

OeNB REPORTS

INTERIM ECONOMIC OUTLOOK FOR AUSTRIA

March 2025

Austrian economy
to stabilize in 2025



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Cutoff date: March 14, 2025

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I. Summary

The Austrian economy will stabilize in 2025, but it will be 2026 until we see a real rebound. After two and a half years of negative economic growth, headwinds will subside in 2025: Inflation is stabilizing at 2.9%, and falling interest rates mean lower financing costs, reducing cost pressures on businesses and households. This is reflected in rising industrial and consumer confidence at the beginning of the year, which has received a considerable boost from an improved growth outlook in crucial export markets like Germany. The second half of 2025 will therefore see a significant recovery. Due to a negative carry-over effect, however, economic output will be flat in 2025 as a whole (−0.1%). The recovery will continue in 2026 and 2027, with growth rates of 1.2% forecast for both years.

The labor market has been very resilient despite the weak economy. Unemployment has increased only moderately but will continue to rise in 2025. Only from 2026 on will the economic recovery be robust enough to contribute to a decline in unemployment.

Inflation came down significantly in 2024, but this trend ended abruptly in January 2025, when, led by energy prices, the inflation rate started to rise significantly. Household energy prices rose markedly in January 2025, driven by a phaseout of government support schemes (e.g. electricity price cap), a rise in electricity and gas network charges and an increase in the price of carbon emissions.

Given that elevated energy inflation and persistently high services inflation will only be falling slowly, the OeNB forecasts a 2.9% HICP inflation rate for 2025 – unchanged from 2024. In 2026, we will see a significant decline in energy and services inflation so that HICP inflation will run at 2.3%. In 2027, inflation will come down to 2.1%, converging toward the Eurosystem's 2% target.

As regards the budget deficit, the OeNB expects only a marginal improvement, to 3.8% of GDP, in 2025. The deficit will thus remain above the 3% Maastricht threshold, which Austria would need to meet to avoid an excessive deficit procedure. The OeNB estimates that the budget of the new Austrian government will reduce the general government deficit by about EUR 4 billion in 2025. However, the efforts to reduce the deficit are challenged by the weak economy, which reduces the growth of tax revenues and increases unemployment-related expenditure. A series of new deficit reduction policies that were introduced in 2025 will start to produce their full effect in 2026. In addition, economic growth will start to make a positive contribution to the general government balance in 2026 and 2027. As a result, the budget deficit will be at 3.1% in 2027, just slightly above the Maastricht threshold.

Compared to the [December 2024 OeNB Economic Outlook](#), the outlook for 2025–2027 has deteriorated significantly. The forecast for 2025 economic growth was revised down by 0.9 percentage points, while the inflation forecast was revised up by 0.5 percentage points.

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The downward revisions were made because the economy was in a much weaker position heading into 2025, as reflected in the actual outcomes for late 2024 and early 2025. Our forecast is subject to substantial risk. Potential US tariffs and retaliatory tariffs could weigh on growth and fuel inflation. Additional efforts to reduce the deficit would improve the budget balance but have a negative impact on growth. The only upward risk is Germany’s increased spending on infrastructure, which will also boost growth in Austria.

Table 1

OeNB March 2025 Interim Economic Outlook for Austria									
	Q1 25	Q2 25	2024	2025	2026	2027	Revisions since Dec. 2024		
							2025	2026	2027
							Percentage points		
Real GDP growth (compared to previous period in %)	0.0	0.2	−1.3	−0.1	1.2	1.2	−0.9	−0.4	−0.1
HICP inflation (year on year in %)	3.3	2.9	2.9	2.9	2.3	2.1	0.5	0.1	0.1
Unemployment rate (in %, national definition)	7.4	7.4	7.0	7.4	7.3	7.1	0.0	0.2	0.2

Source: 2024: Statistics Austria; 2025–2027: OeNB.

2. Austria is overcoming its longest period of economic weakness since 1945

The Austrian economy has experienced its longest period of weakness since 1945. Over the last two and a half years, economic output has shrunk by a total of 3.3%. After a 0.9% contraction in 2023 (real, seasonally and working day adjusted), output fell by another 1.3% in 2024. In comparison, during the global financial crisis of 2008–09, the Austrian economy contracted by 5.1% over five quarters (from Q2 2008 to Q2 2009). As a result of the COVID-19 pandemic, economic output shrank by 6.9% over six quarters (from Q4 2019 to Q1 2021). While the current recession is not very deep, it has lasted longer than average.

Chart 1



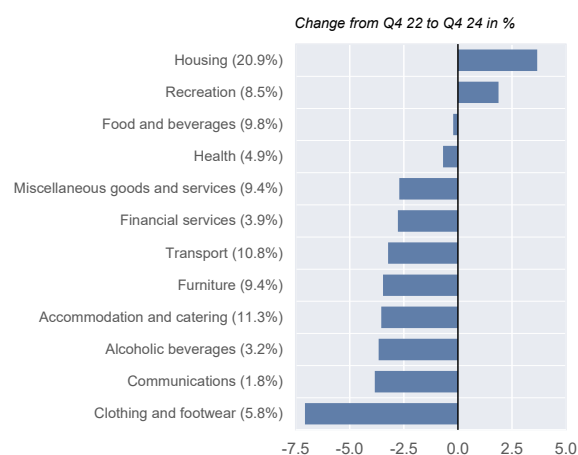
The current period of weakness has been driven by two key factors: weak consumption and an industrial recession. Growth in private consumption has been muted, as reflected in sluggish activity in retail, services and the leisure industry.

Looking at real (seasonally adjusted) individual consumption expenditure of households, only housing and recreation have recorded growth since the start of the recession. All other components, especially (semi-) durable consumer goods have seen real declines. This is surprising given the almost continuous increase in real disposable household income. Heightened consumer

caution is also reflected in an increased saving rate, which, in 2024, returned to the level seen in 2021 – a period when households faced severe restrictions on their ability to consume.

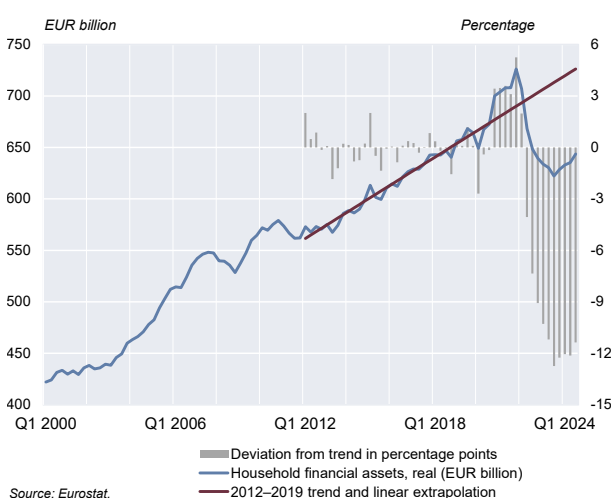
Chart 2

Individual consumption expenditure of households



Source: Authors' calculations, Statistics Austria.
Note: Amounts in parentheses indicate shares of total.

Evolution of real financial assets



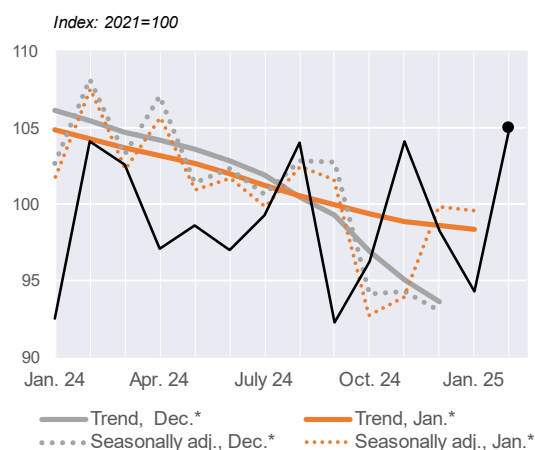
Source: Eurostat.

The increase in the saving rate has been driven by several factors (see OeNB December 2024 Economic Outlook for details), including the rise in interest rates and high one-off transfer payments. Another reason could be a decline in the real value of financial assets. A simple linear extrapolation of real household financial asset growth in the period from 2012 to 2019 highlights, first, an above-trend increase in the real value of household financial assets during the pandemic, and, second, a significant erosion caused by the 2022–23 inflation shock. As of end-2024, the real value of households' financial assets was still more than 10% below the extrapolated trend. The high saving rate has not compensated for these losses.

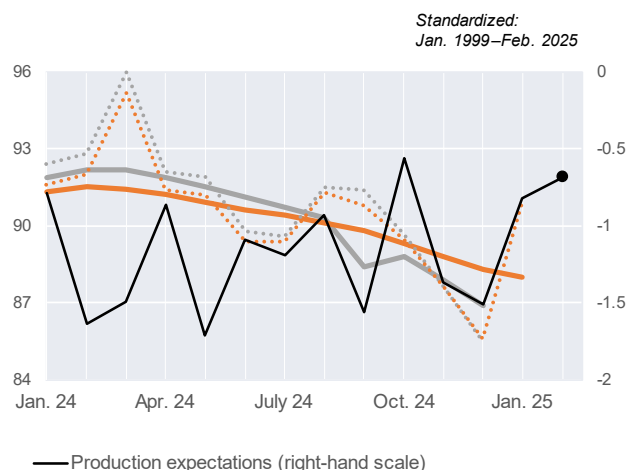
In addition to weak consumption, Austrian industry has remained in a protracted recession. Restrictive monetary policy, weak demand from key trading partners, a loss of price competitiveness and high political risks (i.e. tariffs) have been weighing on industrial output. These factors are reflected in a significant decline in manufacturing (–12% since Q4 2022) as well as a fall in investments (–6%) and goods exports (–12%, all data according to national accounts). Austria's economic performance hinges on whether the industrial recession comes to an end. Recent headwinds are abating to some extent. HICP inflation has stabilized, and wage growth is declining significantly in 2025. Due to recent interest rate cuts, the negative impact of restrictive monetary policy is easing. Hence, in early 2025, we see signs suggesting that Austrian industry is bottoming out. Production data published in March 2025 led to a significant upward revision of industrial output growth in December 2024 (Eurostat B–D, excluding D353; +1.1%, seasonally adjusted, compared to November 2024, revised upward from –3.4%) and strong growth in January 2025 (+4.4%).

This upward revision is reflected in the core sectors of Austrian industry, i.e. mechanical engineering and the metals industry. Together, these two sectors account for about one-fifth of Austria's total industrial production (including construction).

Chart 3

Mechanical engineering

Source: Statistics Austria, European Commission.
 Note: * lines refer to left-hand scale.

Metals industry

The upward revision is also consistent with survey results of the Purchasing Manager Index² and of industry sentiment as measured by the Economic Sentiment Indicator (ESI)³. Both measures remain below their long-term averages but show a significant improvement in early 2025. Production expectations (ESI) in mechanical engineering and the metals industry also increased in February 2025 but show a great deal of volatility. The decline in truck mileage, a consistently reliable indicator of production output in Austria, slowed down in late 2024 (–1.5% in Q2 2024, –0.5% in Q3 and –0.3% in Q4, quarter-on-quarter). The beginning of 2025 saw a slight increase in truck mileage.

Another sign that the industrial recession in Austria is coming to an end is the slowdown in the rate of increase in the number of leased workers registered as unemployed and the associated slowdown in the decline in the number of leased workers in employment in late 2024. Overall, sentiment and industry indicators as well as the labor market are starting to show signs of a turnaround.

The economic weakness has only had a minor impact on the Austrian labor market so far. Payroll employment (national definition) grew significantly in the fourth quarter of 2024 (+0.4%) after slight declines in the middle of the year. In 2024 as a whole, it was slightly above the level of 2023 (+0.1%), reflecting an increase in the employment of women (+0.8%; compared to a 0.5% decline for men), of foreign workers (+2.6%, compared to a 0.7% decline for Austrian citizens) and of older people (+4.1% for people aged 55 or above, compared to a 1.5% decline for those aged between 15 and 24). Looking at sectors, we see a shift from industry (goods production: –8,800 employees, construction: –8,300) and private-sector services (–1,900) to public services, where the number of people in employment increased by 26,000.

The number of unemployed people (national definition) rose by 27,000 in the first half of 2024 but remained unchanged in the second half. Increases were recorded in industry as well as in private-sector and public services. The seasonally-adjusted unemployment rate (national definition) rose from 6.6% in the fourth quarter of 2023 to 7.2% in the third quarter of 2024 and has remained unchanged since then (until and including February 2025). For 2025 as a whole, the OeNB expects unemployment to increase to an average of 7.4%. It will then go down to 7.3% in

² [Austria Purchasing Managers' Index](#).

³ [Statistics | Eurostat](#).

2026 and 7.1% in 2027. This represents a slight upward revision compared to the OeNB December 2024 Economic Outlook.

3. OeNB Economic Indicator shows stabilization in early 2025

After GDP contracted by an unexpectedly high 0.4% in the fourth quarter of 2024, the OeNB Economic Indicator⁴ (as of March 14, 2025) forecasts that GDP will expand by a fractional 0.1% in the first quarter of 2025 and by 0.3% in the second quarter of 2025.

The improved forecast for the first half of 2025, as per the results of our forecasting model, was driven by better sentiment indicators for industry, services and retail as well as truck mileage. The OeNB Economic Indicator points to a stabilization of economic output, following the recent prolonged contraction.

However, the increased uncertainty about global trade and tariffs policies represents a considerable downside risk to the external trade component of real GDP growth. To reflect these developments that are not explicitly featured in the model, we reduce our growth forecast by 0.1 percentage points for both the first and second quarters of 2025 (denoted as expert judgment below).

Chart 4

OeNB Economic Indicator: short-term forecast of real GDP growth, as of March 14, 2025 (seasonally and working-day adjusted)



Source: OeNB Economic Indicator. Data as of March 14, 2025.

⁴ For details on the methodology of the OeNB's Economic Indicator, see [OeNB's Economic Indicator – Oesterreichische Nationalbank \(OeNB\) \(in German\)](#).

4. Significant downward revision of 2025 growth forecast

The growth forecast for the period from 2025 to 2027 is an enhanced technical update of the OeNB's December 2024 Economic Outlook. In a first step, we included recent national accounts data for the fourth quarter of 2024. Next, we used the OeNB's macroeconomic model (Austrian Quarterly Model – AQM) to simulate the impact of changes in international assumptions, such as energy and commodity prices, exchange rates and interest rates, that had occurred since December 2024. Afterward, we incorporated the effects of the fiscal consolidation package announced by the new Austrian government as well as the results of the OeNB Economic Indicator for the first half of 2025. Finally, we adjusted the growth forecast until and including the second quarter of 2026, reflecting the changed environment regarding global tariffs and trade policies.

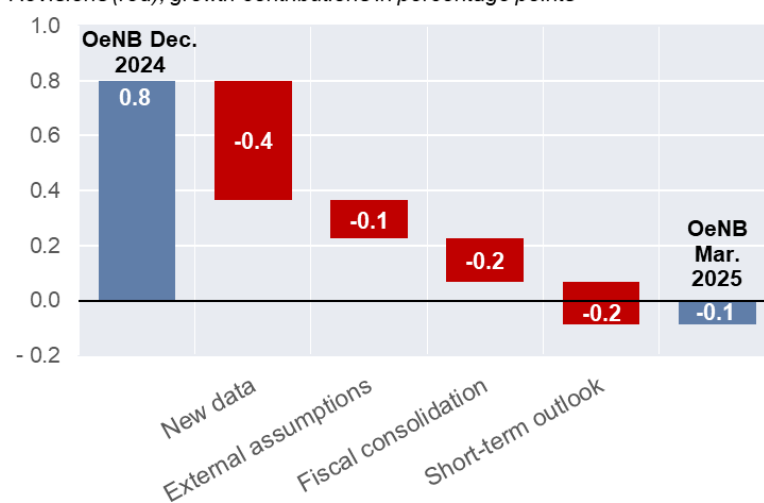
Chart 5

Compared to the OeNB's December 2024 Economic Outlook, we cut the forecast for 2025 real GDP growth by 0.9 percentage points to -0.1% . This means that Austria is in its third year of – a shallow – recession. The downward revision reflects (1) weaker than expected GDP growth in recent quarters and a stronger than expected contraction of GDP in the fourth quarter of 2024 (national accounts data: -0.4 percentage points), (2) revisions to external assumptions made since December 2024 (-0.1 percentage point), (3) the Austrian government's fiscal deficit-reduction efforts (-0.2 percentage points) and (4) and a lower GDP growth forecast until and including the first half of 2026. The latter factor is the main reason why the growth forecast for 2026 was revised down by 0.4 percentage points to 1.2% . The growth forecast for 2027 was revised down by 0.1 percentage points to 1.2% , reflecting a weaker external environment.

Revisions to 2025 GDP forecast

Forecasts (blue), year-on-year change in %

Revisions (red), growth contributions in percentage points



Source: OeNB.

Box 1: 2025 general government budget deficit remains well above 3% of GDP despite reduction efforts

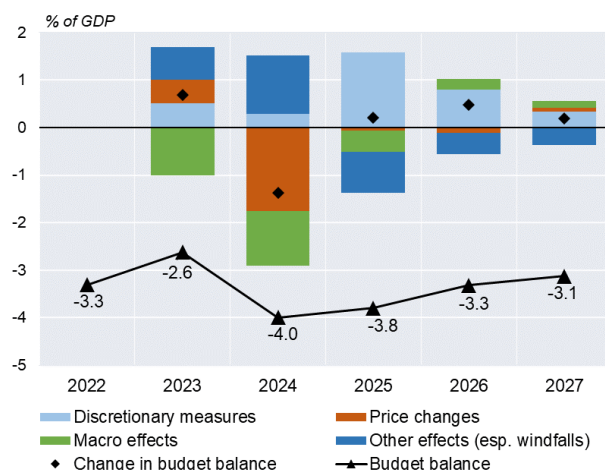
In 2025, Austria's general government budget deficit will decrease only fractionally, to -3.8% of GDP (black line in chart B1). This is above the 3% Maastricht threshold, which Austria needs to meet to avoid an excessive deficit procedure. The fiscal policy stance is very restrictive: The total fiscal consolidation effort amounts to about 1.6% of GDP in 2025 (light blue bars, denoted as "discretionary measures" in chart B1). Around half of that amount (about EUR 4 billion or 0.8% of GDP) are deficit-reduction measures announced by the new government (see table B1). The abolition of "climate bonus" payments and increases in various indirect taxes are the largest contributions to the reduction of the deficit. Our estimates of the size of the reduction are lower than the government's official numbers, especially for cuts in expenditure on goods and services and transfer payments. Without the new government's package, the deficit would be about -4.5% of GDP in 2025. As the cuts in government consumption and investment are small, the package will have a limited negative impact on GDP growth.

In addition, some of the previous government's expansionary fiscal policies expired at the beginning of 2025. This includes the electricity price cap, the reduction in energy levies and the temporary removal of green electricity levies.

Chart B I

Table B I

Budget balance and change over previous year



Source: OeNB.

2025–2026 government budget plan

	OeNB assessment	
	2025	2026
As compared to Dec. 2024 OeNB Economic Outlook		
Fiscal consolidation, total (EUR billion)	3.9	5.0
Abolition of "climate bonus" payments	2.1	2.1
Other fiscal consolidation measures	2.4	4.5
Stimulus measures	-0.6	-1.6
Fiscal consolidation, total (% of GDP)	0.8	1.0
Impact on budget balance ¹ (in PP)	0.7	0.8
Impact on GDP growth (in PP)	-0.2	-0.1

Source: Austrian federal government, OeNB.

¹ After multiplier effects.

Note: PP = percentage points.

However, there are several factors that are challenging deficit-reduction efforts in 2025: The persistent weakness in the economy weighs on tax revenue growth and increases unemployment-related expenditure (green bars). Other factors will also have a negative impact on the budget balance in 2025 (dark blue bars): We expect a decline in income from the EU budget and dividends and an increase in interest expenditure. In addition, windfall revenues will no longer make a large positive contribution, as was the case in recent years. Windfall revenues occur as increases in fiscal revenues that are neither related to GDP growth nor to tax policy. Despite the almost exclusive implementation of tax cuts (as opposed to tax hikes) from 2017 to 2024, the overall tax-to-GDP ratio increased from about 43% to about 45% during that period. This is only slightly below the all-time high marked around the year 2000.

If the evolution of the overall tax-to-GDP ratio since 2017 had only reflected changes in tax legislation, it would have been below 41% of GDP in 2024. The main driver of the higher overall tax-to-GDP ratio was the strong increase in the wage share. Wages are generally taxed at a higher rate than corporate profits. A higher wage share therefore entails a higher overall tax-to-GDP ratio. In addition, there was an increase in tax revenues from income that is not reflected in GDP, especially capital gains, profit distributions and pensions. The contribution of these revenue windfalls will reverse to some extent over the forecast horizon. In addition, they also represent a significant risk to the medium-term budget outlook.

Many deficit-reduction measures that come into force in mid-2025 will show their full impact in 2026. In addition, income tax brackets will not be fully adjusted for inflation, and some expansionary measures from previous years will be phased out. Overall, the deficit reduction will amount to 0.8% of GDP in 2026 (light blue bars). At the same time, the contribution of macroeconomic developments (denoted as "macro effects" in chart B I) to the budget balance will improve (green bars). As a result, the general government budget deficit will narrow to -3.3% of GDP in 2026 and -3.1% of GDP in 2027.

5. Fiscal policy and tariffs represent key risks to the forecasts

In the first months of US President Donald Trump's second term in office, the US has been abandoning traditional and long-standing alliances and relationships. This applies both in a political and an economic context. Europeans are re-evaluating their geopolitical situation and accelerating efforts to re-arm. While the political and financial aspects of wider European plans remain uncertain, Germany has already made far-reaching decisions. The conservative CDU/CSU parties, the Social Democrats and the Greens have agreed on a EUR 500 billion special fund for infrastructure and environmental policy (equivalent to about 14% of German GDP). In addition, any defense spending above 1% of GDP will no longer be subject to the (so-called) debt brake. These projects represent an enormous fiscal stimulus for the German economy, which will also have an economic impact on Austria. The OeNB estimates that higher German infrastructure spending alone could accelerate Austrian GDP growth by 0.1 to 0.3 percentage points in 2026. Confidence effects could provide an additional economic stimulus as early as 2025. Germany's higher defense spending will also have an impact that is, however, difficult to estimate as no detailed information is yet available on what the money will be used for, how much will be spent and when.⁵ The announcement of the massive fiscal stimulus has already led to an increase in longer-term government bond yields (by 40 basis points) in Germany, and also in Austria. This increases borrowing costs for both the public and the private sectors.

In recent weeks, economic headlines have been dominated by the erratic trade policy displayed by US President Donald Trump. So far, tariffs have been imposed at lower rates than previously threatened or were temporarily suspended shortly after they took effect. Nevertheless, uncertainty about trade policy has reached new heights. If trade partners impose retaliatory tariffs, this could set off a cycle of tit-for-tat tariffs and ultimately a trade war between the US and the rest of the world. Due to the high level of uncertainty, estimating the economic impact of this policy is difficult. According to OeNB calculations, 25% US import tariffs on all EU products would reduce Austrian GDP by around 0.75 percentage points in 2025 and 2026. Negative confidence effects could exacerbate this contraction. The US tariffs will also have an impact on the US economy. As of early March 2025, the Federal Reserve Bank of Atlanta's GDPNow real-time forecast indicates that US GDP will contract in the first quarter. The recent deterioration in the outlook for the US economy and appreciation of the euro against the US dollar as well as lower crude oil prices are very recent developments that could not be incorporated into the external assumptions of this outlook and therefore represent downside risks.

In Austria, the greatest downside risk is the need for further fiscal deficit reduction.

⁵ The current import structure does not allow any conclusions to be made about future (arms) imports. While Austrian exporters' share of Germany's total military imports is almost 3%, this amounts to a mere EUR 5–10 million a year.

6. Expiry of government measures temporarily halts disinflation – inflation rate remains at 2.9% in 2025

According to the OeNB's current inflation forecast, HICP inflation will be 2.9% in 2025, unchanged from 2024, reflecting persistently high services inflation that is coming down only slowly and a significant increase in energy inflation. Energy inflation is rising because some household energy prices increased sharply in January 2025 as government support measures were phased out. In particular, the expiry of the electricity price cap resulted in a 45% increase in consumer electricity prices in January.

Energy and services inflation will not slow down significantly until 2026, when HICP inflation will drop to about 2.3%. In 2027, it will decline to 2.1%, converging toward the Eurosystem's 2% target.

The OeNB's analyses and outlooks always refer to the HICP inflation rate. The calculation methodology, used by Eurosystem central banks to assess price stability, is the same across the EU.

Core inflation, i.e. HICP inflation excluding food and energy, is the same as HICP inflation at 2.9% in 2025. Dampened by lower services inflation, it will slow down in 2026 and 2027, reaching 2.3% in 2027. Lower energy inflation means that core inflation in 2026 will fall at a much slower rate than HICP inflation. This is because energy prices are excluded in the computation of HICP core inflation.

At the end of the forecast horizon, in the fourth quarter of 2027, both HICP inflation and core inflation will approach their long-term averages (from 2011 to 2019, inflation and core inflation averaged 1.9% and 2.0%, respectively).

Table 2

OeNB March 2025 inflation forecast

	Forecast				Revisions compared to December 2024			
	2024	2025	2026	2027	2024	2025	2026	2027
	Annual change in %				Percentage points			
HICP inflation	2.9	2.9	2.3	2.1	0.0	0.5	0.1	0.1
Food, total	2.9	2.5	2.5	2.2	0.0	0.2	0.3	0.1
of which: unprocessed food	0.6	2.0	x	x	-0.2	0.1	x	x
of which: processed food	3.4	2.6	x	x	0.0	0.3	x	x
Industrial goods excluding energy	0.9	1.1	x	x	-0.1	0.3	x	x
Energy	-5.4	3.7	-0.7	0.0	0.2	4.0	0.8	-2.3
Services	5.7	3.9	x	x	0.1	0.2	0.0	0.0
HICP excluding energy	3.7	2.8	2.6	2.3	0.0	0.2	0.0	0.3
HICP excluding energy and food	3.9	2.9	2.6	2.3	0.0	0.2	0.0	0.3

Source: OeNB, Statistics Austria.

Note: The total inflation contribution of the public sector was calculated on the basis of rounded partial amounts.

We will now analyze inflation in 2024 and then provide details of the 2025–2027 inflation outlook. Subsequently, we will compare 2025–2027 inflation forecasts for Austria and the euro area.

6.1 Review of inflation trends in 2024: Inflation slowed down sharply in the final months of the year

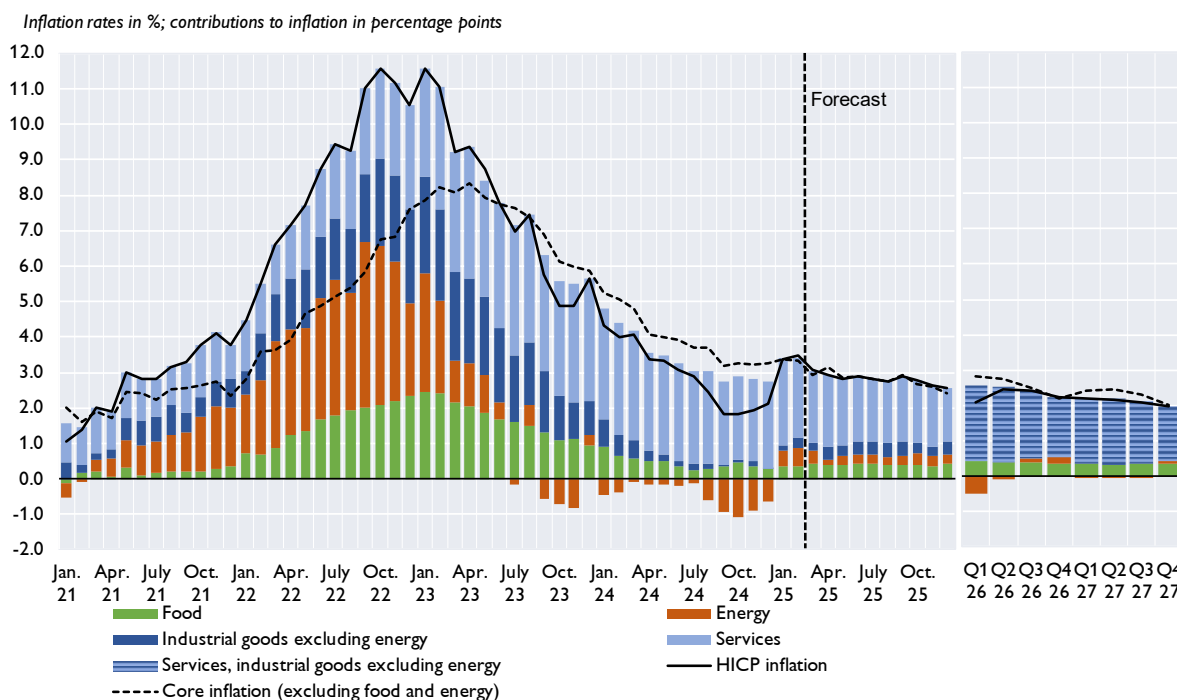
Inflation slowed down significantly in 2024, more than halving from 7.7% in 2023 to 2.9% in 2024. This significant decline was driven by all four components of HICP inflation, energy, food, industrial goods excluding energy, and services. In the second half of the year, falling energy prices made a particularly large contribution to the decline in the inflation rate.

The energy component significantly reduced HICP inflation (brown bars in chart 6). Inflation in the other components also slowed down in 2024: In the second half of the year, food (green)

and industrial goods excluding energy (dark blue) barely contributed to HICP inflation, which was driven almost entirely by services inflation. Although services inflation went down over the course of the year, from 6.8% in January 2024 to 5.1% in December, it remained above its long-term average of 2.4% (2001–2019) and well above HICP inflation. The sharp rise in labor costs has a greater impact on services prices than on prices of the other three components.

Chart 6

Contributions to HICP inflation



Energy inflation was -5.4% in 2024. The inflation rates for most types of energy (motor vehicle fuels, liquid and solid fuels, gas and district heating), with the exception of electricity, were negative. Energy inflation fell visibly: Particularly gas, solid fuels and district heating recorded a pronounced deceleration of more than 10 percentage points. In the fourth quarter of 2024, gas inflation was as low as -27% , mainly reflecting price cuts for existing customers under price adjustment clauses. However, in December 2024, consumer gas prices remained about twice as high as at the start of Russia's war of aggression against Ukraine in February 2022. In the euro area, gas prices have, for quite some time, been only 60% higher than in 2021.

Consumer energy prices remain high partly due to a lack of competition as Austrian consumers rarely switch their energy suppliers. More than half of consumers have never changed their gas or electricity suppliers, and more than two-thirds of them do not know their own gas or electricity price.⁶

The evolution of electricity prices in 2024 was primarily driven by two government support measures: the electricity price cap and the subsidy for network charges. The electricity price cap, introduced in December 2022, limited the cost of electricity, for up to 2,900 kWh a year, by covering the part of the electricity price exceeding 10 cent/kWh. The subsidy was limited to a maximum of 30 cent/kWh (and 15 cent/kWh starting in July 2024). Thanks to the price cap, consumers enjoyed low and largely stable electricity prices without having to switch to lower-cost suppliers. The electricity price index – on which inflation calculations are based – was

⁶ Federal Competition Authority/E-Control. 2024. [Our energy is focused on more transparency \(in German\)](#).

therefore largely unchanged over the course of the year. It was only due to the expiry of the subsidy for network charges at the end of 2023 that prices increased in early 2024. Overall, these two measures contributed to slightly positive electricity inflation in 2024, despite declining wholesale prices.

Food inflation (including alcohol and tobacco) fell to 2.9% in 2024. After a sharp decline in the first half of the year, it fluctuated between 1.5% and 3%.

Especially in the processed food category (e.g. drinks, frozen foods), inflation decelerated sharply over the course of the year, dropping by two-thirds to 2.2% in December 2024. The decline was driven by lower input and energy costs. Particularly beverage inflation (beer, wine, mineral water, juice) slowed down markedly.

Unprocessed food inflation (e.g. fruit, vegetables, fresh meat) repeatedly dipped into negative territory over the course of the year – i.e. in some months, prices dropped year on year. For instance, fruit prices in the summer months were lower than in the same period of the previous year. As a result, the annual inflation rate for unprocessed food was only 0.6%, well below HICP inflation.

The **inflation rate for industrial goods excluding energy**, already low at the start of 2024, recorded a further significant decline over the course of the year. Specifically, the average inflation in this category dropped to 0.9% in 2024, from 6.4% in 2023. In the second half of the year, it remained at or below 0.5%, well below the long-term rate of 0.9% (2001–2019). This was due to the fact that wholesale and producer prices remained largely unchanged, resulting in an absence of cost pressures. In addition, persistently low consumer demand for goods meant that it was difficult to raise prices. Real declines in sales were particularly marked in the book and magazine and the furniture retail industries. The latter industry is still weighed down by furniture sales that were front-loaded during the COVID-19 pandemic.

Inflation rates slowed down across almost all categories, most visibly for furniture and furnishings, telephones and communication devices as well as for clothing and footwear. Since May 2024, these categories have shown negative inflation rates – i.e. price declines compared to the previous year.

Services inflation averaged 5.7% in 2024, declining continuously over the course of the year and falling to about 5% in the fourth quarter of 2024. This is still well above the inflation rates of the other HICP components and above the long-term average of 2.4% (2001–2019). The main drivers of the high services inflation were accommodation and catering services, recreational and sports services (such as ski lift tickets) and rents.

Demand in the tourism sector was very high in 2024, with overnight stays rising to a new all-time high of 154 million⁷. On the back of this strong demand, companies were able to raise their prices, passing on increases in (labor) costs. Tourism wages increased by 8.6%, in line with the Austrian average. Due to the labor-intensive nature of the tourism industry, these high wage increases translated into a stronger rise in total costs.

Inflation in repairs and other services related to housing as well as financial services and insurance was also well over 5%. Due to their low weighting, the impact on services inflation and, by extension, HICP inflation is relatively low.

⁷ Statistics Austria (2025), [Press release 13 526-020/25](#).

6.2 2025–2027 inflation forecast: disinflation delayed by effects of expiring government support

The OeNB expects inflation to run at 2.9% in 2025, unchanged from 2024. This represents an upward revision of around half a percentage point compared to the OeNB December 2024 Economic Outlook. The revision reflects higher inflation rates at the beginning of the year and particularly the unexpectedly strong increase in energy inflation in January 2025. The expiry of government support measures (such as the electricity price cap) led to a stronger than expected increase in energy prices. Overall, government measures increased HICP inflation by around 1.1 percentage points in January 2025.⁸

Energy and services inflation will come down in 2026, slowing HICP inflation to 2.3% in 2026 and to 2.1% in 2027. This means that HICP inflation is converging back toward the Eurosystem's 2% price stability target.

Core inflation (HICP inflation excluding the volatile food and energy categories) will fall to 2.9% in 2025, down from 3.9% in 2024. After that, core inflation will come down more slowly than HICP inflation, as the calculation of core inflation is not affected by the expected sharp decline in energy inflation. Services inflation will fall at a slower pace, meaning that core inflation, at 2.3%, will be higher than headline inflation in 2027.

The main component affected by government policy is **energy inflation**. A number of fiscal policy measures reducing energy prices expired at the beginning of 2025: The electricity price cap lapsed, the electricity and gas levies were raised to their regular levels, and the renewables levy and the renewables subsidy were reinstated. In addition, electricity and gas network charges were raised, and the price of CO₂ emissions was increased from EUR 45 to EUR 55 per kWh. These government policies caused energy inflation to increase significantly, from –7.8% in December 2024 to 5.2% in January 2025. The impact was particularly severe for electricity, where prices rose by 45% in January 2025 compared to December 2024. Gas prices also rose in January due to these fiscal measures, but only by about 10%.

The OeNB forecasts that energy inflation will run at 3.7% in 2025. This assumes that household energy prices will decline significantly over the course of the year. The OeNB expects that the rise in electricity and gas prices at the beginning of the year will spur significantly more households into action and make them switch to lower-cost suppliers.

As household energy prices decline over the course of 2025 and wholesale prices for electricity and gas continue to drop, energy inflation will be negative in 2026. This effect will be particularly pronounced in the first half of 2026 as energy prices remain very high in early 2025 (base effect). In 2027, prices will be largely stable compared to the quarters of the previous year, with energy inflation in 2027 forecast to be about 0%.

⁸ Statistics Austria (2025), Press conference “Inflation 2024”, January 15, 2025, [PowerPoint presentation \(in German\)](#). The effect was calculated for December 2024 but is of similar magnitude in January 2025.

Food inflation will fall to 2.5% in 2025, reflecting a decline in processed food inflation, from 3.4% in 2024 to 2.5% in 2025. Processed foods, in particular, benefit from the slightly lower pace of wage increases. Although world market and EU producer prices for food have increased substantially since the end of 2024, they represent a small fraction of processed food costs and therefore have a minimal impact on this category. For instance, in Austria, raw materials make up only about 4% of the cost to produce 1 kg of bread.⁹ By contrast, high producer prices in agriculture are driving unprocessed food inflation (e.g. fruit and vegetables) compared to the previous year. As upward pressure eases on energy, wages and producer prices for food, the inflation rate for food will also fall to 2.2% in 2027.

The inflation rate for **industrial goods excluding energy** (e.g. furniture, cars, clothing) will remain largely unchanged at 1.1% in 2025. Stable producer prices and expectations of persistently weak demand suggest that prices will rise only slightly over the forecast horizon.

Services inflation will fall by almost 2 percentage points to 3.9% in 2025 but remain the most important driver of inflation (see chart 6). In the services sector, wages represent a larger share of costs than in other HICP components. The forecast for wage increases, as measured by growth in collectively agreed wages, is 3.6% for 2025. As there is no indication of a significant decline in demand, we assume that the costs will be passed on to consumers. In line with the slow decline in wage growth, services inflation will come down at a slow pace as well.

6.3 Inflation forecast revised upward compared to the OeNB December 2024 Economic Outlook

Compared to December 2024, the OeNB has revised up its forecast for HICP inflation throughout the 2025–2027 forecast horizon. The largest upward revision, at 0.5 percentage points, relates to 2025, with moderate increases for the other years (table 2). This revision reflects the inflation data published for the first two months of 2025, which were about 0.5 percentage points higher than forecast. In particular, the OeNB's December 2024 Economic Outlook significantly underestimated energy inflation for January 2025. The expiry of fiscal policy measures had a larger than expected impact on January inflation. While the OeNB forecast that energy prices would increase HICP inflation by 0.75 percentage points, the actual impact was 1.1 percentage points, according to Statistics Austria data. HICP inflation rose from 2.1% in December 2024 to 3.4% in January 2025 (the OeNB December 2024 Economic Outlook forecast an increase from 2.0% to 2.9%). The expiry of the fiscal policy measures will permanently increase energy prices, translating into a higher inflation rate for 2025. Higher wholesale prices for gas, electricity and crude oil will lead to slightly higher energy inflation in 2026. The downward revision for 2027, by contrast, is due to technical reasons. Higher world market prices for food cause higher food inflation.

The higher services inflation in 2025 is due to higher wage increases and unexpectedly persistent services inflation at the start of the year. The forecast for inflation in industrial goods excluding energy was also increased to reflect the latest data for 2025.

⁹ Styrian Chamber of Agriculture. 2023. [Lebensmittelpreise durchleuchten! \(Shining a light on food prices – in German\)](#).

6.4 Risks to the inflation forecast

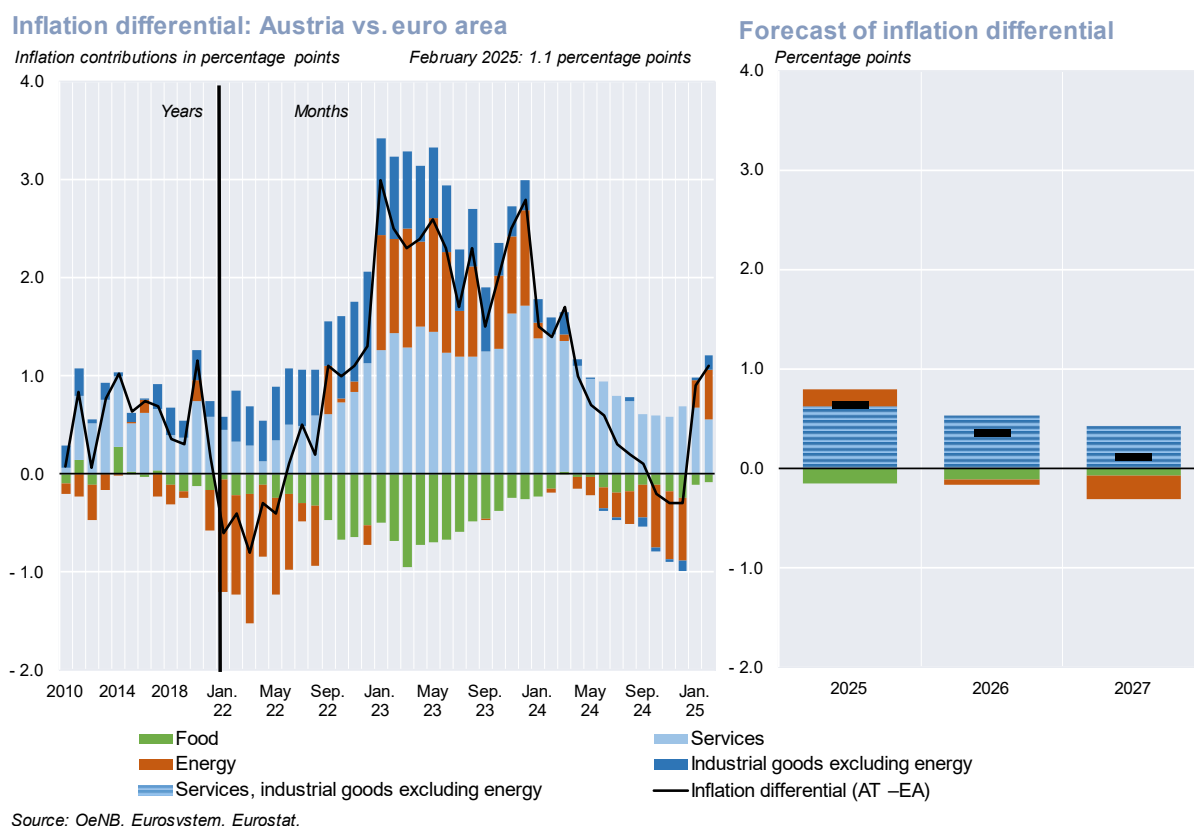
The inflation forecast is subject to upside risks, i.e. the inflation rate could be higher than forecast. First, geopolitical tensions could increase price pressures: In particular, tariffs imposed by the US and retaliatory tariffs levied by US trading partners could accelerate inflation. Second, a stronger and faster recovery in domestic demand would fuel inflation, especially if consumer demand were to grow faster than expected. Third, this outlook assumes that electricity and gas prices will fall by about 20% and 10%, respectively, over the course of the year. This would require energy customers to actively switch to lower-cost suppliers, implying a change in behavior as, so far, they have been reluctant to do so. If energy prices remained unchanged, inflation would increase by about 0.25 percentage points. The impact of fiscal policy risks is difficult to assess at this point.

A boost from European fiscal policy, related to higher European defense spending, could fuel inflation in Austria. By contrast, Austria's deficit reduction efforts are likely to slow down inflation.

6.5 Inflation differential between Austria and the euro area

According to Eurosystem forecasts, the inflation differential will be 0.6 percentage points in 2025, unchanged from 2024. This means that Austria's average 2025 inflation will be 0.6 percentage points above the euro area average. Then, inflation rates in Austria and the euro area average will gradually converge, reaching near-parity in 2027 (chart 7).

Chart 7



Strikingly, in late 2024, Austria's inflation rate fell below that of the euro area, mainly reflecting a decline in Austrian energy prices. In 2025, the inflation differential will widen again as a

result of higher energy prices in Austria.

The expiry of government support measures (e.g. electricity price cap) meant that energy inflation in Austria rebounded sharply in January 2025. In most other euro area countries, price-reducing support measures expired in early or mid-2024. As a result, there was no exceptional increase in average euro area energy inflation at the start of 2025.

The differential in services inflation already narrowed over the course of 2024. That said, Austria's services inflation will remain above the euro area level throughout the forecast horizon. Since 2011, it has been the norm that services inflation in Austria is significantly higher than in the euro area. Over that time frame, Austria's services inflation has on average been 0.7 percentage points above the euro area average, reflecting a stronger rise in unit labor costs in Austria.

The EU-wide introduction of a carbon price on fuels and household energy (ETS2¹⁰) will raise energy prices at the beginning of 2027. Austria introduced a carbon price as early as 2022. The EU-wide minimum price scheduled to take effect in 2027 is only slightly higher than Austria's current carbon price. This is why energy inflation will remain low in Austria in 2027, while countries that have not yet introduced carbon pricing will see a significant increase in energy inflation. Austria's energy inflation will therefore remain below the euro area average, reducing the inflation differential.

¹⁰ ETS = Emissions Trading Scheme. See: [ETS2: buildings, road transport and additional sectors - European Commission](#).

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ISSN 2960-5075 (online)