OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

OeNB Report 2026/9
13 pages

OeNB Report 2026/9: Middle East war clouds economic outlook

OeNB March 2026 interim economic outlook for Austria

In 2025, Austria recorded moderate economic growth of 0.7%, following a two-year recession. In early 2026, economic conditions were improving. But the war in the Middle East launched on 28 February and the ensuing rise in energy prices have again stirred up great uncertainty and are clouding the economic outlook. As a result, the OeNB expects economic growth to amount to no more than 0.5% in 2026. Inflation is projected to increase to 2.7% and the unemployment rate to remain at 7.5%.

Authors

Gerhard Fenz, Friedrich Fritzer,
Bernhard Graf, Lukas Reiss,
Alfred Stiglbauer, Klaus Vondra.
With contributions from Beate Resch.
Oesterreichische Nationalbank,
Business Cycle Analysis
konjunktur@oenb.at

War in Middle East triggers another energy price shock

In March 2026, the price of Brent crude oil at times clearly exceeded USD 100 per barrel, up from February's USD 70 per barrel. Gas prices in Europe advanced from EUR 30 per MWh to well above EUR 50 per MWh. Such price increases dampen growth and push up inflation via several channels.

Price shock dampens economic growth

The price shock is lowering purchasing power, puts a damper on the willingness to invest and reduces export demand. GDP will grow by only 0.5% in 2026. Austria might face a stagflation in 2026, given a continued rise of energy prices, risk premiums, heightened uncertainty and second-round effects.

Inflation is accelerating markedly due to commodity prices

HICP inflation is expected to increase to 2.7% in 2026. Without the war in the Middle East and its fallout, the inflation rate would be 0.6 percentage points lower. HICP inflation could rise to slightly above 4.0% in 2026, depending on the intensity and duration of the war.

1 Executive summary

In 2025, Austria again recorded moderate economic growth of 0.7%, following a two-year recession. And in early 2026, economic conditions were improving. The monthly data already available reflect robust activity in January and February. But the war in the Middle East launched on 28 February and the ensuing noticeable rise in energy prices have again stirred up great uncertainty and are clouding the economic outlook. As a result, the OeNB expects economic growth to come to a mere 0.5% in 2026. Inflation is projected to increase to 2.7% and the unemployment rate to remain at 7.5%. Compared with the December 2025 OeNB economic outlook, the growth forecast was revised downwards by 0.3 percentage points, while the inflation forecast was revised upwards by 0.3 percentage points.

Table 1

OeNB March 2026 interim outlook for Austria

	March 2026			Revisions since December 2025		
	2026	2027	2028	2026	2027	2028
Annual change in %						
Gross domestic product (GDP) (real)	0.5	1.0	1.1	-0.3	-0.1	0.1
Harmonised Index of Consumer Prices (HICP)	2.7	2.3	2.1	0.3	0.2	0.0
Unemployment rate (national definition)	7.5	7.4	7.3	0.0	0.1	0.0

Source: 2025: Statistics Austria; 2026–2028: OeNB.

This interim outlook draws on market expectations for global commodity prices for energy as of 11 March 2026. Because of the Middle East war, they are signalling supply shortages on commodity markets. Oil and gas prices are expected to peak in the second quarter of 2026 at around USD 90 per barrel and EUR 50 per MWh on average, before dropping relatively fast from these high levels in subsequent quarters. The positive cyclical momentum seen at the beginning of the year is thus projected to slow only temporarily. For 2027 and 2028, we expect economic growth to reach around 1% again, close to or slightly above the growth potential. Inflation is set to sink again in 2027 and to lie only slightly above the ECB's 2% inflation target for the euro area in 2028. The unemployment rate is projected to decrease to 7.3% in 2028.

At present, it is highly uncertain how the war in the Middle East and the energy supply will develop and impact on energy prices, financial markets and economic agents' confidence. To account for this uncertainty, the OeNB's interim economic outlook contains alternative scenarios, where energy bottlenecks are expected to persist for a longer period. In particular, a protracted stronger increase in oil and gas prices threatens to further curb economic growth and fuel inflation in 2026. Given an average oil price of USD 100 per barrel and a natural gas price of EUR 70 per MWh in 2026, coupled with additional stronger second-round effects, the Austrian economy could head for a stagflation in 2026. As a result, economic output would stagnate, and inflation would climb to slightly above 4%. Conversely, swift geopolitical de-escalation could improve cyclical development and lower inflation.

2 Economic growth turned positive in 2025

Table 2

Results of the national accounts release for Q4 25 of 3.3.2026 – demand side

	GDP	Private consumption	Government consumption	Gross fixed capital formation	Exports	Imports	Domestic demand (excluding inventories)	Net exports	Inventory changes	Statistical discrepancy	Inventories plus statistical discrepancy
	Change against previous period in %						Growth contributions in percentage points				
Q1 25	0.3	–0.4	0.5	0.3	1.3	0.8	–0.0	0.3	–0.1	0.1	–0.0
Q2 25	0.0	0.4	0.4	1.3	0.4	1.7	0.6	–0.7	–0.2	0.4	0.1
Q3 25	0.3	–0.6	0.6	1.0	1.5	0.7	0.1	0.5	0.1	–0.4	–0.2
Q4 25	0.0	0.2	–0.4	–2.1	–0.1	–0.7	–0.5	0.4	0.2	–0.1	0.1
2024	–0.8	1.0	3.8	–4.4	–2.8	–2.9	0.2	–0.1	–1.2	0.3	–0.9
2025	0.7	0.5	2.4	1.5	0.6	1.9	1.1	–0.7	0.1	0.1	0.3

Source: Statistics Austria.

Austria's real GDP grew by 0.7% in 2025, according to seasonally and working day-adjusted national accounts data for 2025 released by Statistics Austria in early March 2026. Economic activity accelerated markedly at the beginning of the second half of 2025, but stagnated in the closing quarter.

On the demand side, private consumption advanced by 0.5% in 2025, and households' saving ratio went down steadily. At +2.4%, strong stimuli continued to come from public consumption. Gross fixed capital formation increased at a fast pace in the first three quarters, but shrank by 2.1% in the final quarter. The investment boom in the summer months was led by investment in plant and equipment, predominantly vehicles, but also machinery. Investment slumped, however, in the fourth quarter, with investment in vehicles even recording a two-digit percentage drop. Given the volatility of investment in general and in plant and equipment in particular, it is difficult to draw meaningful conclusions. Residential construction investment fell in all four quarters of 2025, and the recession in home construction also continued.

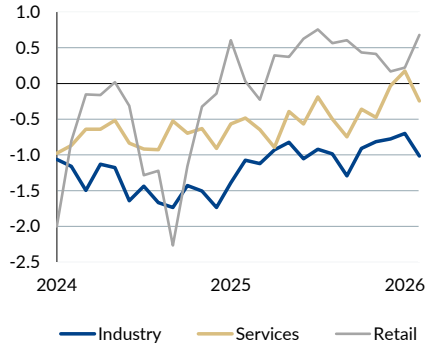
On the supply side, the cutbacks in investment and imports in the fourth quarter translated into declining manufacturing. Industrial production likewise declined by 1.1%, according to the data then available. The data released in January 2026 resulted in a clear upward revision of industrial production for December 2025. Industrial production hence stagnated in the fourth quarter of 2025, which points to a possible upward revision of GDP. At +1.1%, services supported economic growth in 2025. The value added in public administration advanced particularly strongly (+2.9%), and so did services in the real estate sector (+2.7%).

3 OeNB's Economic Indicator still signals robust development in early 2026

Chart 1

Sentiment indicators

Standardized values

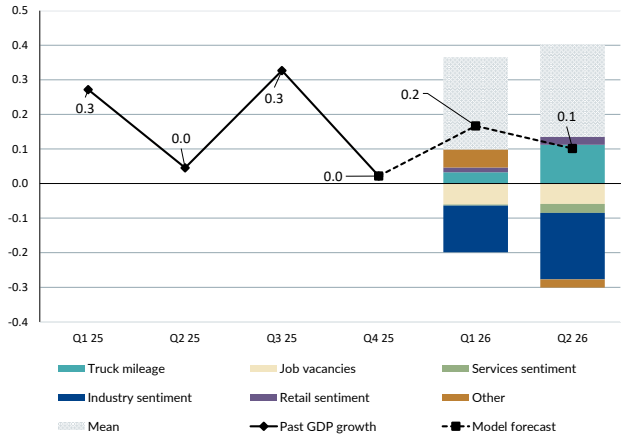


Source: European Commission.

Chart 2

The OeNB's Economic Indicator for real GDP

Change from previous quarter in %



Note: Data are seasonally and working-day adjusted; data as of March 16, 2026.

Some volatility notwithstanding, economic sentiment in Austria improved clearly in 2025, according to the European Commission's indicators. In February 2026, industrial confidence fell markedly. Such strong monthly outliers do happen every now and then, however, and should not be overrated. Strong gains in December gave industrial production a head start into 2026. The OeNB's truck mileage-based export indicator also signals a robust increase in goods exports in January and February. Consequently, the available economic indicators reflect rather favourable conditions overall in early 2026. However, the available monthly indicators do not yet account for the Middle East war and its consequences.

Based on these indicators, as of 16 March 2026, the OeNB's Economic Indicator shows an increase in real GDP by 0.2% for the first quarter of 2026, following a weak development in the closing quarter of 2025. In the second quarter of 2026, real GDP is set to inch up by another 0.1%. The improvement for the first half of 2025, based strictly on the model forecast, is carried by the improved truck mileage-based export indicator and the sentiment indicator for retail services in early 2026. The OeNB's Export Indicator reflects stronger export growth at the beginning of 2026. The OeNB's Economic Indicator therefore still suggests that economic output will increase. With monthly indicators still pending, said indicator does not yet account for the effects of the war in the Middle East. The fallout could drive growth slightly below zero especially in the second quarter of 2026.

4 Middle East war clearly weighs on economic outlook

The war in the Middle East, launched on 28 February 2026, has dealt an immediate blow to the world economy with far-reaching consequences. Since the beginning of the war, the Strait of Hormuz has been partly closed. One-fifth of the oil and gas consumed globally passes through this waterway.

The blockade goes hand in hand with attacks from both warring sides on refineries and depots as well as tankers. As a result, energy prices have soared since early March.

As a case in point, the price of Brent crude oil increased from USD 70 per barrel at end-February to some USD 100 per barrel on 11 March, the cutoff date of this outlook. After Israel had attacked South Pars, the world's largest gas field that is located in the Persian Gulf, on 18 March, prices jumped sharply once again, hitting USD 115 per barrel on the morning of 19 March. Starting from a price of EUR 30 per MWh before the launch of the Middle East war, the European gas price benchmark TTF[1] stood at EUR 50 per MWh on 11 March and continued to go up. On 19 March, it had reached EUR 67 per MWh.

Table 3

Energy price assumptions for the OeNB March 2026 interim outlook

					Change against pre-war scenario in %	
	March 2026	Q2 26	2026	2027	2026	2027
Oil price in USD/barrel (Brent)						
As of 21 February (before the outbreak of the war in the Middle East)	70.2	69.3	67.9	65.2	0.0	0.0
As of 11 March (values for the OeNB March 2026 outlook)	87.8	75.1	81.3	72.1	19.7	10.7
As of 18 March (three-day average of futures prices)	104.5	80.7	87.7	76.8	29.3	17.9
Gas price in EUR/MWh (TTF)						
As of 21 February (before the outbreak of the war in the Middle East)	32.1	33.1	31.0	26.8	0.0	0.0
As of 11 March (values for the OeNB March 2026 outlook)	49.5	39.0	46.4	36.6	49.8	36.7
As of 18 March (three-day average of futures prices)	55.2	40.9	50.8	39.9	64.1	48.9

Source: ECB, Macrobond.

This new energy price shock hits the Austrian economy via several channels: The increase in oil prices immediately drives up the price of fuels, which will already be reflected in the March 2026 inflation rate. The increase in gas prices affects consumers in Austria with a certain lag because in many contracts the prices are fixed for a specified period. The loss of purchasing power resulting from higher energy costs reduces real private consumption. Global uncertainty has risen as several states involved in the Middle East war are among the world's key energy suppliers (see box 1). The increased uncertainty and weaker external environment dampen both businesses' willingness to invest and demand on Austrian export markets.

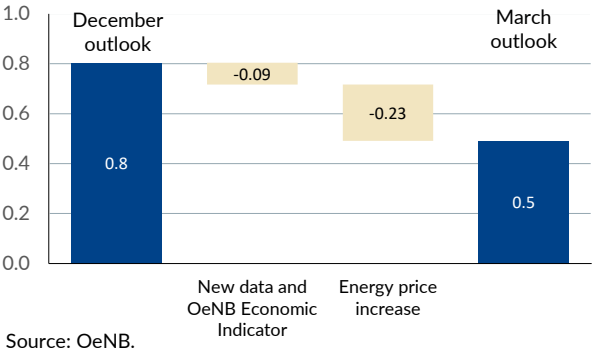
The OeNB's March interim economic outlook reflects the direct effects of energy price increases until 11 March 2026. As a result of these effects, Austria's economic output will drop 0.2 percentage points in 2026 (new data and the results of the OeNB's Economic Indicator reduce projected annual growth for 2026 by 0.1 percentage points) and inflation will rise by 0.6 percentage points. In our March outlook, we therefore project economic growth in Austria to come to 0.5% in 2026. It is expected to increase to 1.0% in 2027 and to 1.1% in 2028. Since the cyclical upturn in early 2026 was quite strong but somewhat weaker than expected, economic growth this year is forecast to be 0.3 percentage points lower than projected in the OeNB's December economic outlook. In 2027, growth is expected to underperform the December outlook figure by 0.1 percentage points, while the projected figure for 2028 was revised upwards slightly to 1.1%. HICP inflation is expected to increase to 2.7% in 2026, which reflects an upward revision by 0.3 percentage points against the December outlook. It is projected to go down to 2.3% in 2027 and to 2.1% in 2028 (see table 1 on p. 2).

[1] TTF: Title Transfer Facility Natural Gas Futures.

Chart **3**

OeNB GDP forecast for 2026

Growth in %, change in percentage points

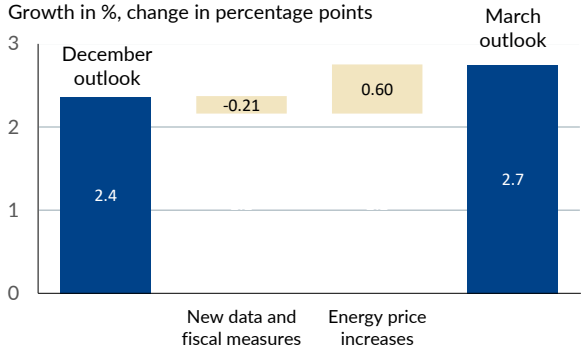


Source: OeNB.

Chart **4**

OeNB HICP forecast for 2026

Growth in %, change in percentage points



Note: Rounding difference due to unrounded calculation.
Source: OeNB.

5 Fiscal outlook

No substantial changes have been made to the fiscal forecast compared to the December 2025 outlook. In December, we forecast a general government budget balance of -4.5% for 2025, -4.2% for 2026 and -4.4% for 2028 (all as a percentage of nominal GDP). In hindsight, our assessment for 2025 was somewhat too pessimistic, which also improves the position for 2026. At the same time, the outlook for GDP growth has become gloomier. Moreover, since we released the December outlook, the government has decided to cut both the electricity levy and the VAT on basic food items. Overall, we expect the budget balance 2026–2028 to develop broadly as projected in December 2025. This projection does not yet include any additional consolidation measures that may be introduced in the 2027–2028 budget. The effect the upward revision of the inflation forecasts has on the budget balance is negligible.

6 Inflation sinks noticeably in early 2026, but from March commodity prices surge due to Middle East war

HICP inflation in Austria declined from 3.8% in December 2025 to 2.3% in February 2026. This marked decrease was mainly driven by the energy component, especially electricity prices. As the electricity price cap expired in 2025, the upward base effect vanished. Electricity inflation thus dropped to -8.0% in early 2026, compared with 42.0% in December 2025. This sharp drop was also supported by the reduction of the electricity levy.

Overall, the inflation rate went down by 1.5 percentage points since December 2025, with the energy component accounting for 1.2 percentage points. In the euro area, HICP inflation mostly stagnated since December 2025. As a result, the inflation differential between Austria and the euro area narrowed notably.

6.1 Inflation to stand at 2.7% in 2026, edge down gradually to 2.3% in 2027 and reach 2.1% in 2028

Energy commodity prices soared after the launch of the war in the Middle East. Based on market expectations[2] of 11 March 2026, oil prices will exceed pre-war projections for 2026 by some 19%. European wholesale gas prices were affected even more strongly; on 11 March 2026, they were some 50% higher compared with pre-war figures. Metal prices likewise increased, above all due to higher copper prices in the context of potential US tariffs and, more recently, to the Middle East war driving up aluminium prices. Food prices, in contrast, fell, especially because cocoa and coffee prices were declining.

The current baseline projection rests on the market-based expectations of 11 March 2026. It is complemented by a number of alternative scenarios (see section 7). We expect inflation in Austria to rise slightly above 3.0% in May 2026, before edging down to around 2.5% by year-end. Annual inflation is projected to amount to 2.7% in 2026, which reflects an upward revision against the December outlook by 0.3 percentage points. This revision only partly reflects the effects of the Middle East war, as anti-inflationary government measures did not yet feed into the December outlook. These measures partly balance out the higher commodity prices for energy. According to the baseline scenario, HICP inflation will edge down gradually to 2.3% in 2027 and drop further to 2.1% in 2028. Uncertainty has increased noticeably since the beginning of the war in the Middle East. In the medium term, the impact will be determined by the intensity and duration of the war and by the effects of the energy shock on the economy.

Table 4

OeNB March 2026 inflation outlook

	Outlook				Revisions since December 2025		
	2025	2026	2027	2028	2026	2027	2028
	Annual change in %				Percentage points		
HICP inflation	3.6	2.7	2.3	2.1	0.3	0.2	0.0
Food	3.5	2.8	2.7	2.3	0.0	0.2	0.0
of which: unprocessed food	2.8	3.7	x	x	1.3	x	x
of which: processed food	3.7	2.6	x	x	-0.3	x	x
Industrial goods excluding energy	0.9	0.9	1.3	1.2	0.0	0.3	0.0
Energy	7.6	2.2	1.5	0.2	3.5	0.9	-1.2
Services	4.5	3.8	2.9	2.7	0.0	0.1	0.1
HICP excluding energy	3.2	2.7	2.4	2.2	0.0	0.2	0.1
HICP excluding energy and food	3.2	2.5	2.3	2.2	-0.1	0.2	0.1

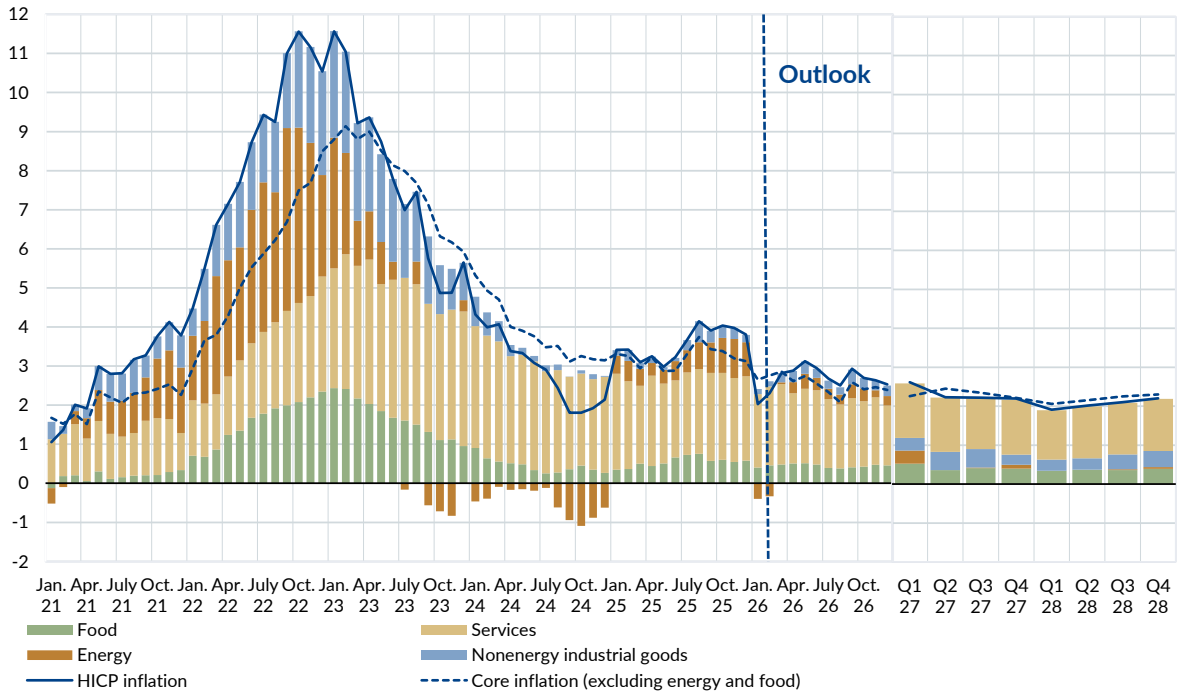
Source: OeNB, Statistics Austria.

[2] Market-based expectations are futures price, i.e. prices agreed today for delivery at a future date. Typical examples are futures contracts for commodities, energy and financial products.

Chart 5

Contributions to Austrian HICP inflation

Inflation rates in %; components' contributions to inflation in percentage points



Source: OeNB, Statistics Austria.

The following subsections present a forecast for the main components of inflation as well as an outlook for Austria's inflation differential with the euro area.

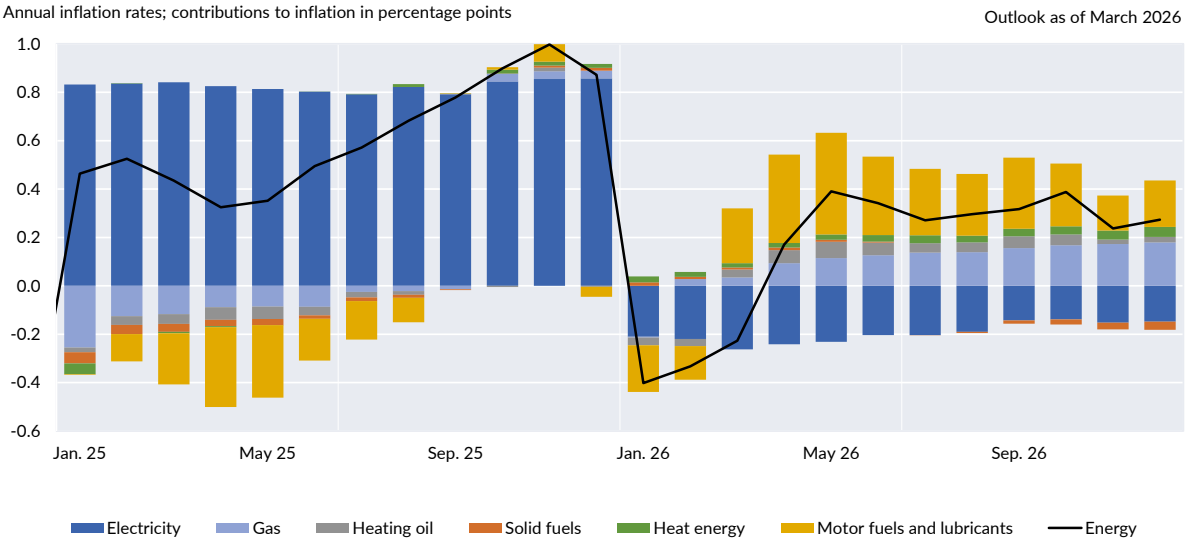
6.2 Energy sector: Middle East war drives up HICP inflation by around 0.6 percentage points in 2026

Energy inflation sank from 11.7% in December 2025 to -4.8% in January and -3.9% in February 2026. The significant decline at the beginning of 2026 is largely due to pronounced base effects. These reflect the expiry of government relief measures in the electricity segment a year earlier. In addition, the electricity levy was reduced at the beginning of 2026.[3] The inflation-dampening effect of this measure amounts to around 0.1 percentage points.

[3] In 2026, the electricity levy for households is reduced from 1.5 cents per kWh to 0.1 cents per kWh. For businesses, the levy is cut from 1.5 cents per kWh to 0.82 cents per kWh. These inflation reduction figures relate only to direct effects in the household sector; indirect effects (also via the corporate sector) are likely to be negligible.

Contributions of energy to Austrian HICP inflation Chart 6

Annual inflation rates; contributions to inflation in percentage points



Source: Statistics Austria, OeNB.

In light of the Middle East war, we expect fuel, gas and heating oil inflation to increase notably. The inflation contribution of fuels and heating oil is likely to rise by around 0.5 percentage points (from -0.2 percentage points in February 2026 to an average of +0.3 percentage points for March to December 2026). In the case of gas, the inflation contribution is expected to increase by around 0.1 percentage points over the course of the year. The increase in wholesale prices for electricity is likely to have only a moderate effect in 2026, as Austrian energy suppliers have announced that they will reduce electricity prices in several stages in 2026. For 2026 as a whole, we expect average energy inflation to run to 2.2%, followed by a reduction to 0.9% in 2027 and -0.2% in 2028.

The current forecast assumes that the CO2 price will remain unchanged at EUR 55 per tonne in 2026 and 2027. From 2028 onward, we expect a price of around EUR 46 per tonne following the introduction of the new European emissions trading system ETS2. Between 2026 and 2028, carbon pricing is unlikely to have a noticeable impact on the inflation rate. The 2028 reduction in the CO2 price is unlikely to be fully passed on to consumers. If the price reduction were to be passed on in full, energy inflation would go down by about 1 percentage point and overall inflation would slow by about 0.1 percentage points.

6.3 Services inflation is declining gradually

Services inflation in Austria declined from 4.5% in December 2025 to 4.2% in February 2026. It is forecast to decrease gradually over the course of the year and reach 3.8% in 2026 (0.7 percentage points lower than in 2025). This decrease mostly reflects a projected decline in wage growth of around 1.5 percentage points between 2025 and 2026. Wage-dependent sectors such as the restaurant and accommodation sector are likely to contribute to a reduction in services inflation. An additional, albeit moderate, dampening effect results from rent inflation, which is impacted by the affordable housing package agreed in September 2025.

As part of this package, increases in regulated rents are capped at 1.0%, while unregulated rents are subject to a less restrictive regime. Service components that are not wage-dependent, such as administered prices, will not contribute to the decline in 2026. On the contrary, the recent fiscal consolidation is leading to fee increases, particularly in the services sector. The charge for e-cards, the

Austrian health insurance card, rises sharply (+81%), as do fees for passports and driving licences (+48%). Following the 19% price increase in 2025, the price of the KlimaTicket public transport pass will rise by another 8% in 2026. Vienna is also raising prices for public transport tickets and parking fees by about 30%. Overall, these fee increases will contribute just under 0.4 percentage points to services inflation in 2026. In 2027 and 2028, services inflation will fall to 2.9% and 2.7%, respectively, but still remain slightly above the long-term average.

6.4 Food inflation to remain above average until 2027

Food inflation in Austria declined from 3.7% in December 2025 to 2.9% in February 2026. In the first half of the year, we expect inflation in this sector to average out at 3.0%, and to fall to 2.7% in the second half of the year. For 2026 as a whole, we forecast food inflation to lie at 2.8%. A key driver of this development is the reduction in VAT on basic food items, from 10.0% to 4.9% in July 2026 to be precise. This measure should contribute around 0.5 percentage points to the decline in food inflation in 2026. At the same time, rising energy prices are set to increase costs along the food value chain, thus limiting the disinflationary effect of the tax cut. Food inflation is therefore likely to remain at an above-average level of 2.7% also in 2027, before falling to 2.3% in 2028. The tobacco tax increase adopted as part of fiscal consolidation will raise food inflation by around 0.3 percentage points in 2026 (and headline inflation by some 0.1 percentage points).

6.5 Inflation expected to rise for industrial goods

At 0.5%, inflation for nonenergy industrial goods was below its long-term average in February 2026. For 2026 as a whole, we expect this inflation rate to average out at 0.9%, and to increase to 1.3% in 2027 and reach 1.2% in 2028. The main reason for this increase is the delayed passing on of higher energy costs along the value chain.

6.6 Revisions compared to the December 2025 outlook

Compared to our December 2025 outlook, we have revised the HICP inflation rate upward by 0.3 percentage points for 2026 and by 0.2 percentage points for 2027. The upward revision for 2026 has been mainly motivated by the rise in energy prices as a result of the Middle East war. For 2027, the revision is mainly due to the delayed passing on of higher energy costs for food, nonenergy industrial goods and services. The upward revision for 2026 is lower than the direct effect of higher energy prices. The reason for this is that in the previous outlook we did not yet account for several inflation-dampening measures, including the reduction of the energy levy, the VAT cut for basic food items and the announced electricity price cuts by energy providers.

6.7 Risks to the inflation forecast are to the upside

Based on the market assumptions of 11 March 2026, there are mainly upside risks for the inflation forecast in Austria. These result in particular from the recent rise in energy prices due to geopolitical tensions. Higher oil and gas prices could push up energy inflation and also indirectly impact on food, nonenergy industrial goods and services via higher production and transportation costs. In addition, the electricity price reductions announced by energy suppliers could either fail to materialise or be offset by electricity price increases at a later date. Potential additional fiscal consolidation efforts by the public sector represent another, albeit slight, upside risk to the inflation forecast.

6.8 Inflation differential with euro area narrows to 0.1 percentage points on average between 2026 and 2028

In 2025, Austria's HICP inflation was 1.4 percentage points above the euro area average. Energy and services contributed almost equally to the inflation differential, while food and nonenergy industrial goods had hardly any influence on the inflation differential. In January and February 2026, the inflation differential with the euro area narrowed to 0.3 and 0.4 percentage points, which was primarily due to a base effect caused by the sharp rise in energy price inflation a year earlier.

The contribution of energy to the inflation differential fell from 1.1 percentage points in December 2025 to zero in January 2026. The contribution from services likewise fell moderately at the start of 2026. We expect the inflation differential to shrink to just 0.1 percentage points on average for the years 2026 to 2028.

7 Adverse scenario shows risk of stagflation in 2026

At present, it is highly uncertain how the war in the Middle East and the global energy supply will develop and impact on energy prices, financial markets and economic agents' confidence. To account for this uncertainty, the OeNB's interim economic outlook contains alternative scenarios where energy bottlenecks are expected to persist for a longer period. In particular, a protracted stronger increase in oil and gas prices threatens to further curb economic growth and fuel inflation in 2026.

While the results presented so far are based on the market price expectations on global commodity markets as of 11 March, in this section we describe the potential impact of a price surge beyond this. In addition, we quantify the effects of a possible increase in general geopolitical uncertainty, risk premiums, food prices and a decline in demand in Austria's export markets.

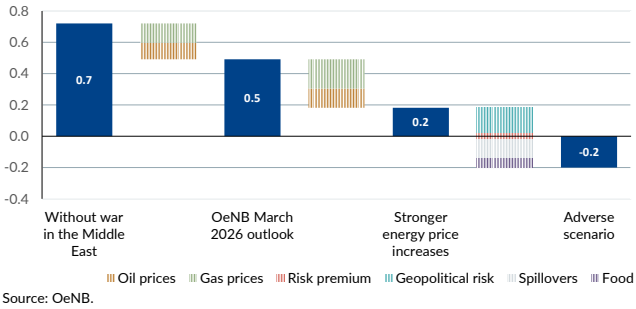
Our calculations are initially based on a situation without the Middle East war. In this scenario, we assume a pre-war macroeconomic environment with lower energy prices. Our March outlook already considers the changes in oil and gas prices up to and including 11 March 2026. Since then, prices have continued to rise over the entire forecast horizon. This already poses a downside risk to economic growth and an upside risk to inflation.

In an adverse scenario, we assume, based on these market expectations, a further increase in energy prices. For 2026, we assume an average oil price of USD 100 per barrel and an average natural gas price of EUR 70 per MWh. The prices result from a corresponding shift in the current futures prices. In the second quarter of 2026, the oil price would rise to close to USD 120 per barrel, and the gas price to EUR 73 per MWh. Such an additional increase is estimated to reduce GDP by a further 0.3 percentage points and drive up inflation by 1.1 percentage points. At +0.2%, economic growth would thus barely be positive and inflation would, at 3.8%, lie above the 2025 figure. Apart from the energy price channel, we consider other transmission channels in this scenario: 1) To reflect the heightened uncertainty, we simulate an increase in the Geopolitical Risk Index of 50% (see box 1). Uncertainty is primarily dampening investment growth.

2) On the financial markets, we assume a rise in risk premiums, namely an additional increase in short- and longer-term interest rates of 50 basis points each to be precise. 3) The global economic slump is leading to a decline in demand on Austria's export markets. 4) We expect food prices to go up further as a result of higher energy and fertiliser prices.

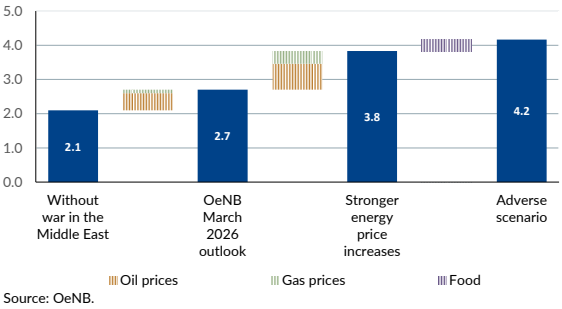
All these other transmission channels combined dampen growth by another 0.4 percentage points, while raising inflation by an additional 0.4 percentage points only. Overall, in such a scenario, the Austrian economy would slide into stagflation in 2026. Growth would be slightly negative at -0.2%. At the same time, HICP inflation would rise to 4.2%.

Chart 7
2026 GDP estimate considering the war in the Middle East
Growth in %, changes in transmission channels in percentage points



Source: OeNB.

Chart 8
2026 HICP estimate considering the war in the Middle East
Growth in %, changes in transmission channels in percentage points



Source: OeNB.

Taken together, the results of the adverse scenario indicate a significant downside risk for the development of real GDP and an upside risk for HICP inflation in 2026. Our adverse scenario represents a possible alternative path for economic growth and inflation. However, we cannot rule out that the actual development will be more positive or even more negative. In a mild scenario, all warring parties would have to rapidly agree to a ceasefire and the economic upheavals would have to be resolved quickly. The latter are currently caused in particular by the closure of the Strait of Hormuz. However, if the Middle East war intensified and led to a more extensive destruction of the energy infrastructure and a permanent closure of sea routes, the economic upheaval would be even greater than assumed in the adverse scenario.

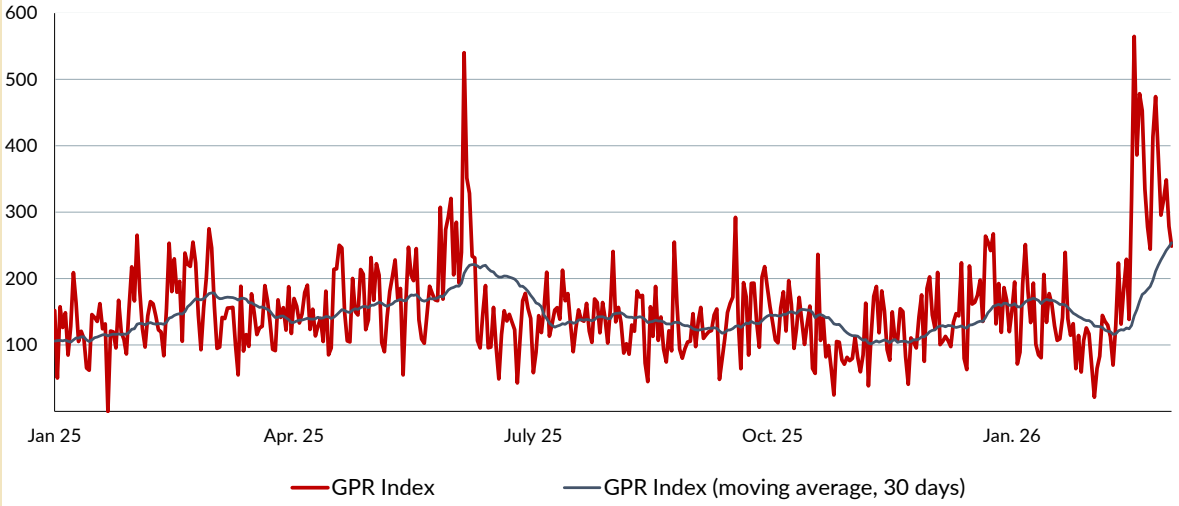
Box 1: Assessing the effects of geopolitical uncertainty on economic activity

The chart below shows the development of the Geopolitical Risk Index (GPR for short; Caldara and Iacoviello, 2022) since the Trump administration took office in the USA in early 2025. This index measures geopolitical risk at high frequency based on the analysis of more than 25 million articles from leading English-language newspapers. It is updated daily and is therefore particularly suited to analysing the effects of geopolitical uncertainty at the current margin.

Geopolitical Risk Index (GPR) since Trump II

Chart B1

Index (1985–2019=100)



Note: The Geopolitical Risk Index is based on ten newspaper archives (Chicago Tribune, The Daily Telegraph, Financial Times, The Globe and Mail, The Guardian, Los Angeles Times, The New York Times, USA Today, The Wall Street Journal and The Washington Post). It measures the relative frequency of articles that feature key words pertaining to geopolitical risk.
Source: Caldara, Dario and Matteo Iacoviello (2022), Measuring Geopolitical Risk, American Economic Review, 112(4), April, 1194–1225. Data available at https://www.matteoiacoviello.com/gpr.htm (as of 16 March 2026).

The daily availability of this index makes it particularly useful at the current margin. This allows us to quantify the changes over the past few weeks since the start of the Middle East war. Other data sources, such as survey data, which become available with a certain delay only, do not yet reflect the effects of the Middle East war. Furthermore, Caldara and Iacoviello (2022) show in their study that the index cannot be forecast by means of other macroeconomic time series and measures of volatility in the financial markets. As it measures geopolitical uncertainty, it is not influenced by the effects of other macroeconomic news. The index is therefore suitable for assessing the impact of geopolitical uncertainty in a timely fashion. The effects shown in the scenario are estimated using "local projections" in a model with numerous macroeconomic and financial market variables.[4] The repercussions of geopolitical uncertainty on economic development presented in section 7 in the adverse scenario correspond to the effect of an assumed one-off increase in the GPR of 50% in Austria for the rest of the year. Such an increase will reduce economic growth in Austria by 0.2 percentage points in 2026.[5]

[4] Plagborg-Møller and Wolf (2021) show that local projections and VAR impulse response functions estimate the same dynamic effect.

[5] In addition to data for industrial production and inflation (logarithmic indices), the estimation equation includes unemployment and the yield on ten-year government bonds for Austria, Germany, France, Italy and Spain to reflect external developments in the euro area's largest economies. Furthermore, the estimation equation includes the VIX and the CISS index (logarithmised indices) and the average monthly daily changes in the DAX, CAC40, IBEX35, FTSEMIB and Brent and WTI oil prices to capture volatility on international financial and equity markets.

Address: Otto-Wagner-Platz 3, 1090 Vienna
PO Box 61, 1011 Vienna, Austria
Website: www.oenb.at

ISSN 2960-5075 (online)