



## Austria: Concluding Statement of the 2025 Article IV Mission

### FOR IMMEDIATE RELEASE

A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or 'mission'), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under [Article IV](#) of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.

The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

**Vienna, Austria – April 8, 2025:** *An International Monetary Fund (IMF) mission, led by Kevin Fletcher and comprising Adil Mohommad, Magali Pinat, and Mustafa Saiyid, visited Austria during March 26-April 8, 2025, to conduct discussions on the 2025 Article IV consultation. At the end of the visit, the mission issued the following statement:*

*Austria is in a challenging economic situation after two years of recession and now possibly another year of no growth. Adverse shocks from high energy prices and the rapid rise in interest rates to curtail subsequent inflation have dragged down domestic and external demand. The outlook is further complicated by heightened global economic uncertainty and the need to undertake significant fiscal adjustment to reduce high deficit levels in compliance with EU fiscal rules. Nonetheless, Austria retains strong institutions and policy frameworks that equip it well to deal with these challenges. Policies should aim to put public finances on a sound footing, strengthen medium-term growth prospects, and maintain financial stability. This requires (i) adopting gradual, high-quality fiscal adjustment measures to rebuild buffers and offset rising spending pressures from population aging and other needs; (ii) advancing pro-growth reforms to boost labor supply, reduce red tape, and strengthen productivity, including by supporting a deepening of the EU Single Market; and (iii) maintaining prudent macroprudential policy settings and strong financial-sector supervision.*

### Recent economic developments and outlook

**Austria faces a challenging economic environment.** The economy has experienced a protracted downturn since end-2022, with the energy-price shock and subsequent monetary tightening adversely affecting both domestic demand and growth in key trading partners. Fiscal deficits and debt have also increased, in part due to the weak economy and to policy support to cushion the energy-price and COVID shocks. Moreover, higher trade barriers and uncertainty represent a significant risk to the global outlook. However, Austria's fundamental economic strengths—such as sound policy frameworks, a healthy financial system, high

innovation capacity, and a strong social safety net—leave it well positioned to navigate these challenges and implement the necessary policies to rebuild buffers and lift growth. In this regard, a new government took office in March aiming to reduce Austria's fiscal deficits and develop reforms to reinvigorate Austria's growth potential.

**Near-term growth is expected to remain weak before improving in subsequent years.**

Real GDP growth is projected to remain around zero in 2025, reflecting still-tight financial conditions, fiscal consolidation, and heightened global trade barriers and uncertainty. Stronger growth is expected from 2026 onwards, with a pickup in investment due to recent monetary policy easing, more solid private consumption growth supported by the recovery in real wages and a decline in the household savings rate from its current elevated level, and a positive impulse from German fiscal expansion. Nonetheless, headwinds from population aging and sluggish productivity growth will continue to constrain medium-term growth prospects, absent significant reforms.

**The outlook is subject to sizeable risks.** Downside risks predominate and include the potential for persistent weakness in economic sentiment, further increase in trade barriers and trade policy uncertainty, and further weakness in financial market sentiment. Further, inflation is currently elevated at 3.1 percent (y/y HICP), well above the euro-area average of 2.2 percent. While this difference is expected to dissipate over the next year as economic slack helps moderate Austrian inflation, Austria's competitiveness could be gradually undermined if this convergence does not occur, which could happen if productivity-adjusted wage growth remains persistently above the euro-area average. Upside risks include a faster-than-expected recovery in investor and consumer sentiment or an easing of global trade tensions.

### **Fiscal policy**

**Significant fiscal consolidation is needed over the medium term.** The deficit widened by 2.1 percentage points in 2024 to 4.7 percent of GDP, with the debt-to-GDP ratio rising to over 81 percent of GDP. Over the medium term, the authorities should aim to cut the deficit to below 2 percent of GDP to put the debt ratio on a declining path. However, population aging alone is expected to add about 2 percent of GDP in budgetary costs by 2030. Offsetting these costs along with the increase in interest payments and defense spending while stabilizing public debt will thus require sizable and steady fiscal adjustment measures over the next few years. Additional fiscal savings would be required to achieve the boost in public investment that is likely needed to meet Austria's green transition commitments.

**A bold and well-designed package of expenditure cuts and revenue measures could achieve the necessary consolidation while minimizing distortions.** Options for significant savings on the spending side include restraining public pension costs (Austrian pensions relative to incomes are among the highest in the EU); improving healthcare efficiency, including by increased use of outpatient, telemedicine, and primary healthcare rather than more expensive hospital services; reducing subsidies, especially environmentally harmful ones; and limiting public-sector wages increases. On the revenue side, options include increasing land property taxes, inheritance and gift taxes, and excise taxes, all of which are somewhat low in Austria relative to most other advanced economies. Together, such measures could generate fiscal savings of 3-4 percent of GDP. Gradually increasing the

carbon tax would also generate additional budgetary resources to meet green transition investment needs while also strengthening incentives to reduce carbon emissions in line with Austria's climate mitigation goals in an efficient manner. Mechanisms should also be established to ensure that all levels of government contribute equitably to fiscal adjustment.

**The government's near-term fiscal consolidation measures are a first step that will slow the rise in debt and reduce inflationary pressures.** The government's announced fiscal measures for 2025 are expected to lower the deficit to around 4 percent of GDP this year. This amount of structural adjustment is sufficient for 2025 given the weak economy: if near-term downside risks materialize, the authorities should let automatic stabilizers operate freely to avoid an excessive drag on growth, with measures deployed to protect the most vulnerable in the event of a severe downturn.

### Pro-growth structural reforms

**Deepening the EU Single Market could significantly boost Austria's economic growth and productivity.** Trade barriers between European countries remain sizeable. Reducing these barriers and deepening the EU Single Market, including through reforms such as Capital Markets Union and the establishment of harmonized rules for businesses operating in different jurisdictions (i.e., creating a common 28th corporate regime) would allow firms to better leverage economies of scale and catalyze financing for innovative ideas. Further energy market integration within the EU would help reduce the level and variability of energy costs. Supporting such reforms is one of the most important steps that Austria could take to boost productivity and growth across both Austria and Europe.

**Domestic reforms to reduce regulatory barriers for firms would also help increase firm dynamism and productivity.** Productivity growth has been weak, with output per hour worked falling over the last 2 years. While Austria ranks high in terms of providing incentives for research and development, it lags in some areas such as having higher barriers to entry in certain services and relatively high administrative burdens on businesses. Reforms to cut red tape (e.g., reviewing reporting requirements) and lower barriers to entry in specific sectors would boost competitiveness. Reducing regulatory bottlenecks in housing—such as by easing land-use regulations—could improve housing supply and affordability. Streamlining and accelerating permitting for renewable energy production would lower energy costs and improve energy security. Initiatives to strengthen ecosystems of collaboration between academia and industry and promote capital market finance for firms, especially equity financing for young firms at different stages of growth, could foster more innovation and entrepreneurship.

**Measures to boost labor supply are needed to mitigate demographic headwinds to growth.** Austria's working-age population is projected to shrink over the medium term, imposing a significant drag on labor supply. This drag would be larger under lower migration. Further, as compared to other EU countries, Austria has relatively high levels of part-time work among women and low levels of labor-force participation among elderly workers. Closing gender and elderly labor-supply gaps relative to the EU average [could offset](#) more than 20 years of demographic aging in terms of the effect on GDP. While the ongoing increase in the retirement age for women will help narrow this gap to some extent, further measures to boost

the supply of labor should be taken. These measures include further expanding childcare and eldercare, undertaking pension reforms that incentivize longer working lives, and continuing efforts to better integrate immigrants into the work force.

### **Financial sector policies**

**Banks and insurers are stable, liquid, and profitable, but continued vigilance on potential credit risks is warranted.** Banks have enjoyed record profits over the last two years due to high net interest margins and profits from operations in Central and Eastern Europe, despite higher provisioning charges against rising non-performing loans (NPLs) on commercial real estate (CRE) exposures, particularly in Austria. Looking ahead, CRE-related NPL dynamics are expected to moderate, benefiting in part from monetary policy easing and improved demand for multi-family residential real estate, which has been a key contributor to CRE NPLs. On the other hand, net interest margins are expected to decline somewhat to more normal levels. Recent increases in trade barriers could also weigh on the profits of non-financial corporates with substantial cross-border operations. This could, in turn, weaken the ability of some firms to service their bank debt. To guard against these risks and prepare for the expected normalization of bank profits, banks should be prudent in profit distributions, ensure adequate risk provisions, and value collateral conservatively. They should also use current elevated profits to further insure against cybersecurity risks by investing adequately in information technology.

### **Macroprudential policy settings are broadly appropriate to address the key risks.**

Borrower-based measures for residential real estate (RRE) lending (KIM-V regulation), which were introduced in August 2022, were not overly restrictive by international standards and helped to improve the quality of RRE loans. Supervisors will need to remain vigilant that banks adhere closely to the proposed RRE lending guidelines that will replace the borrower-based measures as of July this year. The new government should also consider legislation to adopt borrower-based measures as a permanent, structural instrument to further safeguard against a reemergence of risks, especially once the housing cycle returns to an expansionary phase. With regard to CRE risks, the introduction of the sectoral systemic risk capital buffer set at 1 percent of CRE assets is welcome. The authorities should also continue their efforts to close CRE data gaps to further assist risk assessment from a macroprudential perspective. The current setting of the countercyclical capital buffer at zero remains appropriate given weak credit growth.

**Implementing key recommendations from IMF staff's 2020 Financial System Stability Assessment would further strengthen the framework for financial sector oversight and safety mechanisms.** Important outstanding measures relate to adopting legislation to strengthen the resolution and bankruptcy regimes and the statutory independence of financial-sector supervision and regulation.

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*The mission thanks the authorities and our other counterparts for the candid and constructive policy dialogue and the warmth of welcome we have been accorded during our visit to Austria.*