

# Improved economic outlook for 2027 – inflation in line with the euro area

## OeNB Interim Economic Outlook for Austria, September 2026

Despite the war in the Middle East and this summer's drought, the domestic economy will return to a growth trajectory in the second half of 2026. The OeNB expects GDP growth of 0.5%, 1.3% and 1.2% for the years 2026 to 2028. Weaker economic activity in the first half of the year contributed to the slight downward revision for 2026 (-0.1 percentage points compared with the June forecast). The stronger economic momentum from the second half of the year onwards will only become apparent in the annual figures as an upward revision for 2027 (+0.2 percentage points). The inflation forecast has been revised downwards to 3% for 2026. The forecast inflation rate will fall to 2.3% in 2027 and reach 2.2% in 2028. The main factor behind this is the expected easing of the energy price shock. As a result, the forecast inflation rate in Austria is in line with that of the euro area.

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### Industry drives recovery

Despite the disruptions caused by the war in the Middle East, Austrian industry has been gaining momentum in the second half of 2026. Rising new orders and production expectations point to a positive trend.



### VAT cut on food temporarily curbs inflation

The VAT cut on selected food items continues to be passed on almost in full. As a result, food inflation is 1% lower for the year, while overall inflation is 0.15% lower.



### Drought has little impact on growth and inflation

The drought of 2026 is likely to have a limited macroeconomic impact on growth and inflation, despite the immediate damage to agriculture.

## 1 Summary

The outlook for the Austrian economy has improved slightly since our forecast of 1 June 2026. The disruptions triggered by the war in the Middle East have so far only been partially resolved. Oil prices, which are important for both the economy and inflation, are currently slightly below the levels assumed in the June forecast. However, sentiment in Austrian industry has brightened significantly; the growth outlook for the second half of 2026 is therefore somewhat better than expected in June. The drought has caused enormous damage, particularly in agriculture. We estimate an impact on growth in 2026 of -0.1 percentage points. For 2026, we expect GDP growth of 0.5%. The reason for the slight downward revision for 2026 (-0.1 percentage points compared with the June forecast) is the weaker economic performance reported in the first half of the year. For the coming months, however, the downward revision for 2026 masks stronger underlying economic momentum. This is reflected in an upward revision for 2027 to 1.3% (+0.2 percentage points compared with June). For 2028, the forecast for GDP growth remains unchanged at 1.2%. The expected unemployment rate will rise slightly in 2026 compared with the previous year to 7.5% and will fall to 7.3% and 7.1%, respectively, in the following two years.

Table 1

### OeNB September 2026 interim outlook for Austria

|                                            | September 2026 |      |      |      | Revisions since<br>June 2026 <sup>1</sup> |      |      |
|--------------------------------------------|----------------|------|------|------|-------------------------------------------|------|------|
|                                            | 2025           | 2026 | 2027 | 2028 | 2026                                      | 2027 | 2028 |
| <b>Annual change in %</b>                  |                |      |      |      |                                           |      |      |
| Gross domestic product (GDP) (real)        | 1.0            | 0.5  | 1.3  | 1.2  | -0.1                                      | 0.2  | 0.0  |
| Harmonised Index of Consumer Prices (HICP) | 3.6            | 3.0  | 2.3  | 2.2  | -0.2                                      | -0.1 | 0.1  |
| Unemployment rate (national definition)    | 7.4            | 7.5  | 7.3  | 7.1  | 0.1                                       | 0.1  | 0.1  |

<sup>1</sup> Revisions are based on rounded figures.

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

Since peaking in May 2026, inflation has fallen, partly due to falling prices for goods and food. The reduction in VAT on selected food items, which has been in force since July 2026, has also contributed to this. Nevertheless, due to the energy price shock, we forecast inflation for 2026 at 3.0%. As this shock is expected to subside, inflation will fall to 2.3% in 2027 and to 2.2% in 2028. Despite the drought, historical experience suggests that only limited additional price effects on food are expected, meaning that the inflation-dampening effects of the VAT reduction will dominate. Inflation for industrial goods excluding energy is set to rise slightly over the forecast horizon due to the expected pass-through of higher production costs, while services inflation is likely to diminish moderately from its current high level as wage growth slows. Consequently, expected core inflation, measured as HICP inflation excluding energy and food is also set to fall – albeit more slowly than headline inflation. Compared with the June projection, HICP inflation has been revised downwards by 0.2 percentage points for 2026 and by 0.1 percentage points for 2027, owing to lower-than-expected inflation in the summer. However, a more severe impact of the drought on agriculture and food prices poses a risk to this assessment.

Forecast uncertainty remains significantly elevated due to geopolitical risks, particularly with regard to the development of energy prices: the risks to growth are predominantly on the downside, while the risks to inflation are on the upside. Scenario analyses based on alternative energy and food price assumptions indicate, in a worst-case scenario, the risk of stagflation for 2027; in a best-case scenario, inflation is significantly lower, and growth reaches 1.5%.

## 2 Real economy: economic recovery in the second half of 2026

This growth forecast is a technical update of the OeNB's forecast from June. After a two-year recession, the Austrian economy returned to a positive growth trajectory in 2025 that continued at the start of 2026. Particularly, the manufacturing sector performed well in the first quarter of 2026, with both production and value added rising sharply. This recovery was abruptly halted at the end of February by the war in the Middle East. The blockade of the Strait of Hormuz, which is vital for international shipping, led to rising oil and gas prices and uncertainty. Data published by Statistics Austria in early September show that the resulting dip in growth was more severe than expected. Contrary to expectations in June, growth turned negative in the second quarter.

The outlook for the international environment has improved since the June forecast. Global trade has performed better than expected, largely driven by trade in AI components. The disruptions caused by the sharp rises in energy prices have partly subsided. Oil prices have fallen significantly since their peak in April up to the data cut-off date of 19 August. Market expectations at that time were on average 6% lower (for the whole projection horizon) than in June. Since then, however, oil prices have risen noticeably again. In contrast, expected natural gas prices are 14% higher than in the June forecast. Global trade is likely to perform better than anticipated in June, which should benefit the Austrian export sector. Nominal goods exports rose by 5.4% in the first half of 2026. The OeNB Export Indicator, based on ASFINAG's truck mileage data, points to a further improvement in export activity for July and August. These positive developments are also reflected in improved sentiment within the manufacturing sector.

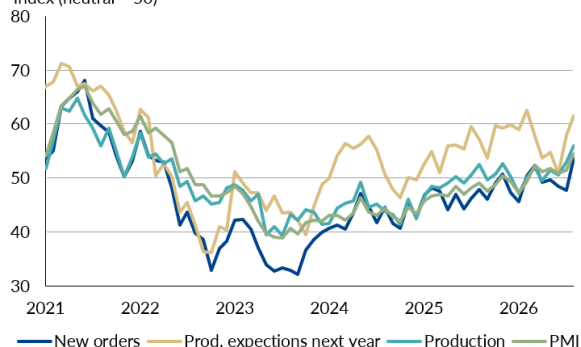
These factors are also leading to a more optimistic short-term forecast. The results of the OeNB Economic Indicator point to GDP growth of 0.1% and 0.3%, respectively, quarter on quarter for the third and fourth quarters of 2026. These forecasts have already been adjusted downwards by 0.1% of GDP in both the third and fourth quarters to account for the assumed impact of the drought.

For 2026, the weaker economic performance recorded in the first half of the year outweighs the more optimistic short-term forecast for the second half of the year. Overall, this results in a slight downward revision of 0.1 percentage points compared with the June forecast, to 0.5%. However, the improvement in sentiment in the second half of the year and the more favourable international conditions have led to an upward revision of the expected economic growth for 2027 by 0.2 percentage points to 1.3%.

Chart 1

**Purchasing Managers' Index (PMI)**

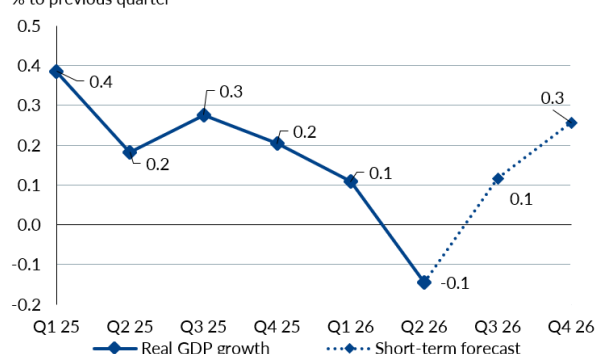
Index (neutral = 50)



Source: UniCredit Bank Austria.

**OeNB short-term forecast**

% to previous quarter



Source: Statistics Austria, OeNB.

Against a backdrop of weak employment growth, the number of registered unemployed rose slightly in the first half of 2026 and is not expected to fall again until the final months of the year. As a result of this trend, the forecast for the unemployment rate in 2026, as reported by the Public Employment Service AMS, has been revised upwards by 0.1 percentage points and will average 7.5% for the year. In 2027 and 2028, it is expected to fall by 0.2 percentage points in each year.

The technical update indicates a slight upside risk for the general government budget balance compared with our June forecast. The improved economic outlook and current budget implementation support a more favourable budgetary trend. However, newly announced measures, such as drought relief for the agricultural sector, are counteracting this. A comprehensive update on the fiscal situation will be provided as part of the December forecast.

### 3 Inflation falls to 3% in 2026; further easing expected from the second quarter of 2027

According to the flash estimate by Statistics Austria, Austrian HICP inflation stood at 2.9% in August 2026, down from its peak of 3.5% in May 2026. The easing of inflation since May has been driven primarily by lower energy and food prices. Crude oil prices, which had risen in the wake of the war in the Middle East – leading to higher fuel and heating oil prices – have fallen. In addition, food prices fell, particularly in July. Government measures have been curbing price rises in both categories. In the energy sector, the reduction in the electricity levy, a cap on electricity prices for low-income households, the reduction in the flat levy for the promotion of renewable energy and the fuel price brake are helping to ease the burden on households. The reduction in VAT on selected food items has led to a fall in food inflation since July 2026.

### 3.1 Inflation is stabilising at 3%; a marked decline is expected from the second quarter of 2027 onwards as the energy price shock subsides

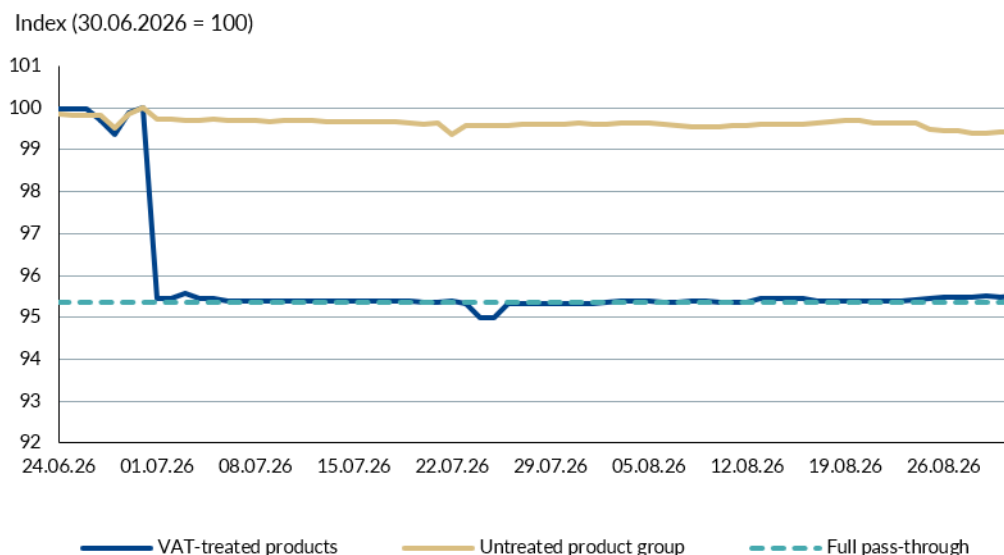
The OeNB forecast assumes that inflation will remain roughly at the level observed in the summer and will therefore stand at around 3% in the coming months. This results in an expected annual inflation rate of 3.0% for 2026. From March 2027, annual inflation will fall significantly as the current energy price shock drops out of the year-on-year comparison (base effect). However, this assumes current market expectations of a fall in oil prices and wholesale prices for gas and electricity prove accurate. As regards food prices, only limited additional price effects are anticipated despite the drought.

The reduction in VAT on food is likely to continue to have a noticeable dampening effect on prices. Based on these assumptions, the inflation forecast for 2027 falls to 2.3% and drops to 2.2% in 2028.

Based on market expectations, energy inflation is likely to remain at an elevated level until the second quarter of 2027. The decline in fuel inflation will be somewhat slowed by the expiry of the fuel price brake, which is expected for October. In addition, the recent rise in wholesale prices for gas and electricity in July 2026 will be felt by households with a delay, due to long-term contracts for domestic energy. Nevertheless, there will be a significant decline in energy inflation from March 2027 onwards: base effects resulting from the absence of the energy price shock in year-on-year comparisons will lead to negative inflation rates, particularly for fuel and heating oil. Energy inflation is then expected to fall from 6.5% in 2026 to 1% in 2027. In 2028, it is expected to be slightly negative at -0.2% due to a further decline in commodity and wholesale prices. The transition from the national CO<sub>2</sub> pricing system to the EU Emissions Trading System (ETS<sub>2</sub>), scheduled for 2028, has no impact on the present forecast. Although a permit price of EUR 46 per tonne of CO<sub>2</sub> is assumed at the launch of ETS<sub>2</sub> – which is below the price applicable under the national system (EUR 55) – it is assumed that this temporary cost relief will not be passed on to consumers. This reflects the assumption that, in view of the higher ETS<sub>2</sub> prices expected from 2029 onwards, the national CO<sub>2</sub> price would not be reduced in the short term and then raised again subsequently. If the costs were passed on in full, energy inflation in 2028 could be around 1 percentage point lower; this would dampen headline inflation by around 0.1 percentage points.

Forecast food inflation remains low until June 2027, resulting in annual rates of 1.5% for 2026 and 2.1% for 2027. The main factor behind this is the reduction in VAT from 10% to 4.9% on selected food items, which came into force in July 2026. Provided that the full pass-through to consumers continues, the measure is estimated to lower food inflation by approximately 1 percentage point through June 2027. Once this effect wears off, food inflation will rise significantly and is expected to reach 2.4% in 2028; this corresponds to the long-term average. The assumption that the VAT reduction is being passed on to consumers is supported by the analysis based on the OeNB web scraping tool: as set out in the OeNB Policy Brief 2026/2, it appears that supermarkets passed on the tax reduction almost in full to consumers as early as the first week of July. The ongoing monitoring of high-frequency price data announced in that Policy Brief currently suggests that the tax cut continues to be passed on almost in full to consumers. While the prices of products benefiting from the VAT reduction remain at a level consistent with the tax cut being passed on almost in full, the comparable products not benefitting from the reduction show hardly any changes (see chart 2).

Chart 2

**Price effects of the VAT reduction on selected food items**

Source: OeNB.

The drought in the summer of 2026 is not yet reflected in the expected EU producer prices for food. These have in fact been revised downwards compared with the OeNB's June forecast. Regardless of this, global food prices have recently risen slightly, driven in particular by higher coffee and cocoa prices.

Historical patterns for Austria, however, suggest that above-average summer temperatures in particular are associated with increased price pressure for various processed food items and beverages (see OeNB Policy Brief 2026/7). For instance, a 1.7°C higher average temperature during a summer month was, on average, associated with an inflation rate around 0.3 percentage points higher for fruit and vegetable juices. The exceptionally high temperature deviations recorded during the summer of 2026 reached this magnitude in all three summer months and, in some cases, exceeded it substantially. However, as such price reactions are concentrated on individual components, the effect on overall HICP inflation remains limited. The current OeNB forecast takes into account a weather-related upward contribution to HICP inflation totalling around 0.1% for the period from 1 September 2026 to 1 June 2027.

Inflation for industrial goods excluding energy has stood at a low 0.6% so far in 2026, which is half its long-term average. For 2026 as a whole, the OeNB also expects an average inflation rate of 0.6% in this specific category, with inflation rising to 1.1% and 1.7% in 2027 and 2028, respectively. This trend reflects the delayed indirect effects of the energy price shock. These are evident, among other things, in rising import prices and, consequently, higher input costs in the manufacturing sector.

HICP inflation for services is expected to fall gradually, from 4.3% in 2026 to 3.2% in 2027 and 2.8% in 2028. This trend is driven by the forecast slowdown in wage cost growth. Core inflation, measured as the HICP excluding energy and food, is expected to stand at 3% in 2026 – on a par with headline inflation – due to persistently high inflation in the services sector. It is set to decline slightly more slowly than the headline inflation rate over the forecast horizon, which is why it is likely to remain above HICP inflation at 2.5% in 2027 and 2.4% in 2028.

Austria's inflation differential with the euro area has narrowed significantly recently and averaged just 0.3 percentage points in the first eight months of the year. This is also below the long-term average of 0.7 percentage points in the period prior to the COVID-19 pandemic. In the coming years, Austrian inflation is expected to develop broadly in line with that of the euro area.

Compared with the June 2026 outlook, the OeNB has revised the HICP inflation rate downwards by 0.2% for 2026 and by 0.1% for 2027. The downward revisions reflect two developments: firstly, actual inflation to date has been lower than expected in the June forecast. This improves the starting point for the coming months, leading to lower annual inflation rates. Secondly, the assumptions for crude oil prices and for EU producer prices for foodstuffs have been revised downwards through to 2028. These developments are exerting a dampening effect on consumer prices and are consequently reflected in lower inflation rates.

Table 2

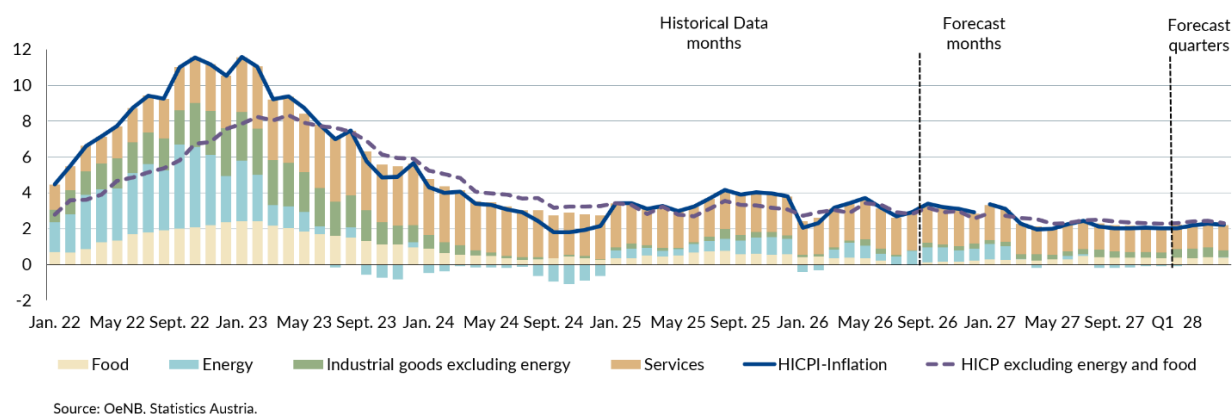
### OeNB September 2026 inflation outlook

|                                   | Outlook            |      |      |      |      | Revisions since<br>June 2026 |      |      |
|-----------------------------------|--------------------|------|------|------|------|------------------------------|------|------|
|                                   | 2024               | 2025 | 2026 | 2027 | 2028 | 2026                         | 2027 | 2028 |
|                                   | Annual change in % |      |      |      |      | Percentage points            |      |      |
| HICP inflation                    | 2.9                | 3.6  | 3.0  | 2.3  | 2.2  | -0.2                         | -0.1 | 0.1  |
| Food                              | 2.9                | 3.5  | 1.5  | 2.1  | 2.4  | -1.0                         | -1.0 | -0.3 |
| of which: unprocessed food        | 1.0                | 2.8  | 2.7  | 2.7  | x    | -0.8                         | -0.4 | x    |
| of which: processed food          | 3.3                | 3.7  | 1.2  | 2.0  | x    | -1.0                         | -1.1 | x    |
| Industrial goods excluding energy | 0.9                | 0.9  | 0.6  | 1.1  | 1.7  | -0.2                         | -0.4 | 0.2  |
| Energy                            | -5.4               | 7.6  | 6.5  | 1.0  | -0.2 | -0.6                         | 2.0  | 0.5  |
| Services                          | 5.7                | 4.5  | 4.3  | 3.2  | 2.8  | 0.1                          | 0.0  | 0.1  |
| HICP excluding energy             | 3.7                | 3.2  | 2.7  | 2.4  | 2.4  | -0.2                         | -0.3 | 0.0  |
| HICP excluding energy and food    | 3.9                | 3.1  | 3.0  | 2.5  | 2.4  | 0.2                          | -0.1 | 0.1  |

Source: OeNB, Statistics Austria.

Besides higher commodity prices because of an escalation of the conflict in the Middle East, a sharper rise in food prices poses an upside risk to the inflation forecast. The drought and associated harvest losses could have stronger price effects than currently indicated by producer prices and historical patterns. In addition, adverse weather developments abroad may feed into Austrian consumer prices via commodity prices, trade channels and global supply chains.

Chart 3

**Contributions of components to HICP inflation**

## 4 Scenarios reflect uncertainty regarding energy and food price developments

The forecast is supplemented by scenarios based on alternative assumptions regarding commodity prices in light of the uncertainties caused by the war in the Middle East. The latest escalation in late August/early September has further intensified the upward pressure on oil and natural gas prices since the data cut-off date (19 August). At the same time, ongoing military conflicts and disruptions to key trade and transport routes are increasing uncertainty on international agricultural markets; wheat prices in particular have risen significantly recently due to supply and logistics risks. The scenarios are therefore intended to illustrate how a further escalation or a prolonged duration of the war could affect inflation and economic activity via higher energy, transport and production costs, as well as via food prices.

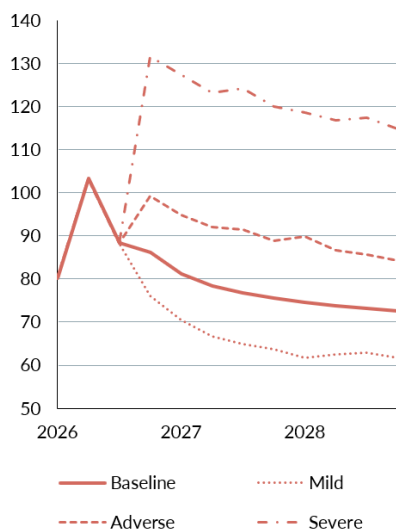
The scenarios are based on alternative assumptions, which the ECB also uses in its September 2026 forecast. The scenarios ("mild", "adverse" and "severe") differ in terms of the scale and duration of the war in the Middle East. In the "mild" scenario, energy prices normalise more quickly than in the baseline. The baseline represents the main forecast presented above. It is based on market expectations as of 19 August for the international economic environment. The "adverse" scenario, by contrast, assumes higher energy and food prices over the forecast horizon than in the baseline. It is also assumed that the higher energy prices will have a stronger impact on prices and economic activity in the euro area, operating through additional transmission channels, such as adverse financial market reactions, increased domestic uncertainty and indirect spillovers via the global economy. The "severe" scenario assumes an even stronger and more persistent energy price shock and a greater impact on growth and inflation.

Chart 4

## Scenario assumptions for energy and commodity prices

## Oilprice (Brent)

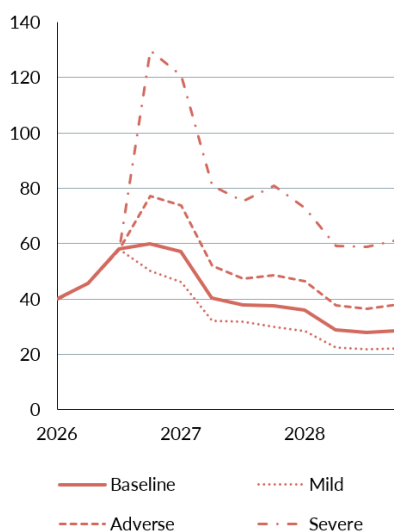
USD/barrel



Source: Eurosystem, ECB.

## Gas price (Dutch TTF)

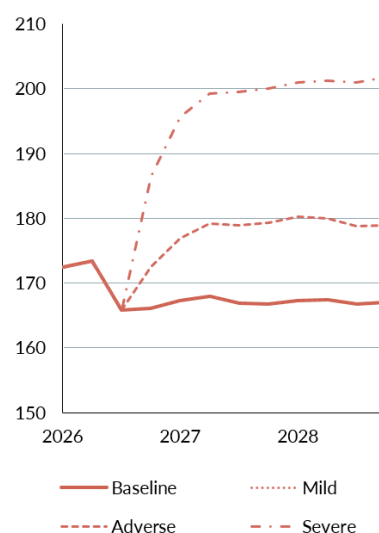
EUR/MWh



Source: Eurosystem, ECB.

## Food

Index 2015 = 100



Source: Eurosystem, ECB.

Table 3 shows the ranges of the growth and inflation forecasts across all scenarios. Only the most negative and most positive scenarios are discussed below. The scenario simulations do not begin until the fourth quarter of 2026 and therefore show no significant deviations in growth for Austria in 2026 compared with the main forecast. In 2027, the "severe" scenario would result in growth of 0.3% (1 percentage point lower) though the Austrian economy would not slip back into recession. In 2028, the negative effects on growth would gradually subside. Unlike GDP growth, inflation would deviate more significantly from the baseline forecast as early as 2026. In the "severe" scenario, inflation would rise to 5.6% in 2027. In the "mild" scenario, inflation in 2027 would be significantly lower and growth would reach almost 1.5%.

Tabelle 3

## Results of the scenarios für GDP growth and inflation

September 2026: forecast and scenarios

|                  |      | Forecast (baseline) | Mild scenario | Adverse scenario | Severe scenario |
|------------------|------|---------------------|---------------|------------------|-----------------|
| Growth rate in % |      |                     |               |                  |                 |
| Real GDP         | 2026 | 0.5                 | 0.5           | 0.5              | 0.4             |
|                  | 2027 | 1.3                 | 1.4           | 1.0              | 0.3             |
|                  | 2028 | 1.2                 | 1.3           | 1.0              | 0.9             |
| %                |      |                     |               |                  |                 |
| HICP inflation   | 2026 | 3.0                 | 2.9           | 3.2              | 3.4             |
|                  | 2027 | 2.3                 | 1.7           | 3.1              | 5.6             |
|                  | 2028 | 2.2                 | 1.9           | 2.4              | 3.2             |

Source: OeNB.

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