

Subdued growth amid persistent inflation – the OeNB’s Interim Economic Outlook for Austria, September 2025

The Austrian economy has emerged from recession and grew again in the first half of 2025. The OeNB expects GDP to expand at a rate of 0.3% in 2025, followed by growth rates of 0.8% in 2026 and 1.1% in 2027. Inflation will rise to 3.5% in 2025 before falling to 2.4% in 2026. It will remain relatively high at 2.3% in 2027.

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Growth remains weak

The growth forecast for 2025 has been revised slightly upward as things went better than expected in the first half of 2025, but growth remains subdued. Reasons for this include the appreciation of the euro and higher US tariffs. The risks to the growth forecast are tilted to the downside.



Services and energy drive inflation

Due to the phaseout of government energy price relief, energy prices and, by extension, inflation have risen sharply this year. In the coming years, persistent services inflation will drive headline inflation.



Fees and indexation are no significant inflation drivers

Fee increases will raise inflation by about 0.2 percentage points in 2026. In the context of inflation shocks, indexation increases prices in the short run but does not lead to permanent inflation.

1 Summary

In the first half of 2025, the Austrian economy grew at a stronger rate than forecast by the OeNB's June outlook. Leading and sentiment indicators as well as a more difficult international environment (euro appreciation and US tariffs) point to weakness in the second half of 2025. Due to better than expected growth in the first half of the year, we raised the growth forecast for 2025 from +0.2% (June forecast) to +0.3%. The growth forecast for 2026 was revised down slightly to +0.8%, and the forecast for 2027 growth remains unchanged at +1.1%. The labor market continues to be resilient in the face of the weak economy. The forecast for the unemployment rate (national definition) remains unchanged from June; we expect an increase to 7.4%. Overall, the risks to GDP growth are tilted to the downside. Growth could be somewhat reduced by higher US tariffs, additional fiscal consolidation efforts and a later than expected recovery in private consumption due to persistent inflation.

Table 1

OeNB September 2025 Interim Outlook for Austria – main results

	September 2025			Revisions since June 2025		
	2025	2026	2027	2025	2026	2027
Annual change in %						
Gross domestic product (real)	0.3	0.8	1.1	0.1	-0.1	-0.0
Harmonised Index of Consumer Prices (HICP)	3.5	2.4	2.3	0.5	0.6	0.2
Unemployment rate (national definition, %)	7.4	7.4	7.2	0.0	0.0	-0.0

Source: OeNB.

Inflation is expected to increase noticeably in 2025, reaching 3.5%. This renewed acceleration in inflation is mainly driven by the sharp rise in energy prices at the beginning of the year. The price increases are due to the phaseout of government support measures such as the electricity price cap, which had previously contained energy costs. This base effect will drop out of the calculation in 2026. As a result, the inflation rate will slow to 2.4% even in the absence of any additional policy action. However, as services inflation remains stubbornly high, headline inflation will continue to run at 2.3% in 2027. Fiscal consolidation will have a limited impact on inflation. The policies announced so far will slightly accelerate inflation in 2026, by about 0.2 percentage points. Indexation – of rents, insurance contracts etc. – will not have a major effect on inflation either. Only 13% of the basket of goods and services is subject to indexation, which means that the impact of indexed prices on headline inflation is limited. Austria's higher inflation rate – compared to the euro area – is primarily driven by higher services inflation, which is in line with historical patterns. Since 2022, fluctuations in the inflation differential with the euro area can be attributed to the energy inflation differential. By contrast, food inflation plays a minor role in driving the inflation differential.

2 Longest recession since 1945 ended in the fourth quarter of 2024

The Austrian economy slipped into a prolonged recession at the start of 2023: Economic output shrank or stagnated for seven quarters in a row. Real gross domestic product fell by 2.8% between the fourth quarter of 2022 and the third quarter of 2024. Afterward, a modest recovery set in at the end of 2024. By the second quarter of 2025, GDP had expanded by half a percent (compared to Q3 24), but it

remained 2.3% below the level of the fourth quarter of 2022 (left panel of chart 1). This mainly reflects declines in manufacturing and the consumer-oriented sectors of wholesale and retail trade, transportation and storage as well as accommodation and food services. Value added in the construction sector also contracted sharply in the same period (-11.4%). This means that the construction sector contributed 0.5 percentage points to the decline in GDP. By contrast, value added in the public sector expanded, supporting economic growth.

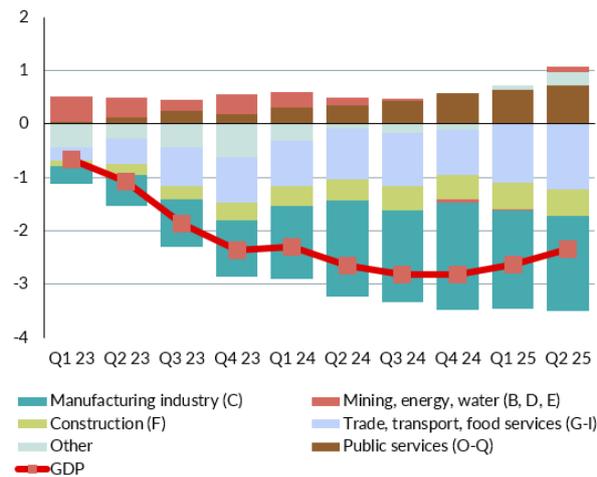
The right panel of chart 1 shows changes in industrial production over the same period. Industrial production reached a low in October 2024, when it was down 9% from the fourth quarter of 2022. The decline is largely attributable to energy-intensive sectors, which were particularly affected by the rise in energy prices triggered by the Russian war of aggression against Ukraine. These sectors primarily include wood, paper, refining of petroleum products, chemicals, glass and ceramics as well as metal production. They saw a noticeably recovery at the turn of 2024/25, but another period of stagnation started in the spring.

Chart 1

The Austrian economy since the fourth quarter of 2022

Real GDP and contributions by economic sectors

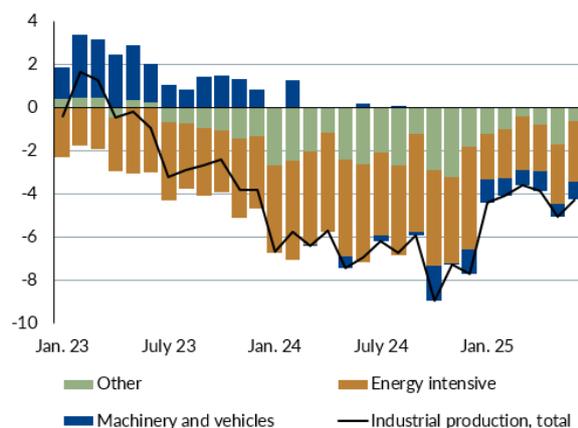
GDP growth since Q4 22 in % and growth contributions in percentage points



Source: Statistics Austria.

Industrial production by sector

Change since Q4 22 in % and contributions



Source: Statistics Austria.

Industry has been affected by three factors at the same time: high energy prices, wage increases triggered by high inflation and the difficult international environment. Exporting companies face major challenges from a combination of erratic US tariff policies, disruption in the automotive industry, the war in Ukraine and growing competition from China.

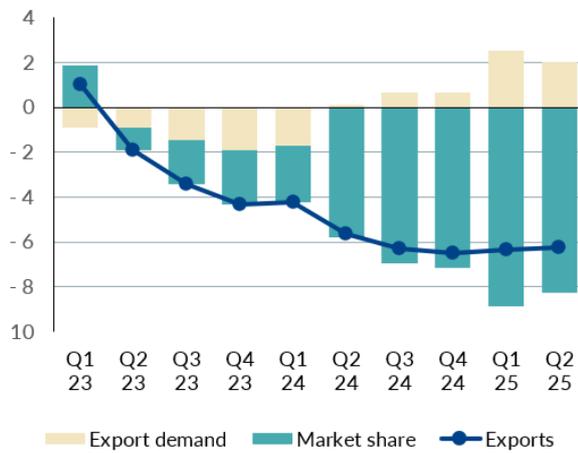
Between the fourth quarter of 2022 and the second quarter of 2025, real exports of goods and services fell by 6.2%. Over the same period, demand in Austrian export markets rose by 2.4%. Austria has suffered a heavy decline in market share in these two and a half years (chart 2, left panel). An analysis by regions shows that the decline in exports was driven by exports within the EU. By contrast, Austrian goods exports to the US grew strongly in 2023 and 2024. This was primarily due to strength in exports of pharmaceutical products. However, these exports peaked in the second half of 2024 and declined since then.

Chart 2

Real exports since the fourth quarter of 2022

Export demand and market share

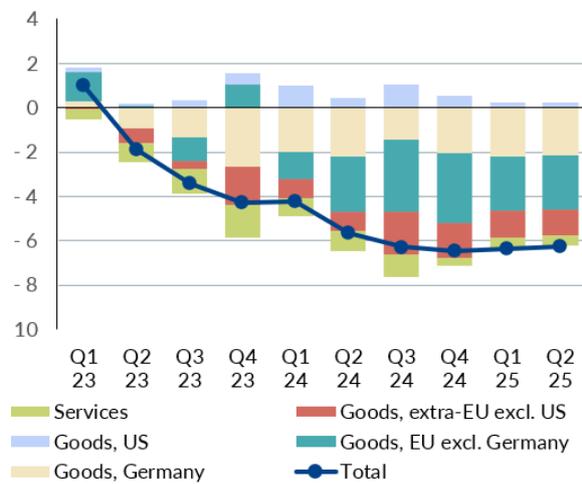
Change since Q4 22 in % and contributions



Source: Statistics Austria.

By goods and services and regions

Change since Q4 22 in % and contributions



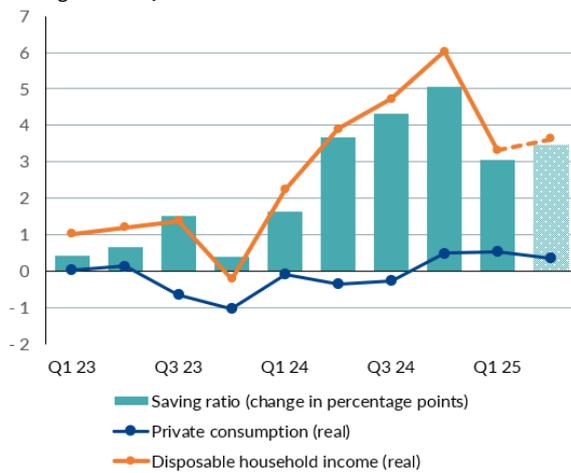
Source: Statistics Austria.

Chart 3

Consumption and investment since the fourth quarter of 2022

Private consumption

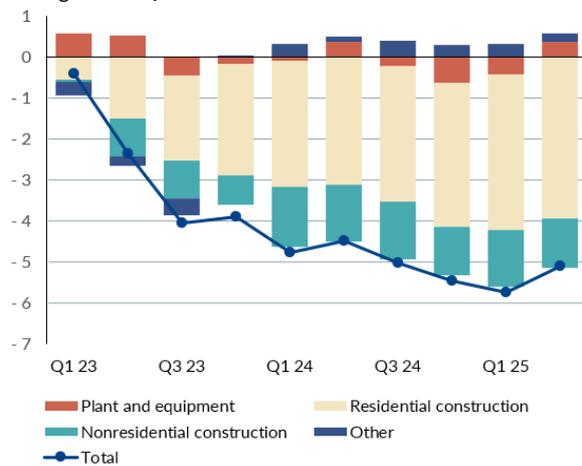
Change since Q4 22 in % and contributions



Source: Statistics Austria.

Investment

Change since Q4 22 in % and contributions



Source: Statistics Austria.

Like export performance, domestic demand was also extremely weak, in particular private consumption. The high inflation rates seen in 2022–2023 initially eroded real wages and led to a decline in private consumption as wages were adjusted to inflation with a delay. In 2024, a combination of strong wage growth and falling inflation resulted in a sharp rise in real household income. Nevertheless, Austrian households held back on their consumer spending due to concerns about the economy and the difficult general government budget situation. This led to a sharp rise in the saving ratio.

The weakness in the economy was also driven by trends in construction, particularly in residential construction. Residential construction investment started to decrease in mid-2022 as a result of increased financing costs, the end of the residential construction boom and general economic weakness (chart 3, right panel). However, issuance of building permits started to pick up in the second half of 2024, pointing to a recovery in construction.

3 OeNB Economic Indicator signals weakness in the short run

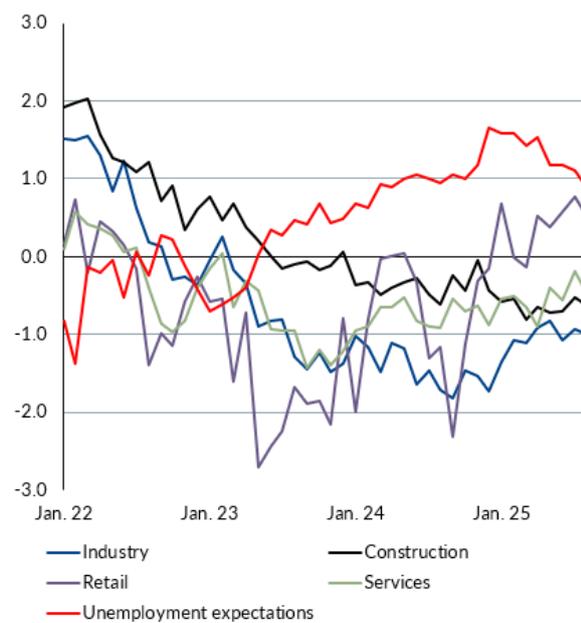
Measured by the European Commission’s economic sentiment indicators (ESI), sentiment was below average in all sectors at the start of the third quarter of 2025, with retail being the only exception (chart 4, left panel).

Chart 4

Leading indicators and the OeNB’s Economic Indicator

ESI sentiment indicators

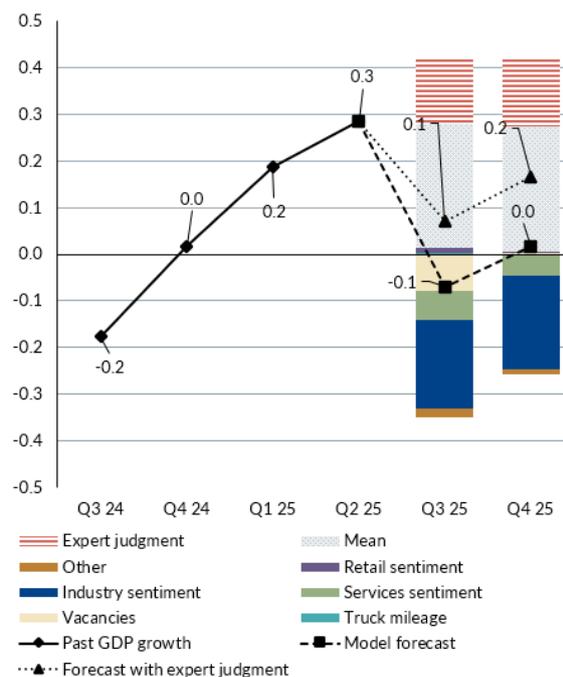
Standardized values



Source: European Commission, OeNB.

OeNB’s Economic Indicator

Annual real GDP growth in %



Source: OeNB. Data seasonally and working day adjusted, as of September 5, 2025.

This means that sentiment indicators are not showing any signs of significant economic momentum. In line with production, sentiment in industry improved somewhat at the beginning of the year but has moved sideways since. Sentiment in services is also showing positive tendencies but, like sentiment in industry, remains below numbers that would signal robust growth. Since the beginning of 2025, households’ unemployment expectations have also been on a downward trend. A decline in this metric indicates a recovery in consumer sentiment. Despite the recent improvement, the level of households’ unemployment expectations remains high.

Some of the ESI sentiment indicators are incorporated in the calculations of the OeNB's Economic Indicator – the OeNB's quarterly short-term forecasting exercise. In the output of the OeNB's Economic Indicator model, weak sentiment in industry and services as well as the decline in immediately available registered vacancies are the main factors weighing on short-term growth. Specifically, the model forecasts a slight decline in growth for the third quarter (-0.1%) and stagnation for the fourth quarter (0.0%).

The model forecast is supplemented by OeNB economists' expert judgment that increases the growth forecast for both quarters by +0.15 percentage points. This positive expert judgment reflects the upward trend in GDP growth seen over the last five quarters. Overall, we are forecasting growth of +0.1% for the third quarter and +0.2% for the fourth quarter. This means that we expect a slowdown in growth compared to the beginning of the year.

4 Growth forecast is almost unchanged and subject to downside risks

This Interim Outlook for the period from 2025 to 2027 is an enhanced technical update of the OeNB's June 2025 Economic Outlook for Austria. In a first step, we included the latest national accounts release up to the second quarter of 2025. Next, we used the OeNB's macroeconomic model (Austrian Quarterly Model – AQM) to simulate the impact of changes in assumptions about the international environment, such as developments in export markets, energy and commodity prices, exchange rates and interest rates, that had occurred since June 2025. Finally, we incorporated the results of the OeNB's Economic Indicator for the second half of 2025.

Overall, we have made the following revisions to the economic growth forecast compared to the June outlook: Due to better than expected growth at the beginning of the year, we are revising our forecast for economic growth in 2025 from 0.2% to 0.3%. The strength in the first half of the year was part of the reason why our assessment (expert judgment) for the second half has become more positive. The effects of this more positive assessment will also have an impact on growth in 2026. In 2026, however, this will be more than outweighed by the negative effects of changes in the international environment. The appreciation of the euro and weaker demand in Austrian export markets are weighing on export and investment growth. Overall, we are revising the forecast for GDP growth in 2026 from 0.9% to 0.8%. We do not expect any significant changes in the global environment in 2027, the third year of our forecast horizon. As a result, we maintain our 1.1% growth forecast.

With the exception of us applying our expert judgment to the short-term forecast, no further adjustments were made to the outlook. The economic impact of the US-EU tariff agreement of July 27, 2025, is in line with the assumptions made in the June outlook.¹ We do not expect any major economic boost from Germany's infrastructure and defense spending plans. Infrastructure spending primarily stimulates the German construction sector and its local suppliers, but its supply chains are not strongly integrated with Austria. Instead, it is US manufacturers that are likely to derive more benefits from the purchases of military equipment. Although Austria manufactures assault rifles, armored vehicles and drones, the share in total production is small. Preliminary calculations by the OeNB based on a global input-output model point to a one-time 0.05% boost to Austrian GDP.

¹ See OeNB Blog of July 30, 2025: [Kein Trumpf gegen Trump: Auswirkungen des Zollabkommens zwischen der EU und den USA auf Österreich \(in German\)](#).

Table 2

Global environment and breakdown of growth forecast

	September 2025				Revisions since June 2025		
	2024	2025	2026	2027	2025	2026	2027
Oil price in USD	81.2	69.7	65.1	65.1	3.0	2.3	0.9
USD/EUR exchange rate	1.08	1.13	1.16	1.16	+1.9%	+3.3%	+3.3%
Three-month interest rate in %	3.6	2.2	1.9	2.1	0.03	0.00	-0.05
Ten-year interest rate in %	2.9	3.1	3.4	3.6	-0.03	0.00	0.01
Growth of Austria's export markets	1.3	2.8	1.7	2.9	0.7	-0.2	-0.1
Breakdown of growth forecast					Percentage points		
GDP growth (real)	-1.2	0.3	0.8	1.1	0.15	-0.13	-0.0
New data Q1 25					0.08	0.00	-0.0
Forecast error Q2 25					0.11	0.04	0.0
External assumptions					-0.09	-0.29	-0.0
Expert judgment					0.05	0.12	-0.0

Source: Eurosystem, ECB.

Expectations of future labor market developments are largely unchanged from the June outlook. The forecast for growth in the number of people employed (employed and self-employed) remains unchanged: We expect a slight increase (+0.1%) for this year, and stronger growth in 2026 and 2027 due to a pickup in economic growth (+0.5% and +0.7%, respectively). The forecast for growth in total hours worked is also unchanged. Growth in total hours worked will be consistently weaker than the growth in the number of people employed, at -0.4% in 2025, +0.3% in 2026 and +0.6% in 2027. For the unemployment rate, there is no need to make any revisions to the forecast either. The forecast for the unemployment rate (national definition) for this year remains unchanged at 7.4%; and the annual average for 2026 will be unchanged from 2025. In 2027, the unemployment rate will decline to 7.2%. The Eurostat unemployment rate was revised up slightly (+0.1 percentage point): It will be 5.6% in 2025 and 2026 and decline to 5.4% in 2027. The wage growth forecast has been raised slightly, with slight upward revisions to the collective wage growth forecast for this year. The extent of the revision is larger for 2026 and 2027, given the upward revision to the inflation forecast. This also implies a change in the outlook for growth in compensation per employee – with consistently low wage drift.

No substantial changes have been made to the fiscal forecast compared to the June outlook. In June, we forecast a general government budget balance of -4.2% for 2025, -3.8% for 2026 and -4.0% for 2027 (all as a percentage of nominal GDP). Stronger growth and stable revenues have a positive effect on the budget balance in 2025. This is largely offset by upward revisions to social security expenditure and a slower decline in subsidy expenditure. Slightly lower economic growth and higher labor market expenditure will increase the deficit in 2026. However, this will likely be offset by additional fiscal consolidation efforts expected in response to the excessive deficit procedure against Austria.

The forecast for GDP growth is subject to downside risks. High trade policy uncertainty remains the most important external risk. The trade agreement that the EU and the US concluded on July 27 has not provided any long-term certainty. Just a few weeks after the agreement was made, the US widened the reach of its 50% tariff on steel and aluminum, making other derivative products subject to this rate. The US President's trade policy remains erratic and further industry-specific tariffs (pharmaceuticals, semiconductors) cannot be ruled out. Domestic risks to growth include inflation, which flared up in the

middle of the year. This could weigh on consumer sentiment and further delay the recovery in private consumption. Additional budget consolidation efforts represent another downside risk – especially for 2026 and 2027.

5 Inflation will come down significantly in 2026

The OeNB expects HICP inflation to be 3.5% in 2025,² 0.6 percentage points above the 2.9% rate recorded in 2024. The renewed acceleration in inflation is driven by the significant rise in energy prices in early 2025 – particularly in household energy prices. Persistently high services inflation creates a high base level of inflation. Since the middle of the year, food inflation rates of over 4% have also been making a larger contribution to inflation.

In 2026, inflation will, by default, fall by around one percentage point to 2.4% as the 2025 energy price increase drops out of the calculation (base effect). Energy prices are therefore the main driver of changes in inflation (brown columns in chart 5), while services inflation continues to contribute to a stable base level of inflation (beige columns). In 2027, the inflation rate will stabilize at 2.3%. Energy prices will no longer contribute to inflation, which continues to be driven by services.

As part of fiscal consolidation efforts, the federal government and Vienna are making significant price and fee increases of up to 81% (charges for the e-card, the Austrian health insurance card). However, due to their small share in the basket of goods and services, they only have a moderate impact on inflation. These measures will only contribute 0.2 percentage points to inflation in 2026.

Core inflation (HICP inflation excluding the volatile food and energy categories) will fall to 3.1% 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 prices. While services inflation will come down slowly, inflation in industrial products such as clothes or furniture will accelerate. Therefore, at 2.5%, core inflation will continue to exceed headline inflation in 2027.

Table 3

The OeNB's September 2025 inflation forecast

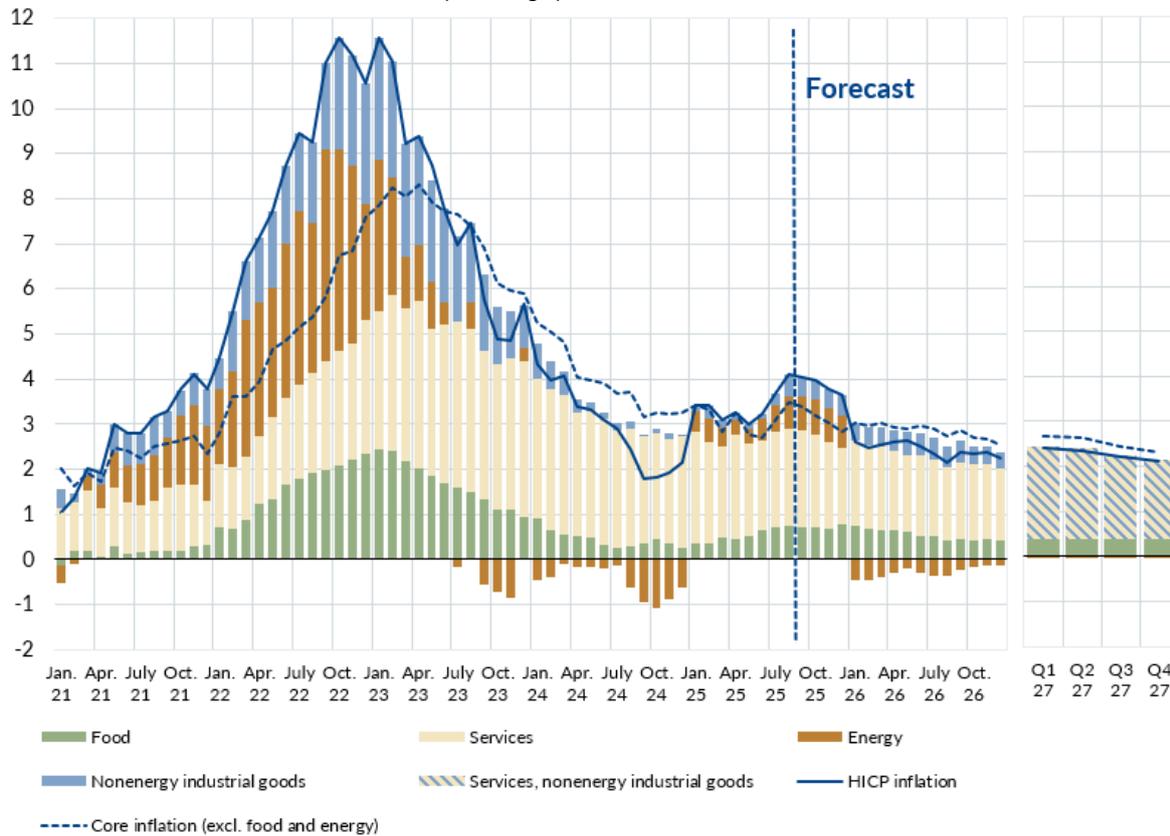
	Forecast				Revisions since June 2025		
	2024	2025	2026	2027	2025	2026	2027
	Annual change in %				Percentage points		
HICP inflation	2.9	3.5	2.4	2.3	0.5	0.6	0.2
Food	2.9	3.8	3.5	2.5	1.1	0.8	0.2
of which: unprocessed food	0.6	3.2	2.7		0.9		
of which: processed food	3.4	3.9	3.6		1.2		
Nonenergy industrial goods	0.9	1.0	1.5		0.3		
Energy	-5.4	7.0	-3.6	-0.2	2.4	2.1	0.0
Services	5.7	4.3	3.6		0.2		
HICP excluding energy	3.7	3.2	3.0	2.5	0.4	0.5	0.2
HICP excluding food and energy	3.9	3.1	2.8	2.5	0.2	0.4	0.2

Source: OeNB, Statistics Austria.

² The OeNB always refers to the HICP inflation rate (Harmonised Index of Consumer Prices). This calculation methodology, used by Eurosystem central banks to assess price stability, is the same across the EU.

Contributions to Austrian HICP inflation

Inflation rates in %; contributions to inflation in percentage points



Source: OeNB, Statistics Austria.

In the following, we will present a detailed description of recent developments and forecasts for the most important inflation components and a comparison with the forecast for the euro area.

5.1 Energy inflation is highly volatile, shaping headline inflation dynamics

The OeNB forecast expects inflation to be 7% in 2025. Due to the abrupt and sharp rise in energy prices at the beginning of January, energy inflation will remain positive throughout 2025: This is despite the fact that wholesale prices for electricity and gas as well as oil prices are expected to decline by more than 25%. Consumer prices have also fallen in the year to date – albeit by only 2.5% between January and August.

As inflation relief measures were wound down, energy inflation rose sharply in early 2025, surging from -7.8% to +5.2% from December 2024 to January 2025. This was mainly attributable to the expiry of the electricity price cap, the reinstatement of higher electricity and gas levies and the reintroduction of the flat levy and the fee for the promotion of renewable energy. Moreover, electricity and gas network charges were raised, and the price of CO₂ emissions was increased from EUR 45 to EUR 55 per ton. 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%. These measures will continue to have a noticeable impact for the remainder of 2025. In January, they increased the HICP inflation rate by more than one percentage point.

In 2026, energy inflation will, for the most part, fall by default: The OeNB forecast expects energy inflation of -3.6% mainly because of a base effect: This means that one-time effects that determined the price level a year earlier are dropping out of the calculation. Since inflation is measured on a year-on-year basis, the sharp price increase in early 2025 will no longer impact inflation in 2026. If no further price changes were to occur from January 2025 onward, energy inflation would be 0% at the start of 2026. In practice, the OeNB expects falling consumer prices: First, falling wholesale prices are being passed on to consumers (albeit slowly). Second, the OeNB expects that the rise in electricity and gas prices at the beginning of 2025 will spur some households into action and make them switch to lower-cost suppliers. The decrease in wholesale and consumer prices is also starting to be reflected in the inflation rate.

Energy prices are expected to rise again in early 2027, owing to the implementation of ETS2, a new EU-wide emissions trading system covering motor fuels and household energy. In Austria ETS2 will only have moderate effects, however, since the targeted EU-wide carbon price is only slightly higher than the current national price. Also, decreasing wholesale prices will have a dampening effect. Overall, 2027 energy prices will remain at the level of 2026, with energy inflation at -0.2% .

Due to the high inflation rates in 2025 and the negative inflation rates in 2026, the energy component has a considerable impact on HICP inflation. Its contribution is strongly positive in 2025 and slightly negative in 2026 (brown columns in chart 5). Energy inflation has been a major contributor to headline inflation since 2021, even though the share of energy in the basket of goods and services is less than 10% .

5.2 Services inflation, a key driver of headline inflation

Services inflation falls by around 1.5 percentage points to 4.3% in 2025. However, due to its high 48% weight in the consumer basket of goods and services, it remains the main driver of inflation (chart 5). It contributes more than 2 percentage points to HICP inflation, i.e. more than half of headline inflation. The services sector is particularly wage-intensive, which is an important reason why rising wages have a stronger effect on services prices than on other HICP components. Negotiated wages in services are expected to grow by 3.9% in 2025. Demand for services remains high, in particular in the tourism industry. It can therefore be expected that higher costs will be passed on to consumers. For this reason, services inflation will only decline slowly and in line with the gradual slowdown in wage growth.

The price increases that the federal government and the city of Vienna decided as part of their fiscal consolidation packages mainly concern services. For example, the charge for e-cards, the Austrian health insurance card, will increase by as much as 81% . Passports and driving license fees were also raised by about 48% . Furthermore, the price of the KlimaTicket public transport pass goes up twice: by 19% in 2025 and by another 8% in 2026. Vienna will also raise the prices for public transport tickets and parking fees by about 30% in 2026.

As these fees account for only a small share of a household's average annual spending (the cost of a passport is spread over its period of validity), their weight in the calculation of services inflation is very small. In addition, many of these measures have come into force in the second half of 2025. For this reason, the fee increases will only have a minor impact on services inflation in 2025, contributing less than 0.1 percentage point. For 2026, however, we expect a more pronounced effect, that is, a contribution of around 0.4 percentage points to services inflation. This means that the fee increases will raise services inflation by 0.4 percentage points. As services have a basket share of 48% , the fee increases will contribute 0.2 percentage points to HICP inflation in 2026.

5.3 Food inflation has accelerated significantly since mid-2025

According to the OeNB forecast, food inflation (including alcohol and tobacco) will amount to 3.8% in 2025. While food inflation rates were below average at the beginning of the year, they have risen significantly since mid-2025. At 4%, they were well above the long-term average of 2.5% (1996–2024). Prices for both processed and unprocessed food continue to record consistently high increases. In the processed foods category, tea, coffee, cocoa and chocolate stand out with inflation rates of around 20%.

Inflation will remain high in 2026, partly due to plans to raise the tobacco tax. The higher tobacco tax will increase overall food inflation by around 0.3 percentage points in 2026. This will largely offset the disinflationary impact of decreasing energy prices and more moderate wage increases. A significant decrease of food inflation is not expected until 2027: By then, the tax-induced base effect will no longer feed into inflation, while prices for energy will continue on their favorable trajectory.

At just under 16%, the share of food in the consumer basket of goods and services is relatively low in Austria. This means that even with high inflation rates of over 4%, the 0.7 percentage point contribution to HICP inflation is significantly lower than the contribution of services inflation – despite similar inflation rates.

This is why suspending the 10% VAT on food (consumers in Austria typically pay a VAT rate of 10% on all types of food and 20% on beverages and tobacco) would only reduce HICP inflation by 1 percentage point. Of course, food inflation itself would fall significantly, by around 7 percentage points. However, this inflation effect only occurs once (in one year) and to the extent described above only if 100% of the VAT reduction is passed on to consumers. Second-round effects will abate quickly, and there will be no further impact on inflation rates in subsequent years. In addition, restoring the original VAT rate would lead to an increase in inflation. It also needs to be assessed to what extent another reduced VAT rate or 0% tax rate can be introduced under EU law.

5.4 Inflation rate for nonenergy industrial goods also on the rise

Due to the significant rise in inflation in the second half of the year, the OeNB expects an inflation rate for nonenergy industrial goods of 1% in 2025. The inflation rate for this component – which includes furniture, cars and clothing – remains very moderate compared to the inflation rates for other components. It will also remain below the long-term average of 1.2% (1998–2024). In 2026, it will rise to 1.5% as producer prices increase. Due to a modest economic recovery and rising demand for durable consumer goods, businesses will be in a better position to pass on cost increases.

The category contributes 0.3 percentage points to annual HICP inflation, a number that might appear high in light of the low inflation rate. However, at 30%, nonenergy industrial goods have the second highest weight in the basket of goods and services.

5.5 Revisions compared to the June outlook

Compared to the June 2025 forecast, the OeNB has revised up its inflation forecast for 2025 and 2026. The revision of the forecast for 2025 was mainly driven by new data on past inflation. Across all components, inflation has surprised to the upside in recent months: Household energy prices did not fall as much as forecast, services inflation did not continue to come down, and food inflation and industrial goods inflation rose at a surprisingly strong pace.

There have been no significant changes in the commodity price assumptions of the European System of Central Banks on which the forecast is based. Accordingly, they only have a minor impact on the revised

inflation forecast. A temporary spike in crude oil prices (in US dollars) caused by the Middle East conflict was almost offset by the stronger euro. Similarly, the assumptions for wholesale gas and electricity prices are largely unchanged. Reflecting the higher than expected price increases in mid-2025, we revised our inflation forecast for 2026 up.

5.6 Risks to the inflation forecast are balanced

The impact of Trump's tariff policies on inflation in Austria is included in the inflation forecast through assumptions about commodity prices, exchange rates and economic developments in Austria. If the EU-US trade deal were to unravel, prices of US imports could change due to retaliatory EU tariffs, posing a significant risk. Additional fiscal consolidation is another risk: The inflation rate will rise if the government decides to further raise prices of public goods and services. One downside risk is a faster decline in energy inflation. Lower crude oil prices have not yet filtered through to motor fuel prices in line with historical patterns. In addition, the upcoming heating season could motivate households to be more active in switching to lower-cost suppliers. Any government intervention in food and energy prices or a price cap on (regulated) rents would reduce the inflation rate and therefore represent a downside risk to the inflation forecast. Excluding price interventions, the risks to the inflation forecast are balanced.

5.7 Inflation differential with the euro area widens in 2025

In 2025, Austria's annual inflation rate will be 1.4 percentage points higher than the average in the euro area. Services and energy will make a significantly higher contribution to inflation in Austria than in the euro area (see chart 6). Food, by contrast, narrowed the inflation differential until May.

Since 2011, it has been the norm that services inflation makes a significantly higher contribution to inflation in Austria than in the euro area (yellow columns in chart 6). Over that time frame, Austria's services inflation has, on average, been 0.7 percentage points higher than that of the euro area. This partly reflects a stronger increase in Austrian unit labor cost. According to national accounts data, the rise in hourly wages in Austria since 2019 has been 16 percentage points higher than the euro area average. Over the same period, services inflation in Austria has increased by 32%, compared with 22% in the euro area (see table 4).

In late 2024, Austria's inflation rate was slightly below that of the euro area. This was primarily due to government support measures (e.g. electricity price cap), which led to a decline in energy prices in Austria. In early 2025, the inflation differential widened again, driven by higher energy prices in Austria. The expiry of government support measures meant that energy inflation in Austria rebounded sharply in January 2025. In most other euro area countries, price relief measures already expired at the beginning or middle of 2024. Accordingly, falling global commodity prices are already reducing household energy prices in other countries. In Austria, by contrast, this price-reducing effect is being masked by the expiry of fiscal support measures. Since 2019, Austrian energy prices have risen by 58%, while the average increase in the euro area has been significantly lower at 35% (see table 4).

Until May 2025, food inflation (including alcohol and tobacco) was roughly in line with the euro area average. However, at 15.6%, the basket share of food in Austria is lower than the euro area's 19.3%. As a result, the contribution to headline inflation in Austria is smaller, and chart 6 shows food making negative contributions to the inflation differential up until May 2025. Since June 2025, food prices in Austria have been rising faster than in the euro area, and the contributions to the inflation differential have turned positive. Nonenergy industrial goods contributed to the inflation differential, particularly during the period of high inflation. At the present time, their contribution is low.

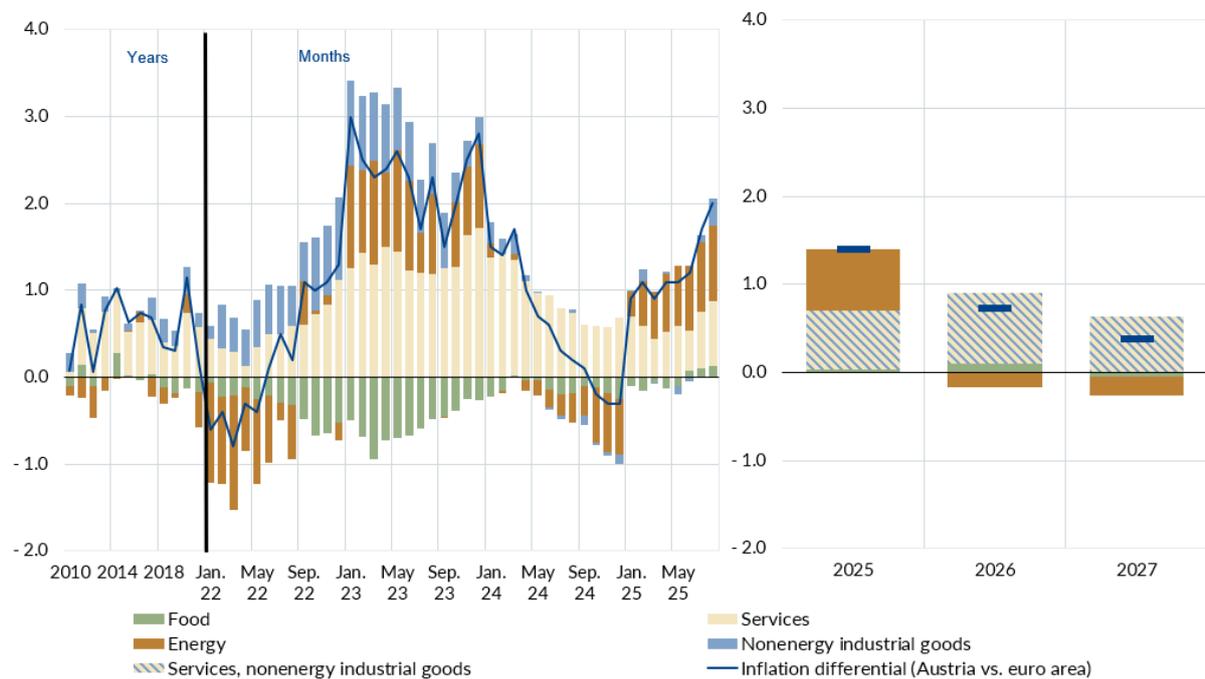
In 2026, Austria's inflation differential with the euro area will decrease significantly (chart 6). The base effect due to the phaseout of the energy price relief measures will, by default, narrow the differential by around 1 percentage point. In 2027, the EU-wide implementation of the EU's new Emissions Trading System (ETS2) will impact the inflation differential with the euro area. Since Austria already introduced carbon pricing in 2022, energy inflation will not increase as much as in the euro area. In services inflation, the differential with the euro area is narrowing slowly, which is why the inflation gap with the euro area is only declining gradually and will remain positive over the entire forecast horizon.

Chart 6

Inflation differential: Austria vs. euro area

Forecast of inflation differential

Inflation contributions in percentage points, August 2025: 2.0 percentage points



Source: OeNB, Eurosystem, Eurostat.

Table 4

Change in the price level since 2019 (annual average) in Austria and the euro area

	Total HICP			HICP food			HICP energy			HICP services			HICP goods			Hourly wages, as per national accounts ¹		
	AT	EA	Diff. AT-EA	AT	EA	Diff. AT-EA	AT	EA	Diff. AT-EA	AT	EA	Diff. AT-EA	AT	EA	Diff. AT-EA	AT	EA	Diff. AT-EA
	%	PP		%	PP		%	PP		%	PP		%	PP		%	PP	
2024	25.4	20.3	5.2	27.3	29.2	-2.0	47.4	38.2	9.2	25.3	15.7	9.6	17.0	12.6	4.4	34.4	19.3	15.1
Aug. 25	30.2	23.4	6.8	33.3	33.4	-0.1	58.1	34.9	23.2	32.1	21.8	10.3	16.3	11.6	4.7	39.5	23.5	16.0

¹ Compared to Q2 25, not August 2025.

Source: Eurostat.

Is indexation driving price growth in Austria?

In Austria, we are currently seeing a debate about the following question: Are persistently high inflation rates being caused by automatic price increases (indexation)? And if so: to which extent? Indexation has an impact on everyday life in many ways: Many household contracts – relating to rent, internet, insurance and the like – contain such clauses. Many government benefits, such as pensions, are also indexed. Businesses are also affected due to the Austrian practice of increasing wages as a function of past inflation.

An analysis of the average household's CPI basket of goods and services shows that only 13% of their spending is subject to annual indexation. The bulk of it (5%) comes from rental contracts, followed by insurance (3.8%), as well as housing-related operating costs, cell phone and internet contracts as well as fees for public services such as waste collection.

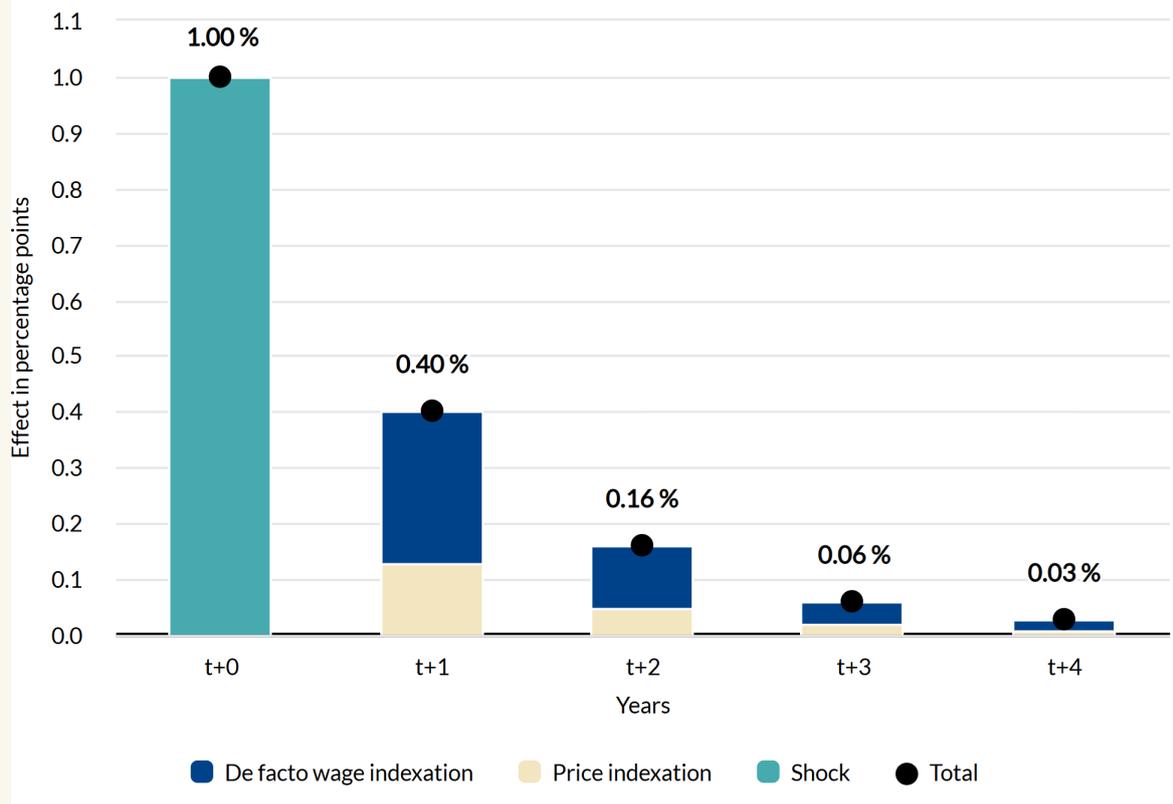
Many other government revenues and expenditures are also strongly shaped by past inflation trends. Income tax brackets are partially adjusted for inflation, which has mitigated bracket creep and disproportionate increases in tax revenues. On the expenditure side, however, many government benefits, such as pensions, are directly and fully linked to inflation, albeit with a delay.

Collectively agreed minimum wages and salaries (and by extension, effective earnings) are also heavily influenced by past HICP inflation trends. This is institutionalized in wage negotiations that seek to compensate for the 12-month rolling inflation rate. This practice can be considered an example of de facto indexation. In Austria, this mechanism is known as the "Benya formula." Even if some collective agreements depart significantly from de facto indexation, there is a clear macroeconomic link between past inflation trends and collective wage growth.

Based on a simplified simulation of a 1% exogenous inflation shock – caused by an event such as a disruption of global supply chains – we analyze the subsequent inflationary effects in the private sector. Second-round effects caused by indexation and automatic wage increases occur primarily in the first year after an inflation shock. The simplified simulation, in which 100% of wage increases are immediately passed on to prices, results in 0.4 percentage points of additional inflation in the first year after the inflation shock. In the second year after the inflation shock, prices rise by an additional 0.16%. Subsequently, the effect levels off considerably. After four years, the price level has increased by a total of 1.7% – 0.7 percentage points more than the original shock. Subsequently, the additional effect on inflation is virtually zero. This means that there are no further price increases due to second-round effects. Alternatively, if it is assumed that only half of the inflation shock is passed on to wages, the overall effect after four years is smaller at 1.4%. The trend remains unchanged. Around one-third of these increases are due to indexation, and two-thirds are driven by de facto wage indexation.

Chart B1

Effect of indexation on inflation with 100% pass-through



Source: OeNB.

This box is based on the OeNB blog of September 5, 2025 (in German): [Hohe Inflation: Die Indexierungen sind es nicht \(allein\).](#)

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