderately at +0.4% y/y.

Economic decline since 2Q23, with most GDP components also showing negative growth
GDP quarterly, real y/y contribution of GDP components in %



Source: Eurostat, Erste Group Research

Weak private consumption and slumping exports dampened GDP growth in 2024
GDP annual, real y/y, contribution of GDP components in %

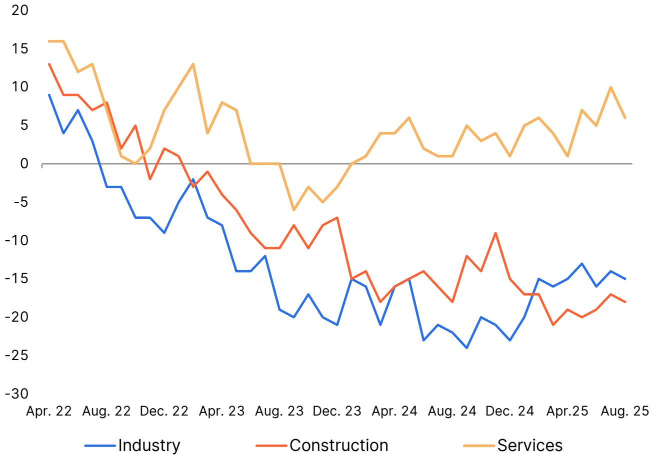


Source: Eurostat, Erste Group Research

Sentiment indicators continue to point to subdued sentiment

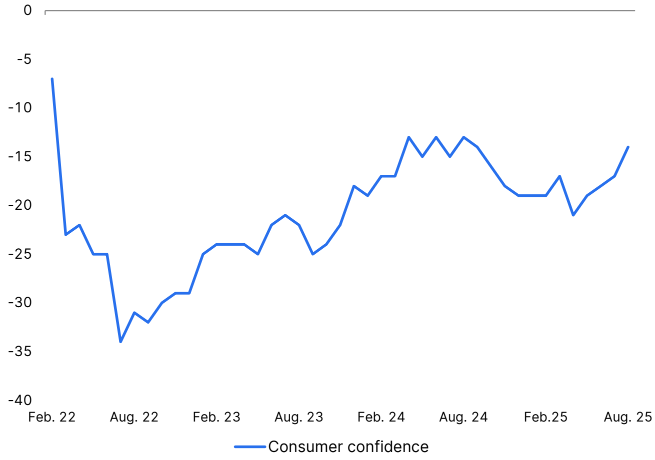
A look at various sentiment indicators and leading economic indicators shows that economic development remains subdued. Sentiment in the industrial and construction sectors in particular is still very negative. Only the service sector appears unaffected by the ongoing recession and remains in positive territory. Consumer confidence has been at a low level for a long time. After a stable phase, there was a noticeable deterioration from summer 2024 onwards, which was also reflected in subdued consumer spending. Since spring 2025, however, a steady upward trend has been observed here, and private consumption also increased significantly during the same period.

Industry and construction sector remain negative
Sentiment indicators by sector



Source: European Commission, OeNB, Erste Group Research

Consumer confidence rises significantly again
EU Commission consumer sentiment



Source: European Commission, OeNB, Erste Group Research

Third year of recession in 2025, followed by growth in 2026

In view of the subdued sentiment indicators in the industrial and construction sectors, which are important for Austria, we expect investment to continue to decline and exports to develop modestly, with further contraction expected in 2025. This will be offset by rising consumer spending, supported by rising real wages and a declining savings rate. Overall, we therefore forecast only weak economic development in 2025, with GDP growth of -0.2%. For 2026, we expect GDP growth of +0.7%. A key factor in the increase in growth are Germany's multi-billion-euro fiscal packages in the military and infrastructure sectors. In our opinion, these should have a noticeable effect on Austrian exports and, subsequently, on investment in Austria. For 2027, we forecast growth of +1.1%, which is close to potential.

Inflation

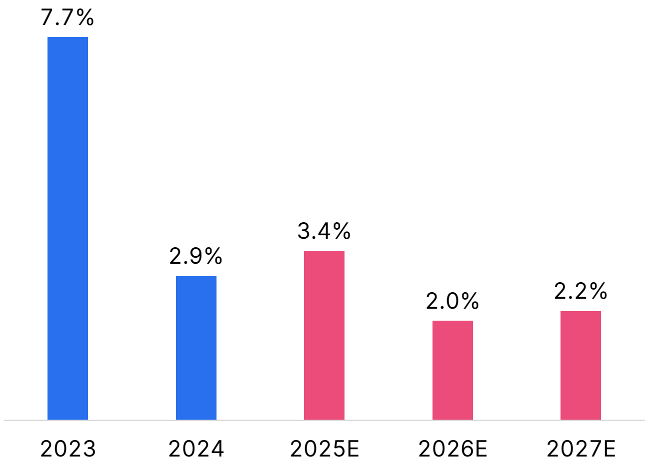
Decline in inflation due to falling energy prices and easing core inflation in 2024

For 2024 as a whole, the inflation rate in Austria stood at 2.9%, a significant decline from 7.8% in 2023. The sharp decline was mainly due to falling energy prices. According to preliminary estimates, HICP inflation stood at 4.1% in August, which represents a significant increase in price dynamics compared to the end of 2024 (December inflation: 2.0% y/y). The reasons for the rise in inflation in the first half of 2025 were, on one hand, price pressure from the energy sector and, on the other hand, persistently high core inflation, which was mainly due to high service prices (August 2025: +4.7% y/y).

Inflation rate expected to rise in 2025 and fall in 2026

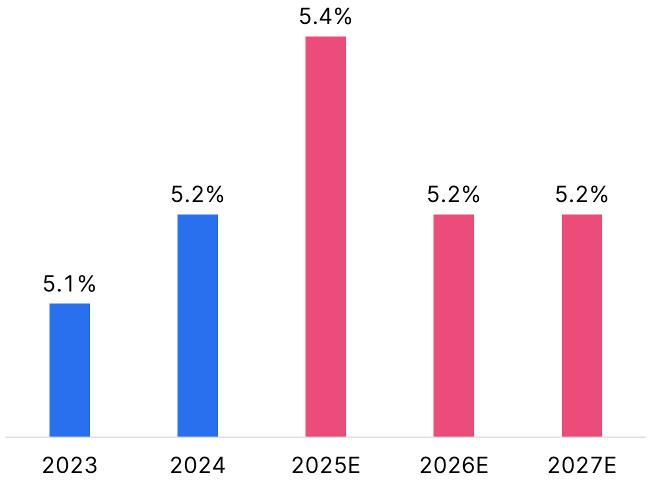
As average annual inflation traditionally serves as the basis for various collective bargaining negotiations, wage increases in 2025 were lower than in 2024. Nevertheless, inflation in the service sector remains high this year (see Special Page 7). Due to the expiry of electricity price brakes and rising network charges, the rise in electricity prices will continue to increase this year. Over the year as a whole, energy prices are likely to be a price driver in Austria, in contrast to the Eurozone average. Overall, we expect an inflation rate of 3.4% for 2025 and forecast a decline to 2.0% in 2026. In 2027, we expect an inflation rate of 2.2%.

Rising inflation rate expected in 2025
Inflation rate in Austria, in %



Source: Eurostat, Erste Group Research

Slight increase in unemployment expected
Unemployment rate AT, in %



Source: Eurostat, Erste Group Research

Labor market

Labor market remains robust, despite two years of recession

The unemployment rate rose from 5.1% in 2023 to 5.2% in 2024. The vacancy rate declined significantly in 2024. While there was a sharp decline in the manufacturing and service sectors, there was only a slight slowdown in the public sector.

Unemployment rate expected to rise in 2025

We assume that the current weak economic development will continue to weigh on the labor market in the coming quarters. We expect a slight increase in the unemployment rate to 5.4% in 2025. For 2026, we then forecast a decline in the rate to 5.2%. In 2027, the unemployment rate should stabilize at 5.2%.

Capital market and interest rates

No interest rate cuts expected at upcoming meetings

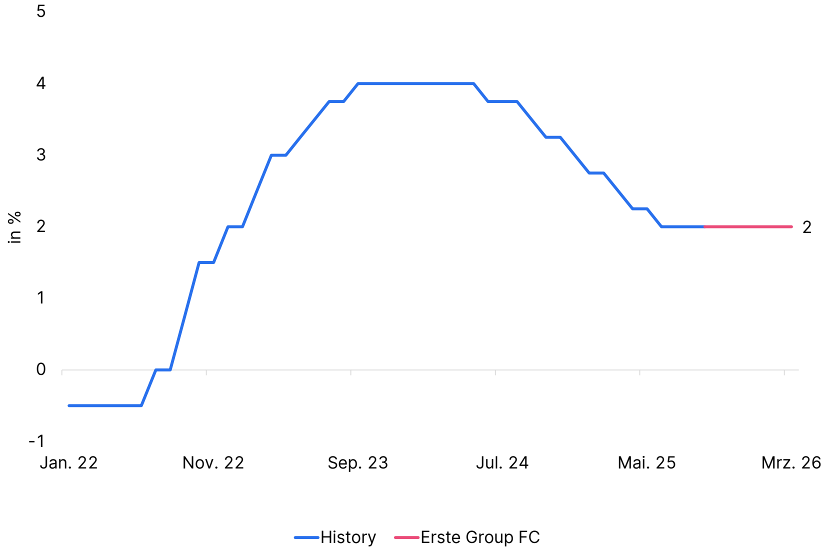
The European Central Bank (ECB) began lowering its key interest rates at the beginning of June 2024. After a further eight interest rate cuts, the deposit rate has stood at 2.0% since June of this year.

ECB President Lagarde confirmed that the ECB remains well positioned to address the ongoing challenges. The assessment of risks is more balanced compared with June and July. The intention to create a framework for trade between the EU and the US has contributed to reducing the downside risks from the ECB's perspective. This is particularly because there have been no countermeasures from the EU. President Lagarde also pointed out that the euro government bond market is functioning properly and that there is sufficient liquidity, despite the widening of risk spreads on French bonds. The ECB therefore does not see the current developments as posing any threat to the proper transmission of its monetary policy.

Further interest rate decisions will continue to depend on the outlook for inflation and the risks to it based on ongoing data, the dynamics of underlying inflation and the strength of monetary policy transmission. There will be no commitment to a predetermined path; instead, decisions will be made from meeting to meeting so that the ECB remains in a good position in the future.

In our view, the ECB should have reached the provisional end of the current interest rate reduction cycle, and we expect key interest rates to remain unchanged.

Development of ECB deposit rate



Source: Market data provider, Erste Group Research

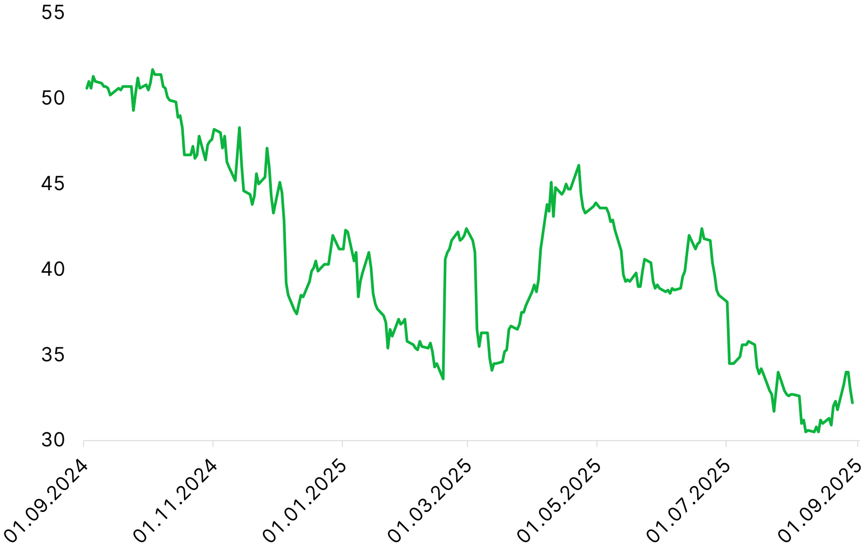
German government bond yields should consolidate at current levels

German government bonds are currently caught between weaker US targets, which will also have an impact on the global economy, and positive expectations due to the planned fiscal stimulus measures in the Eurozone. We expect a period of range. We expect a period of consolidation close to current levels. The global US tariff conflict and fragility of the transatlantic alliance will continue to shape the risk landscape and could cause renewed volatility.

Risk premium should stabilize at 30 basis points

The risk premium on 10-year Austrian government bonds compared with 10-year German government bonds narrowed slightly since the beginning of the year and most recently stood at just over 30 basis points. One reason for this was that the outlook for German government bonds deteriorated relative to other European countries due to the large fiscal packages. In addition, US President Trump's erratic tariff policy triggered sharp movements, although the situation has since calmed down again. We expect risk premiums to fall to 30 basis points and remain stable at this level in the coming quarters.

Risk premium 10Y AT - 10Y DE, in Bp



Source: Market data provider, Erste Group Research

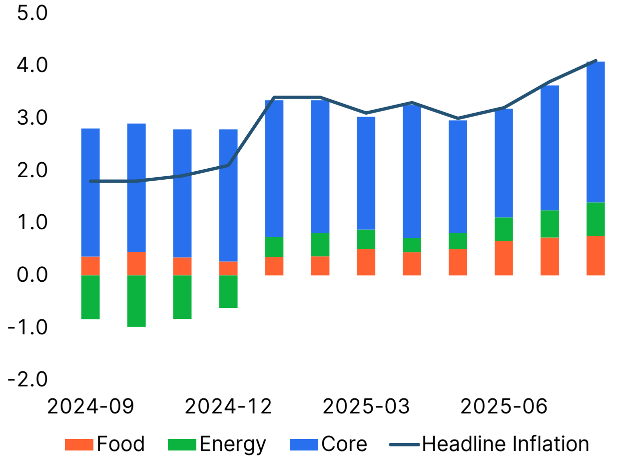
Special: Why is inflation so high?

Due to high inflation rates in July and August (3.7% and 4.1%, respectively), which were significantly above the Eurozone average, more attention has recently been paid to the development of the Austrian inflation rate. This special report therefore addresses two important questions. Is Austria's higher inflation rate compared to the Eurozone average a recent phenomenon? What are the reasons for the recent inflation rate in Austria being almost twice as high?

Inflation rose sharply in summer 2025, also high by European standards

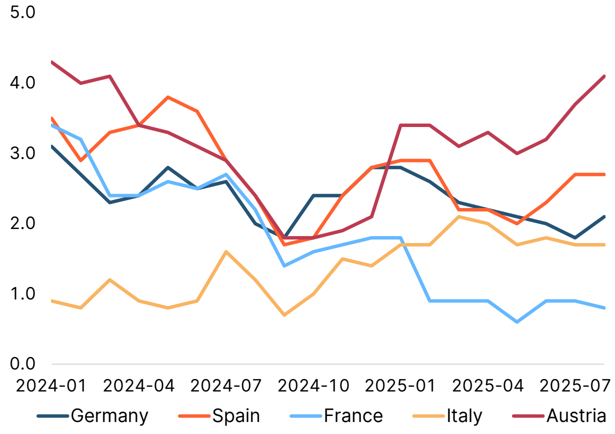
The inflation rate in Austria remained stable from January until the summer, then rose steadily. The sharp increase at the beginning of the year is striking. In January 2025, inflation rose to 3.4% y/y, whereas in December 2024, it was still at 2.1% y/y. The main reason for this was the sharp rise in electricity prices, which meant that energy prices no longer had a dampening effect on the general price level. Over the course of the year, not only did the contribution of energy prices to inflation increase, but food prices and other areas as a whole (= core inflation) also regained momentum.

Inflation rate doubles within year
Inflation rate and contributions of components y/y, in %



Source: Eurostat, Erste Group Research

Austrian inflation above rate of European countries
Inflation rate in AT, DE, FR, IT and SP compared, in %



Source: Eurostat, Erste Group Research

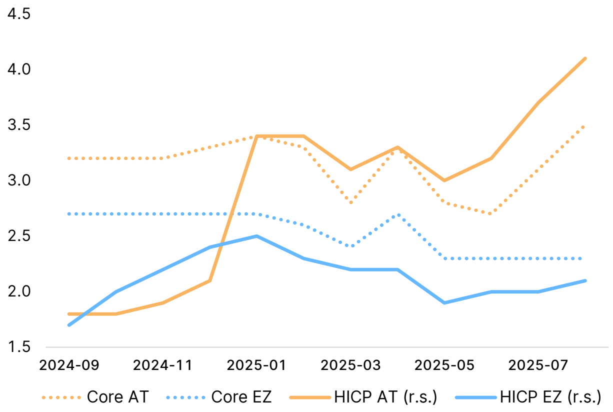
A comparison with other European countries shows that Austria's inflation rate followed the trend in other countries before the start of the year and declined noticeably. In addition to Austria, inflation in Germany, Spain and France was also well above the ECB's target of 2% at the beginning of 2024. By autumn 2024, the inflation rate in all of these economies had fallen to a level just below the target value. From January 2025 onwards, however, the trend diverged sharply. While inflation in France halved from the beginning of the year and now stands at 0.8% y/y (August 2025 figure), and in Germany and Italy it is close to the target at 2.1% and 1.7% y/y, respectively, Austria is clearly diverging with over 4%. Spain is also above the Eurozone average with inflation just under 3%.

Core inflation remains high, share in basket of goods has risen in recent years

While the rise in energy prices can be explained by the expiry of electricity price brakes and the increase in grid fees, the renewed rise in core inflation is surprising. A comparison with the Eurozone average shows that, contrary to the European trend, core inflation in Austria has risen sharply since the summer, from 2.7% in July to 3.5% in August.

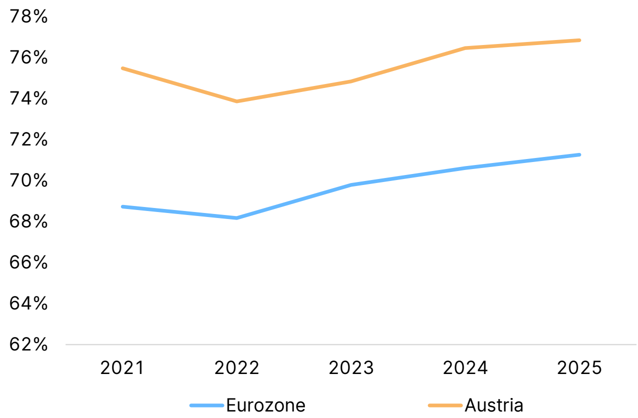
At the same time as core inflation picked up, overall inflation also gained momentum again. This is partly because the share of core inflation in the Austrian basket of goods is significantly higher than that of the Euro Area. A comparison over several years also shows that, since 2021, the share in Austria has been at least 5 percentage points higher than the share in the Euro Area basket of goods.

Core inflation rises against European trend
Core inflation and overall rate in EZ and AT, in %



Source: Eurostat, Erste Group Research

Share in basket of goods in Austria 5pp higher
Share core inflation in basket of goods EZ and AT, in %



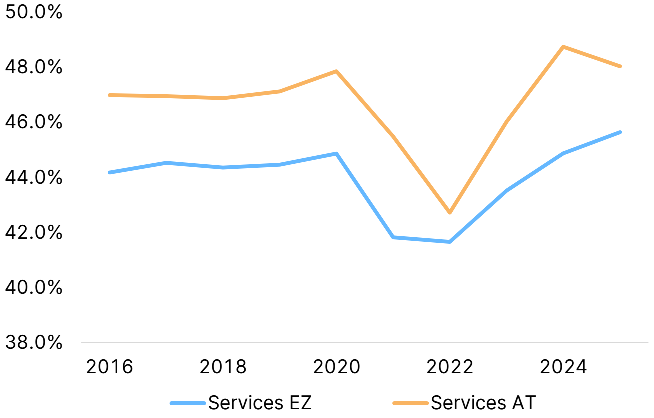
Source: Eurostat, Erste Group Research

If we focus on the components of core inflation, services quickly catch the eye. These also account for a higher share of core inflation in Austria than in the Eurozone. Austria's share of the core rate is just over 48%, while the share in the Eurozone is below 46%.

Services as main driver of inflation in Austria, difference to Eurozone increased

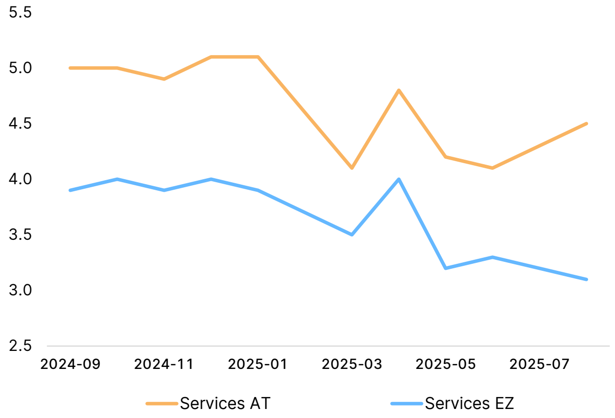
Over time, it has become apparent that service inflation in both Austria and the Eurozone is below last September's level, but the decline in the Eurozone was more pronounced than in Austria. The average inflation rate for services in the Eurozone fell from 3.9% y/y to 3.1% y/y, while in Austria it fell from 5% y/y to only 4.5% y/y. This means that not only is the level of inflation higher in Austria, but the gap between Austria and the European average has actually widened (September 2024: 1.1%, August 2025: 1.4%). The different weighting and higher service inflation explain more than half of the total Austrian inflation difference compared to the Eurozone core rate.

Services weighted higher in AT
Share of services in core rate EZ and AT, in %



Source: Eurostat, Erste Group Research

Services continue to drive prices in Austria
Service inflation EZ and AT, in %



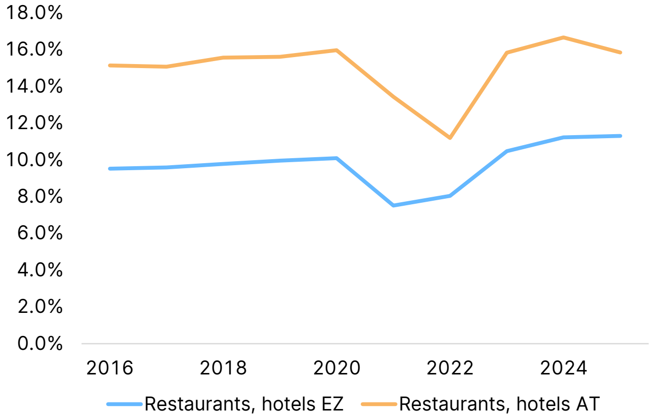
Source: Eurostat, Erste Group Research

'Restaurants and hotels' component alone accounts for quarter of inflation difference with Eurozone

If we look at the next lowest level of aggregation for services in terms of service inflation, the 'restaurants and hotels' sector stands out in particular. Similar to services as a whole in Austria, this component is weighted more heavily than the Eurozone average. The Austrian share of total inflation is just under 16%, while the share in the Eurozone is slightly above 11%.

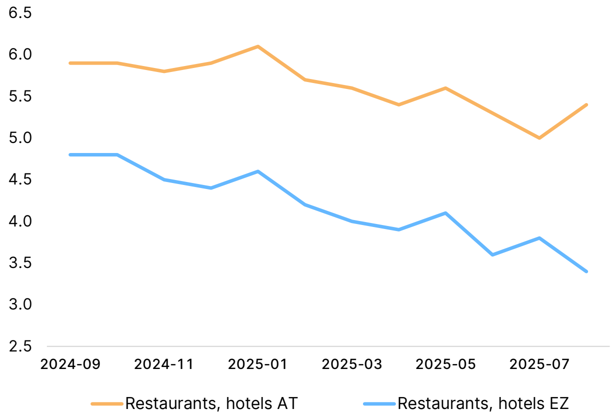
Similar to services as a whole, it can be seen that, over time, the inflation rate for this component is significantly above the Eurozone average. The inflation rate for restaurants and hotels fell from 4.8% y/y to 3.4% y/y within a year on average in the Eurozone, but only from 5.9% y/y to 5.4% y/y in Austria. Due to the different weighting and higher inflation rate, this component alone accounts for an inflation difference of 0.5 percentage points, or approximately a quarter, in overall inflation.

Restaurants and hotels weighted higher in AT
Share restaurants and hotels in inflation in EZ/AT, in %



Source: Eurostat, Erste Group Research

Difference between Austria and Eurozone at 2pp
Restaurants and hotels inflation rate in EZ and AT, in %



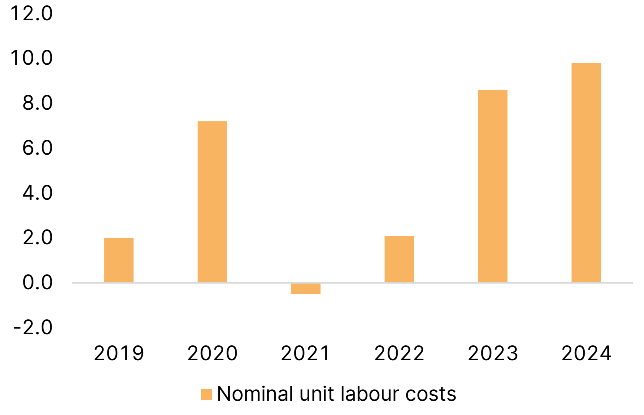
Source: Eurostat, Erste Group Research

Electricity prices and persistently high service inflation as reasons for rise in inflation

In addition to the different weightings, the cost structure certainly also plays a role in the higher inflation in Austria. On one hand, electricity price brakes expired at the end of 2024; these had been introduced in connection with the sharp rise in energy prices after the start of Russia's war of aggression in Ukraine. In addition, grid fees and usage charges, which had been frozen during the same period, were increased again. As a result, electricity price inflation has been around 35% since the beginning of the year, and energy prices in Austria are driving up prices, in contrast to the Eurozone average.

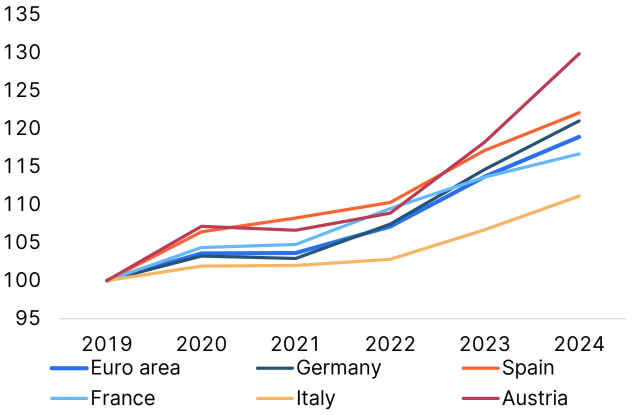
In addition to energy prices, high labor costs are also weighing on service providers and contributing to persistently high service inflation. Unit labor costs in Austria grew by 8% or more in each of the high-inflation years 2023 and 2024, in particular. With productivity growth stagnating or even declining at the same time, domestic wage levels decoupled from the European average. In 2024, nominal unit labor costs were already 9.2% above the Eurozone average and 7.3% above those in Germany.

Unit labor costs rose sharply in 2023 and 2024
Growth in unit labor costs AT, in %



Source: Eurostat, Erste Group Research

Decoupling of development from 2023 onwards
Index of nominal unit labor costs, 2019 = 100



Source: Eurostat, Erste Group Research

Government measures planned, unclear how high service inflation will be curbed

Following the noticeable rise in inflation over the summer, the Austrian federal government has taken up the issue and, as part of its ‘2-1-0 Plan’, has set the goal of reducing inflation to the ECB's target of 2%. To this end, it plans to restructure the electricity market (planned reduction in the number of network operators, change in feed-in tariffs, introduction of an industrial electricity price), take consistent action against the ‘Austria surcharge’ in the food industry and intervene in rents.

At the same time, however, fees and taxes are being increased across the board to balance the budget, thereby fueling the already high inflation in services. In view of the upcoming collective bargaining negotiations, it also remains to be seen whether an increase in civil servants' salaries below the relevant inflation rate can serve as a model for alleviating price pressure in the service sector.

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