

The economic outlook for Austria and euro area monetary policy

Vienna, 14th of January, 2025

**Economic outlook for Austria 2024-2027
OMFIF Virtual Roundtable**

Birgit Niessner



AUSTRIAN ECONOMY

Industrial weakness and consumer restrain dampen growth prospects

OeNB December 2024 outlook for Austria – main results

	2024	2025	2026	2027
	<i>Annual change in %</i>			
Gross domestic product (real)	−0.9	0.8	1.6	1.3
Harmonised Index of Consumer Prices (HICP)	2.9	2.4	2.2	2.0
Unemployment rate (national definition)(%)	7.0	7.4	7.1	6.9
	<i>% of nominal GDP</i>			
Budget balance	−3.7	−4.1	−3.6	−3.6
Government debt	81.8	82.6	83.4	84.2

Source: OeNB December 2024 outlook.

Forecast comparison

		GDP, real			HICP inflation		
		2024	2025	2026	2024	2025	2026
OeNB	Dec-24	−0.9	0.8	1.6	2.9	2.4	2.2
OECD	Dec-24	−0.5	1.1	1.4	2.9	2.1	2.0
EC	Nov-24	−0.6	1.0	1.4	2.9	2.1	1.7
WIFO	Oct-24	−0.6	1.0	x	3.1	2.2	x
IHS	Oct-24	−0.6	0.8	x	3.0	2.4	x
IMF	Oct-24	−0.6	1.1	x	3.0	2.5	x

Source: OeNB, EC, IMF, WIFO, IHS, OECD.

OeNB Economic Outlook

- Moderate recovery in 2025
- Labor market cooling down but remains robust despite recession
- Inflation continues to decline
- Budget deficit remains significantly above the 3% threshold

Forecast comparison

Real GDP growth:

- Forecasts by other institutes do not feature weaker Q3 NA data

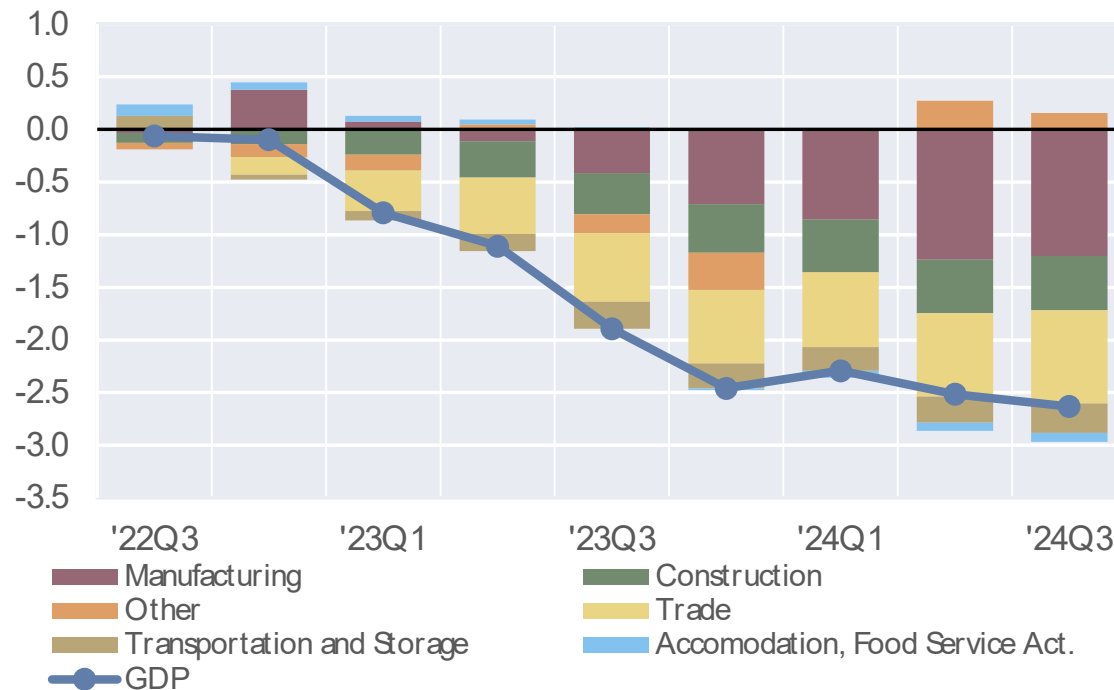
Inflation:

- All institutions expect downward trend to continue

Energy-intensive and construction-related industries as well as trade are mainly affected in current recession

Industry contributions of GDP contraction since 2022Q2

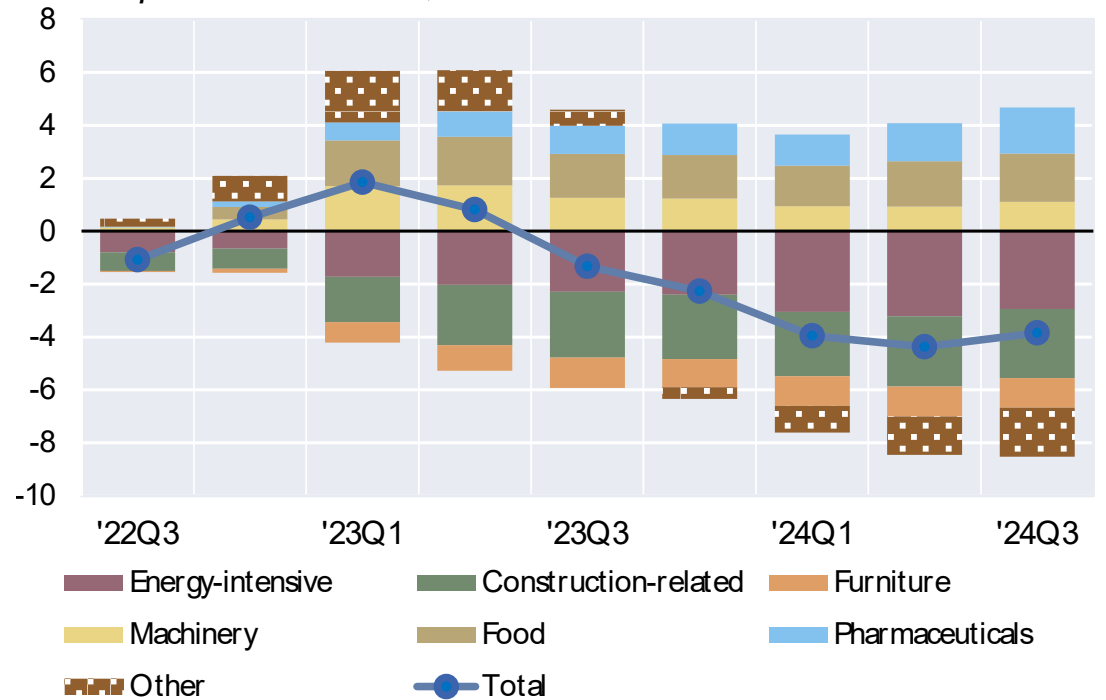
in % of real GDP in 2022Q2



Source: Statistics Austria.

Contribution of industries to contraction in production of manufacturing (NACE C)

in % of production of 2022Q2



Source: OeNB, Eurostat.

Export development dampened by weak recovery in global trade and deteriorating competitiveness

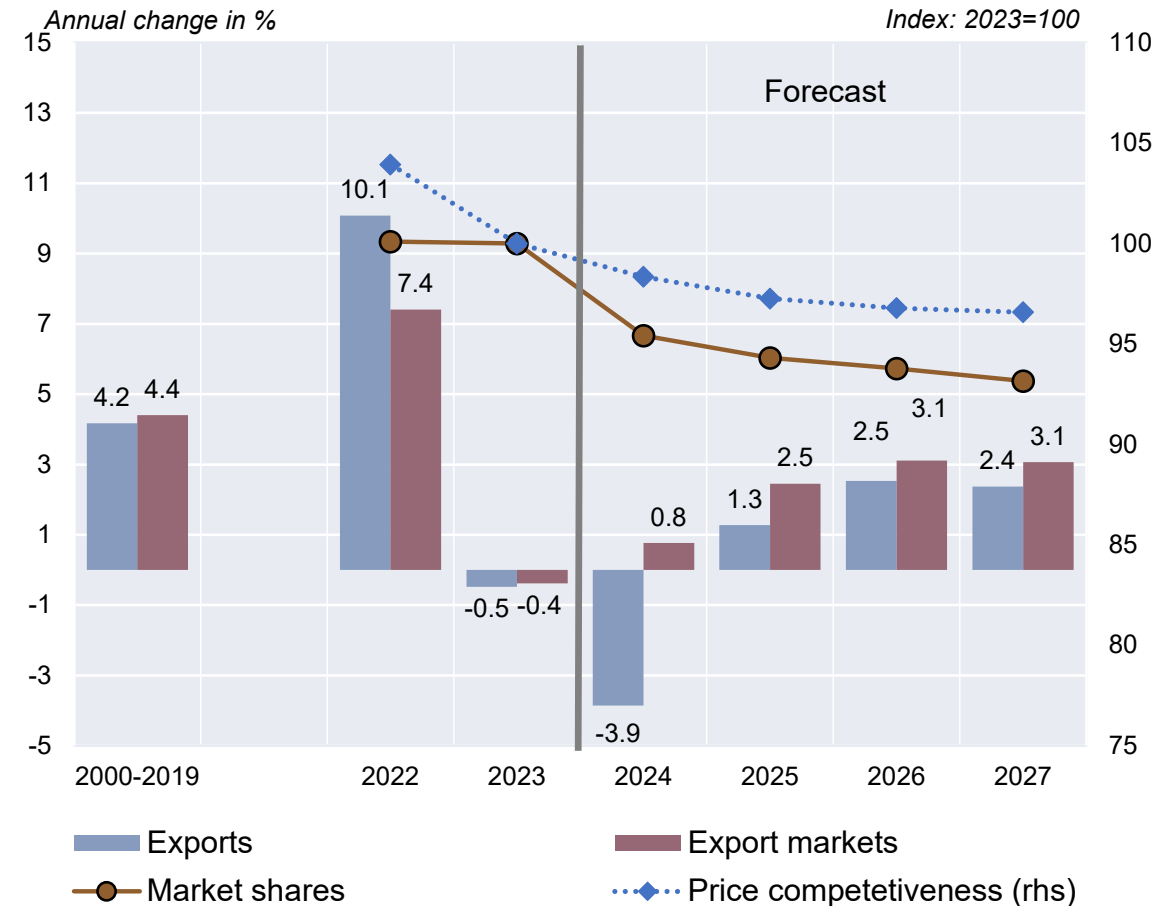
Weak recovery of global trade

- High uncertainty and deglobalization trends
- Growth significantly weaker than historical averages

Market share losses expected

- Sharp increases in unit labor costs and high energy prices lead to losses in price competitiveness
- High dependence on the German automotive industry

Exports, export markets and market shares

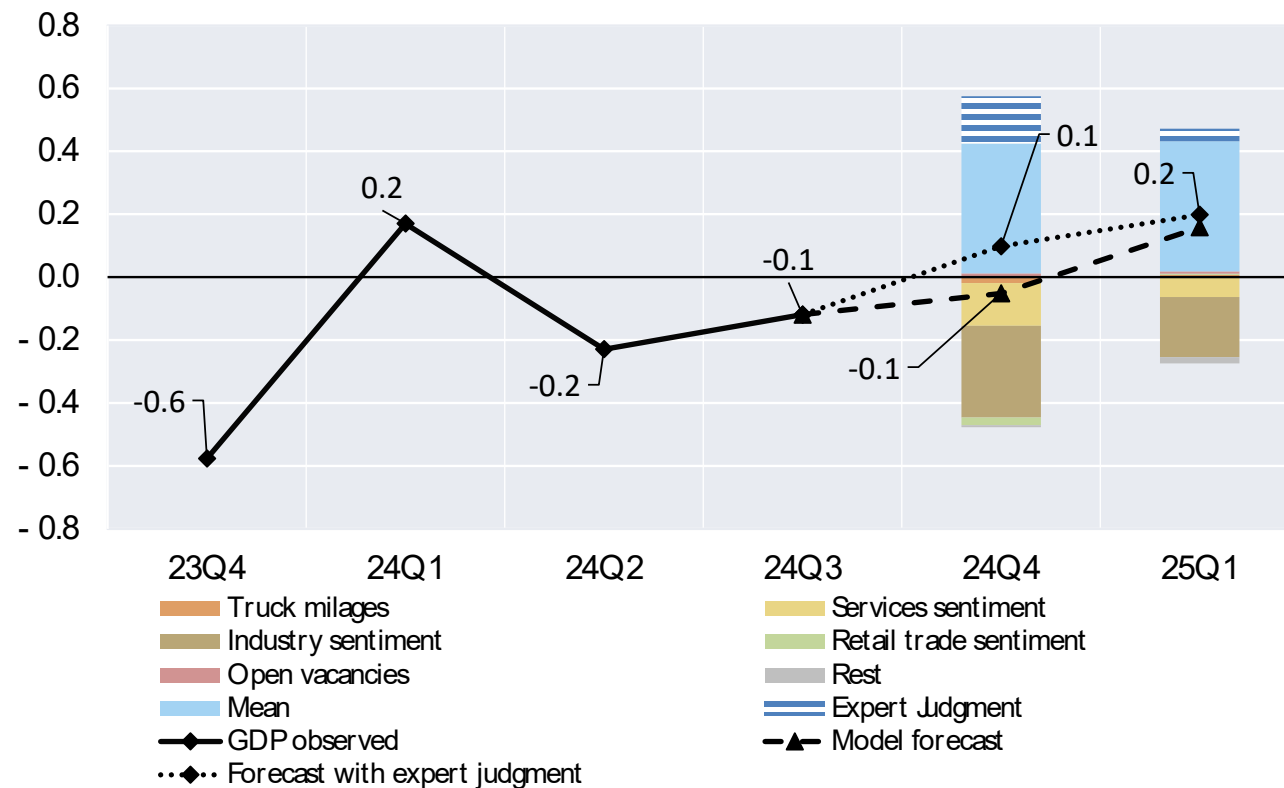


Source: Eurosystem, OeNB

Persistently weak economic short-term momentum

Real GDP (seasonally and calendar-day adjusted)

in % to previous quarter



Source: OeNB Economic Indicator. Data cut-off date 4th of December 2024.

Leading indicators remain below average

- **Industry:** Very weak assessment of the current situation, expectation indicators have slightly improved recently
- **Services and retail:** Sentiment indicators are slightly below average.
- **Labor market:** Job vacancies still high but have decreased over the course of the year

OeNB Economic Indicator:

- **Pure model forecast:** slightly negative for 2024Q4
- **Expert judgement:** small positive judgement due to stronger real consumption driven by robust real net income increases

Consumption recovery as of mid-2025, yet savings ratio remains high

Strong increase in real net household incomes in 2024

- Strong increase (+3.1%) 2024 due to real wage increases and transfer payments resulting from delayed inflation adjustments
- 2025-27 "Normalization"

Weak private consumption

- Consumer restraint to slowly decrease mid-2025, but propensity to save remains above historical averages

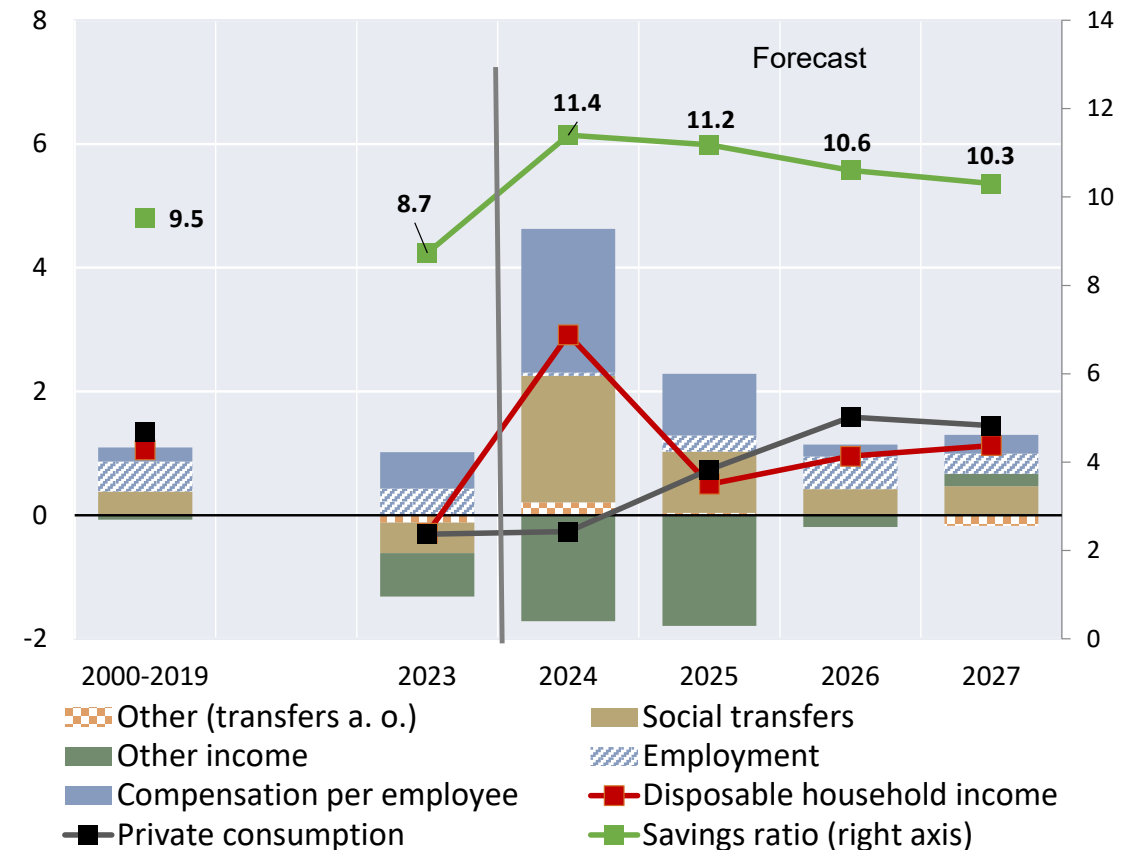
Sharp increase in the savings rate from 2022-24

Analysis shows multiple determining factors:

- Increased attractiveness due to rising interest rates (explains ~1/3).
- (One-time) transfer payments (~1/3).
- Remaining (~1/3): Declining goods consumption post-COVID, inflation effects (confidence effects, devaluation of real assets), concern about job loss.

Growth of net real disposable household income

Annual change in %, contribution in percentage points (net, real)



Source: Statistics Austria, OeNB.

Potential growth at 0.8 to 1.0 %, output gap closes 2026

Potential growth

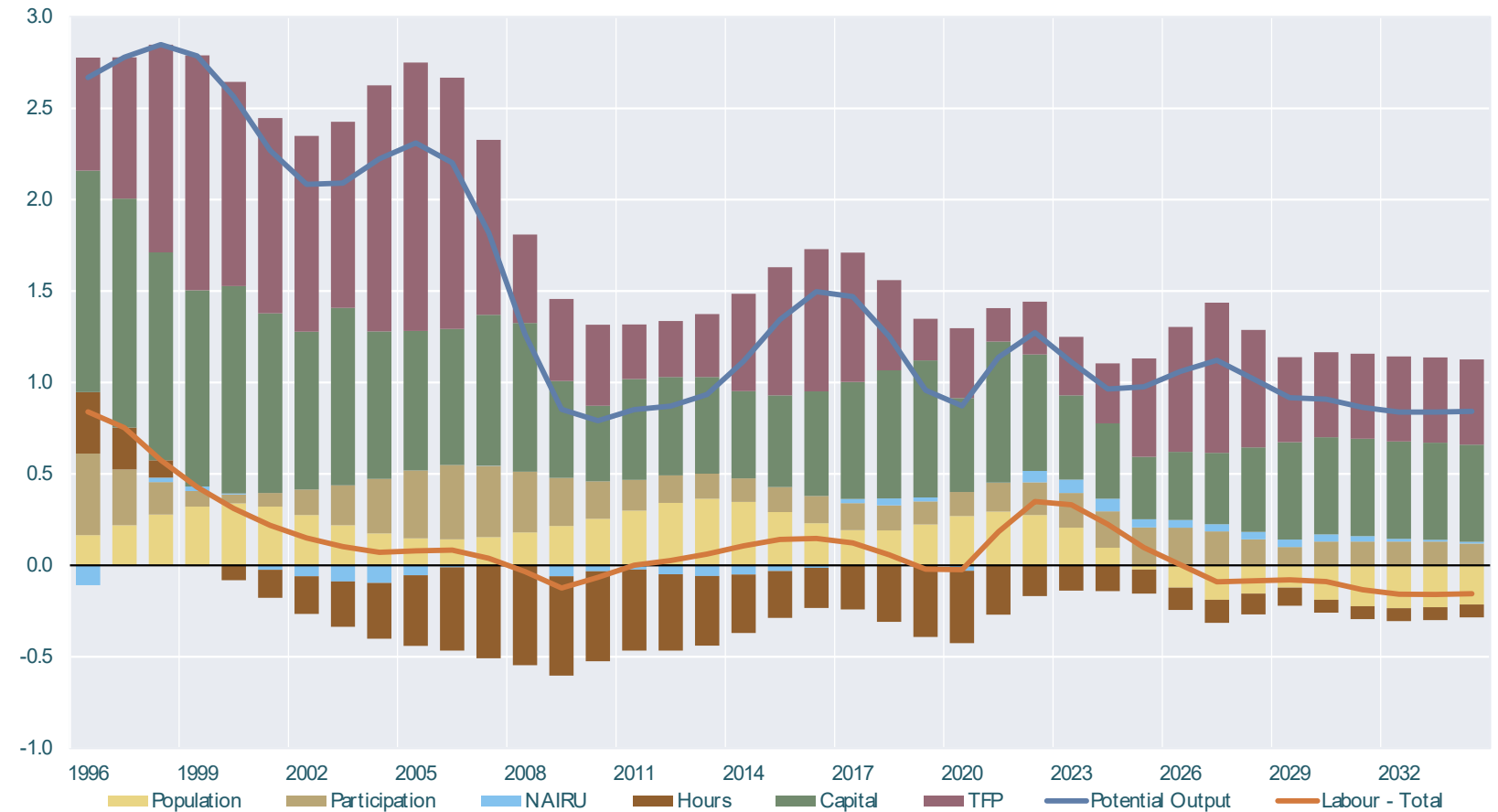
- Negative contributions from demography and part-time work trend
- Positive contributions from participation rate
- TFP and capital return to post GFC average
- Structural issues and risks: high energy and labor costs, structural change in automobile industry, trade uncertainty

Output gap

- Negative output gap in 2024 and 2025 (-0.6%)
- Gap closes in 2026
- Gap slightly positive in 2027 (+0.3%)

Potential Output Growth and Growth Contributions

Growth in %; Growth contributions in FP

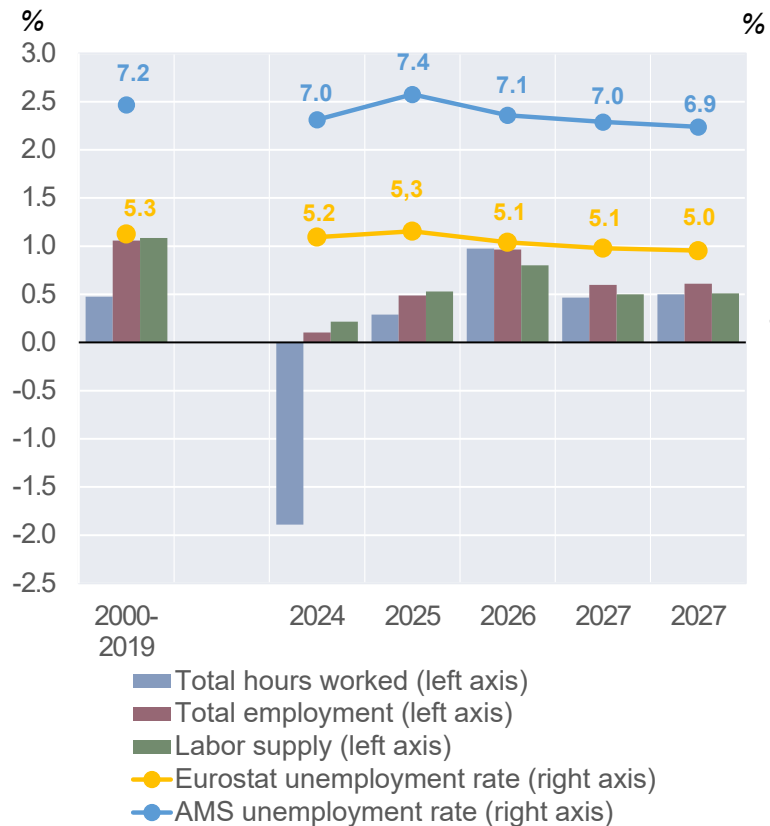


Source: OeNB.

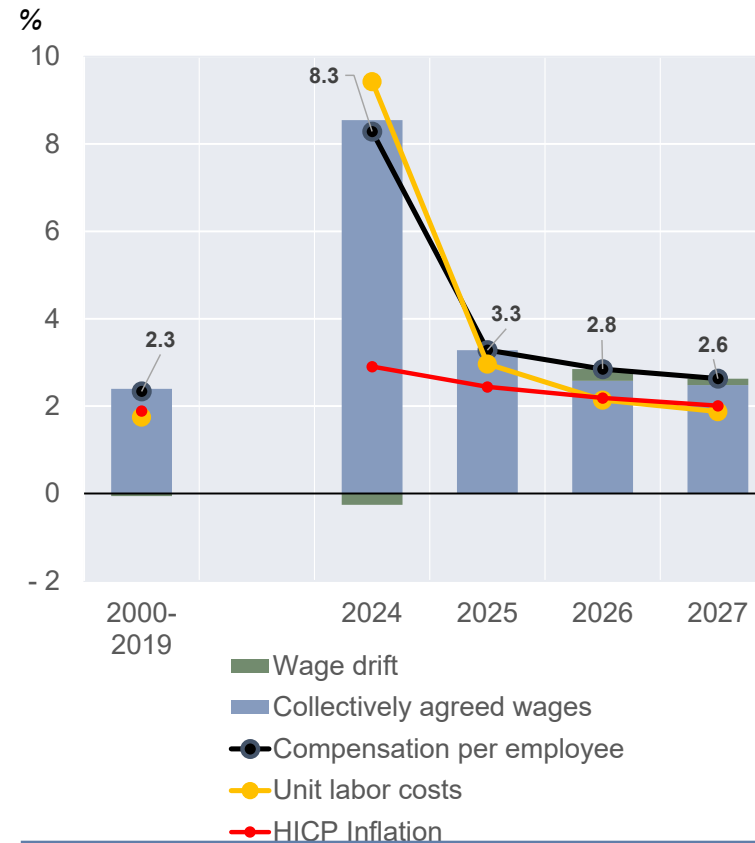
Labor market remains robust despite economic weakness

Significant decline in wage growth in 2025

Employment and unemployment



Inflation, wages and unit labor costs



Employment and unemployment

- Small increase in unemployment relative to economic weakness
- Labor supply growing despite declining working population
- Employment growth not enough to reduce unemployment until 2026

Wage growth

- Marked decline in wage growth from 2025 onwards
- Wage share will decline slightly from 2025 onwards, but remains 2 ½ pp above 1995-2019 average
- Unit labor cost gap with the eurozone widens 2024 and remains elevated thereafter

The majority of risk scenarios for GDP growth point downwards

US import tariffs

- 60% for China; 10% for other US trading partners; retaliatory measures
- Only minor negative growth effects for AT in the short term: -0.1% (2025)
- High uncertainty in the medium term: Further escalation, trade diversion of (Chinese) excess production or relocation of production to the US could have more negative effects

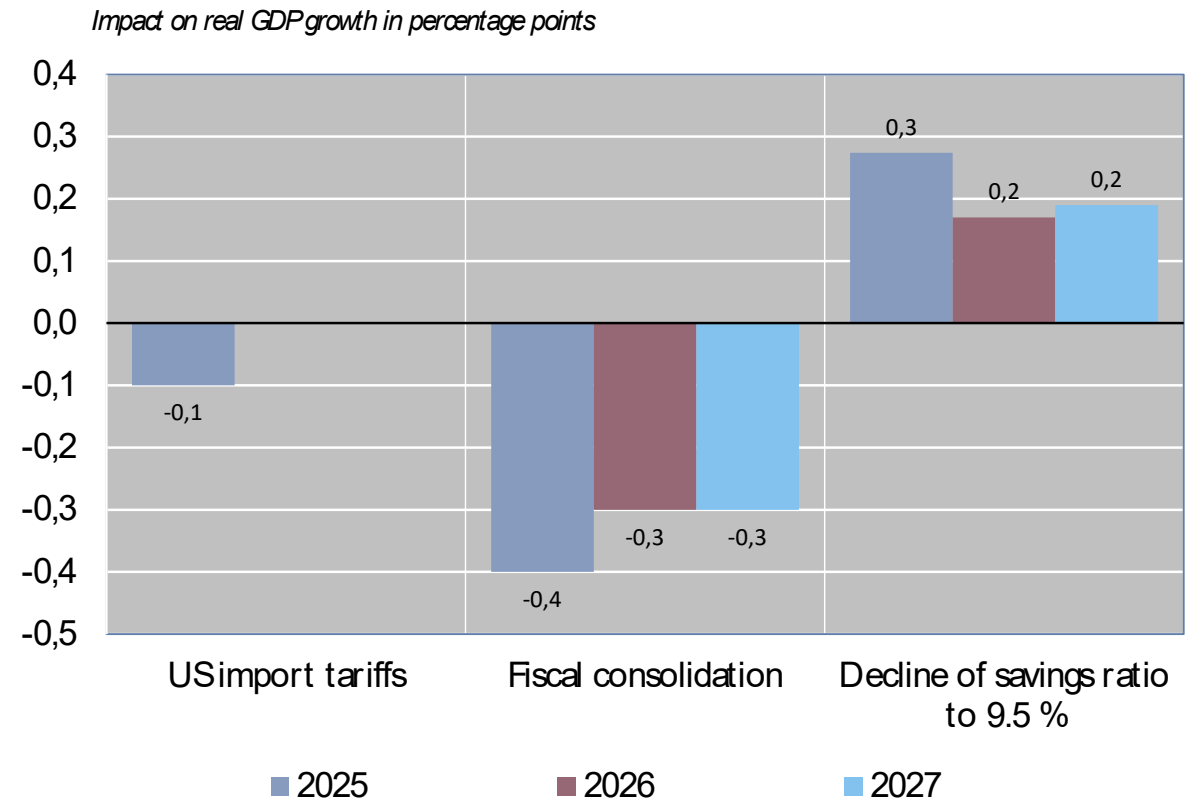
Effects of a consolidation package

- Assumed consolidation volume 2025-27 of 0.9%, 0.5% and 0.5% of GDP
- Growth declines by 0.4% to 0.3% per year

Stronger decline in the savings rate

- The savings rate will fall to 9.5% by 2027 (forecast: 10.3%)
- Growth stimulus of 0.2% to 0.3% per year

Risks for the GDP forecast



Source : OeNB

2025-27: Moderate economic upturn with considerable downside risks

2024: Second consecutive year of recession

- Industrial recession materializes in collapse of exports and investments

2025: Moderate recovery

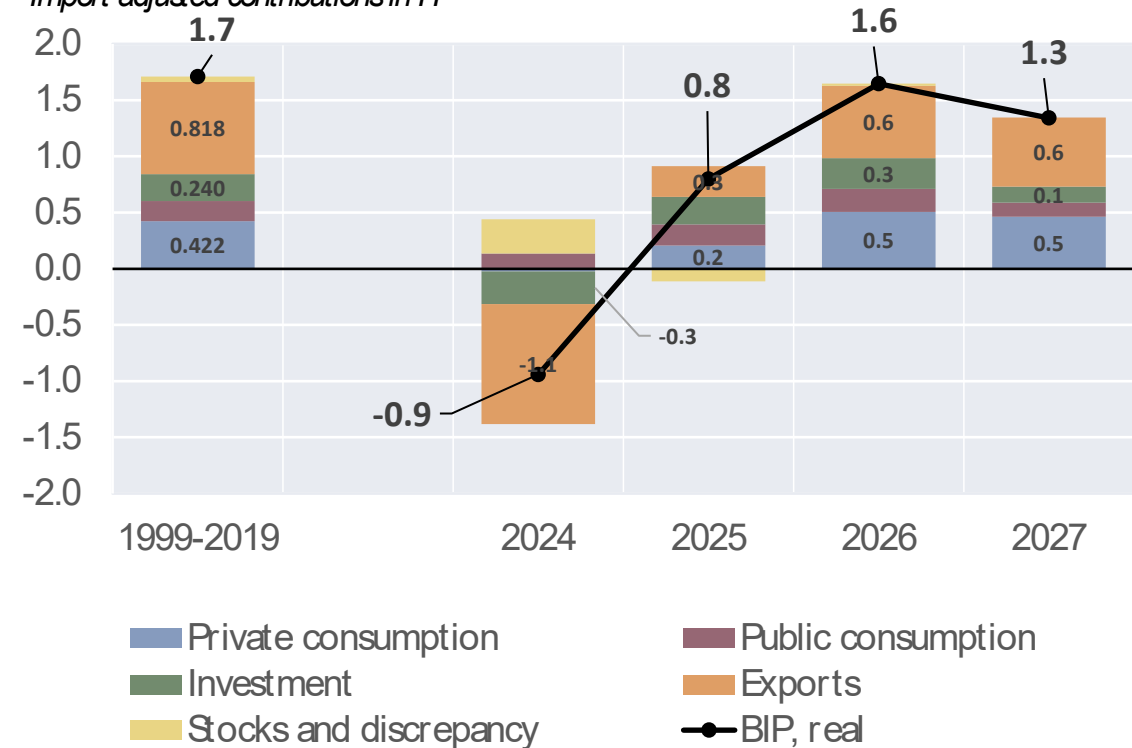
- More favorable financing conditions support investments
- Consumption picks up (only) slowly - savings ratio remains high
- Increasing export demand but loss of market share

2026-27: Modest economic peak

- Temporary restraining factors fade out
- Structural weaknesses prevent a stronger economic acceleration

Contributions of demand components to real GDP growth

Import-adjusted contributions in PP

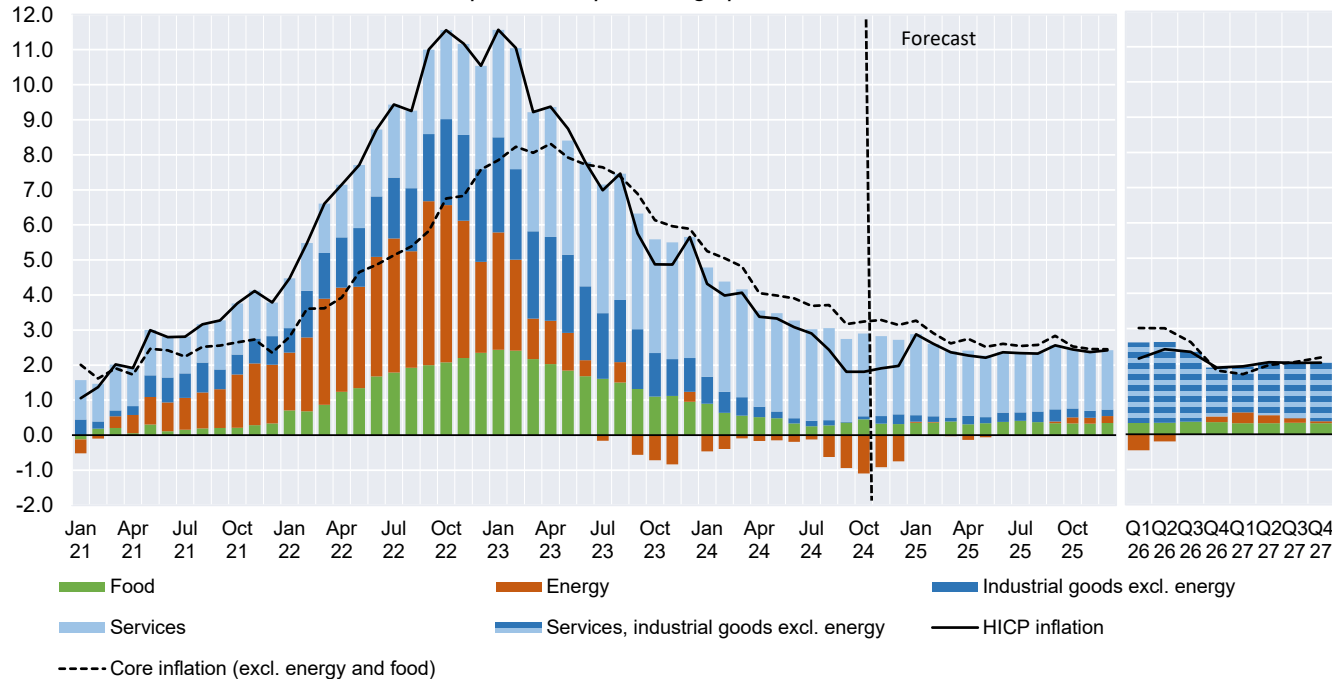


Source: Statistics Austria, OeNB

2025-2027: Stable inflation close to the 2% target

Contributions of components to HICP inflation

Inflation in %; inflation contributions of components in percentage points



Source: OeNB, Statistics Austria.

OeNB Inflation Projection December 2024

	OeNB projection				
	2023	2024	2025	2026	2027
Year-On-Year-Change					
HICP inflation	7.7	2.9	2.4	2.2	2.0
Core inflation ¹⁾	7.3	3.9	2.7	2.6	2.0

1) Excl. energy and food.

Source: OeNB, Statistics Austria.

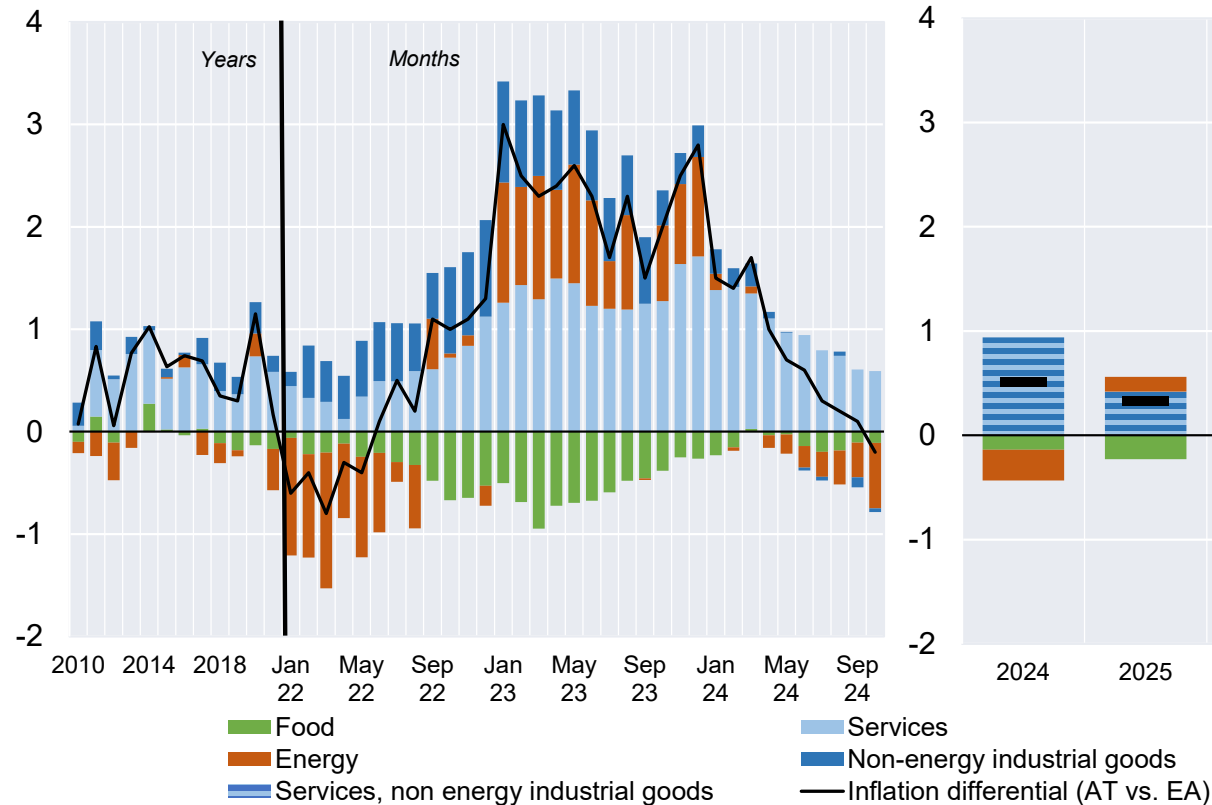
- **Falling energy prices** dampen HVPI inflation in the second half of 2024.
- The **phasing out of fiscal measures** slows the decline of HICP inflation in 2025
 - strong increase of electricity prices
- **Core inflation** remains (slightly) above HICP inflation throughout the forecast horizon, mainly due to the...
 - ...still high service inflation
 - above all in the restaurant and accommodation sector
- Inflation back to target in 2027

The inflation differential with the Euro area is reducing

Inflation differential: Austria - Euro Area

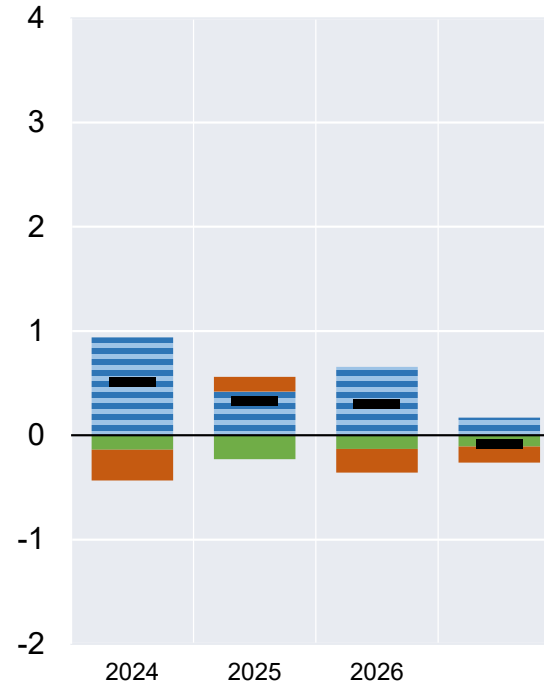
Contributions in percentage points

November 2024: -0.3 percentage points



Source: OeNB, Eurosystem, Eurostat.

December 2024 forecast

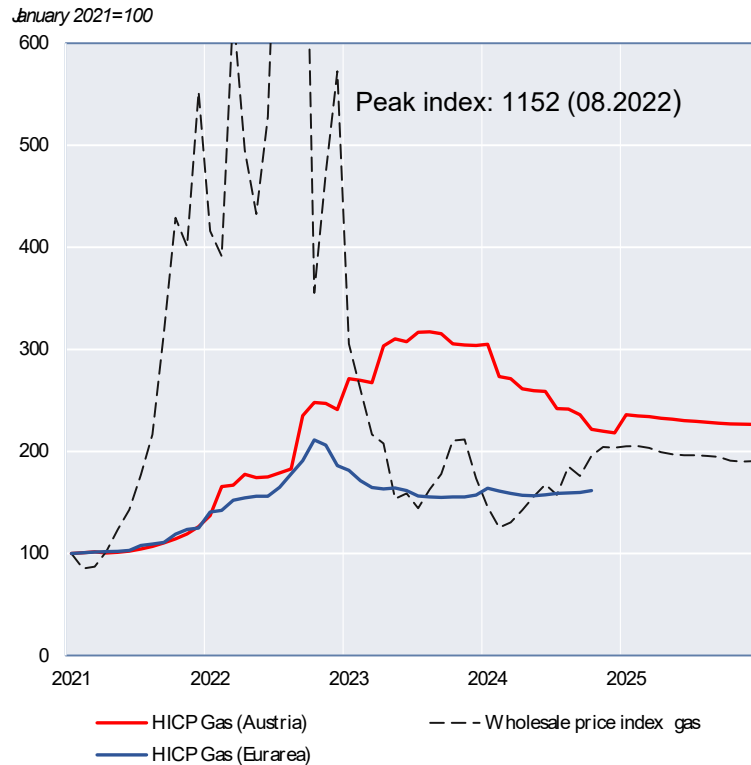


- Peak of the inflation differential in 2023
- Austrian inflation currently temporarily lower than in the Euro area
- Inflation differential rises again at the beginning of 2025 due to the phasing out of energy policy measures and higher service inflation
- Core inflation rate remains above the Euro area average
- Energy differential determined by fiscal measures (and their timing)

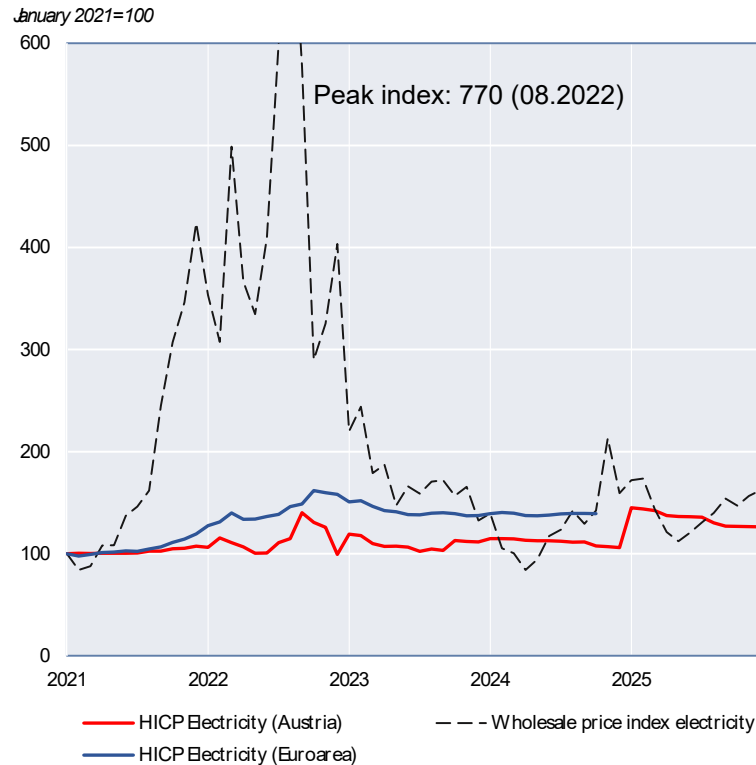
Development of gas and electricity prices in Austria compared to 2021

Price Development

Gas



Electricity



Gas price increase 2024:

- Austria: ~ 2.5-fold
- Euro area: ~ 1.5-fold

Electricity price 2024:

- Austria: ~ 1.1-fold
- Euro area: ~ 1.4-fold

Price increase 2025:

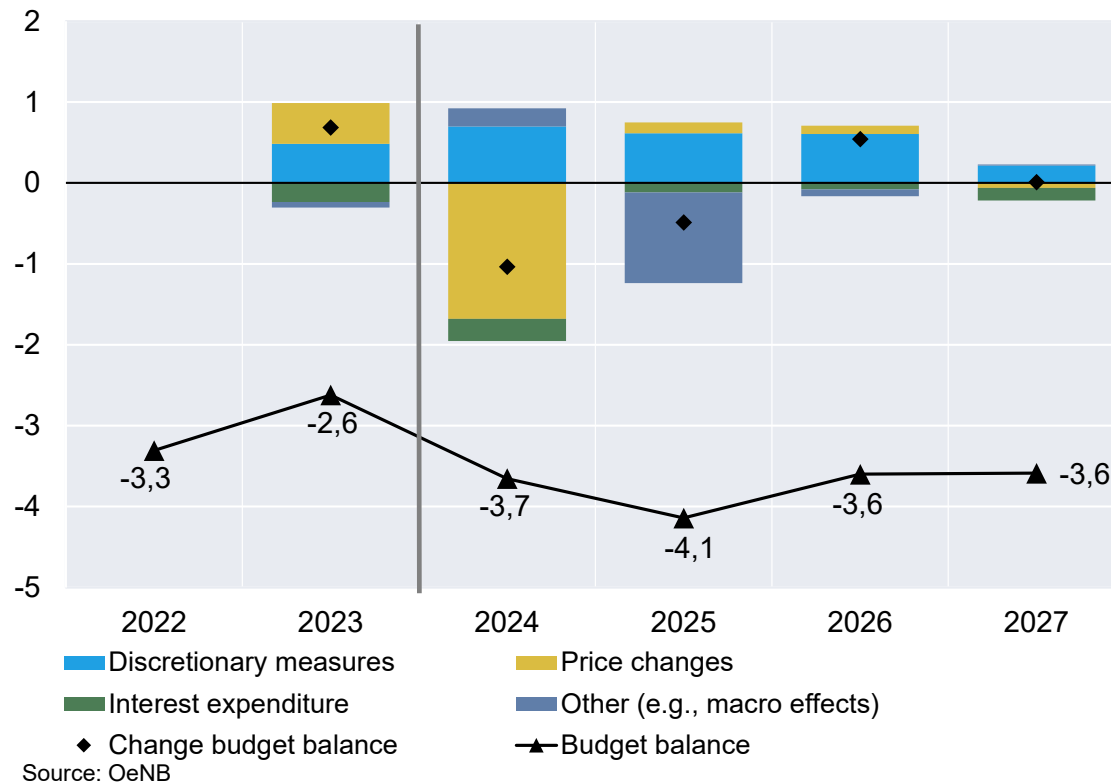
- Phasing out of fiscal measures:
 - Energy taxes; electricity price brake, eco-contribution to energy
- (Grid costs)

source: OeNB, Statistik Austria, Eurostat.

Deficit above 3%-Maastricht over whole forecast horizon

Budget balance and change over previous year

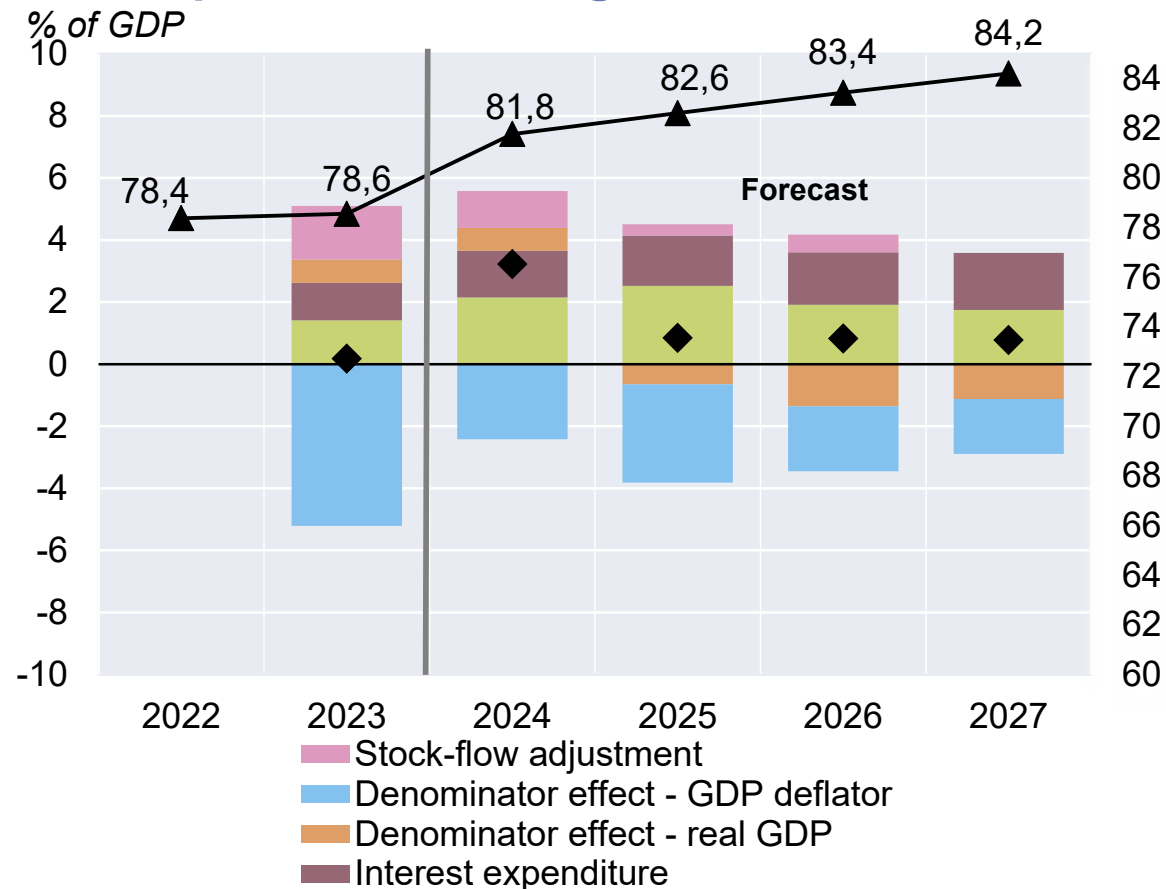
% of GDP



- **2024:** Delayed cost increases compensate the phasing out of crisis measures.
- **2025:** BB deterioration due to low revenue dynamics.
- **2026-27:** Stabilizing effect on the balance is expected only from 2026 with the onset of macro growth
- **Risk: "No Policy Change" assumption**
 - 2025 extremely challenging year: Minimum consolidation requirement of around 5 billion EUR
 - Effective requirements will depend on (i) EC January EDP decision and/or (ii) update reference path

Debt ratio rises dynamically

Decomposition of change in the debt ratio



Source: OeNB, Statistics Austria.

- High primary deficits and rising interest burdens are driving the debt ratio significantly upwards
- The nominal denominator effect (deflator) has offset this in recent years.
- The average interest rate on government debt remains high in the forecast horizon (~2.1%)
 - Long maturities
 - Low-interest bonds maturing in 2025/2026 need to be refinanced

EURO AREA MONETARY POLICY

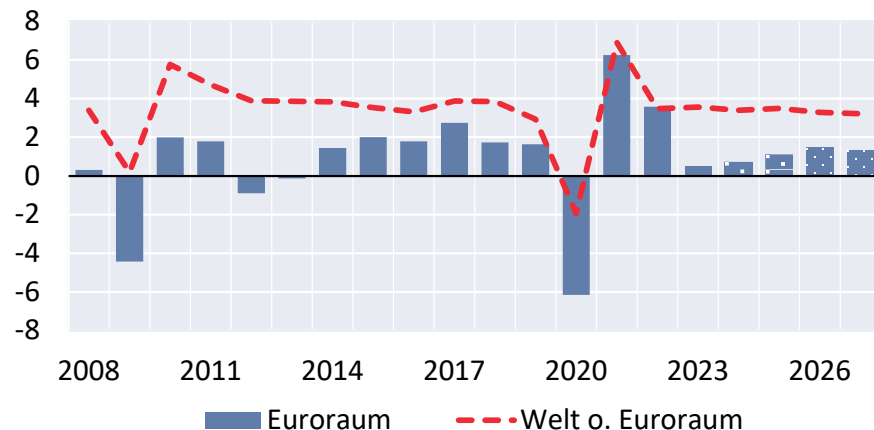
Euro Area: medium-term GDP recovery, inflation target to be reached in 2025

Euroraum	Dezember 2024 Prognose					Revision ggü Sep. 2024 Prognose		
	Veränderung zum Vorjahr in %					in Prozentpunkten		
	2023	2024	2025	2026	2027	2024	2025	2026
Reales BIP	0.5	0.7	1.1	1.4	1.3	-0.1	-0.2	0.0
HVPI	5.4	2.4	2.1	1.9	2.1	-0.1	-0.1	0.0
Kerninflation*	4.9	2.9	2.3	1.9	1.9	-0.1	0.0	-0.1

Source: Eurosystem December 2024 forecast; *Note: Core inflation: HICP inflation excluding energy and food.

Reales BIP: Euroraum und Welt ohne EA

Veränderung zum Vorjahr in %

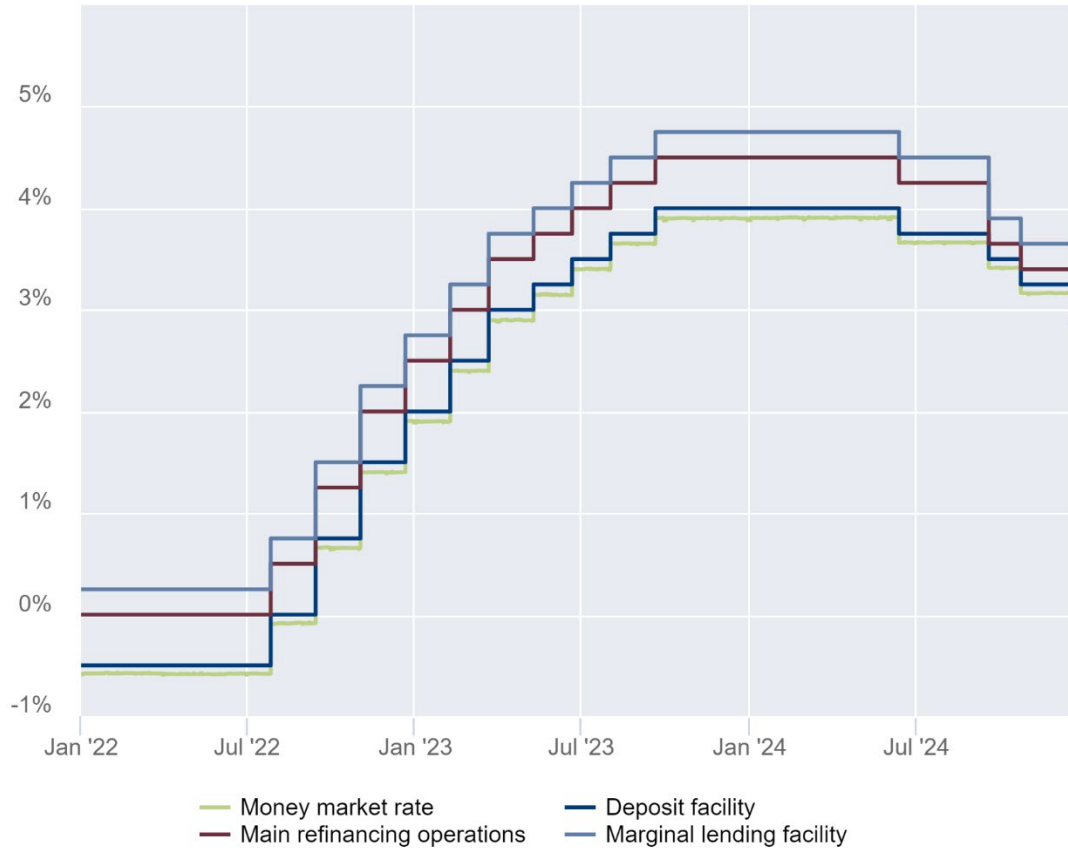


Quelle: Eurosystem.

- **GDP growth:** short-term outlook characterized by uncertainty and consumer restraint; medium-term recovery due to easing negative effects of monetary policy tightening, decline in uncertainty and recovery in export demand
- **Inflation:** achievement of the 2025 inflation target
- **Core inflation:** decline in 2025 due to easing of indirect pressure from energy and wages

Key ECB interest rates cut by a total of 1 percentage point in 2024

Key ECB interest rates and money market rates



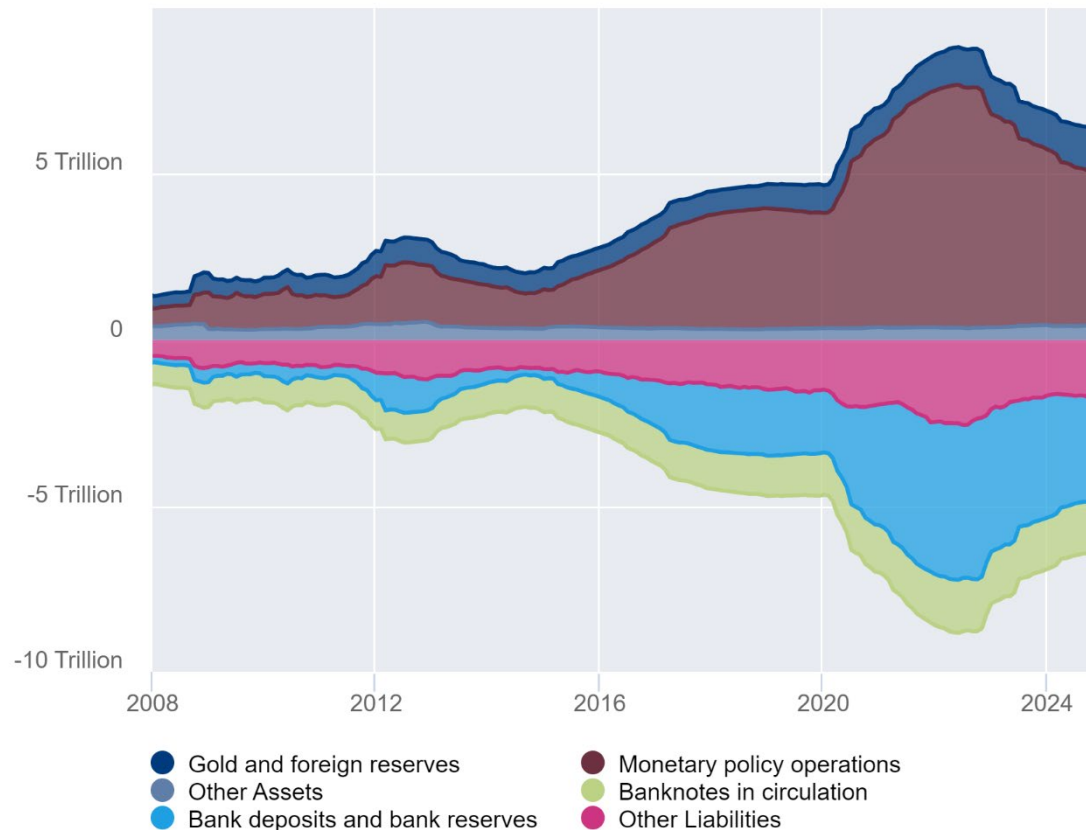
Source: ECB SDW (public).

- At its December-meeting, the Governing Council of the ECB **lowered** the **three key interest rates by 25 basis points**.
- In the course of 2024, it thus reduced the interest rate for the deposit facility relevant for money market interest rates from 4% to 3%.
- The ECB Governing Council is determined to ensure a sustained stabilization of inflation at the **medium-term target of 2%**.
- In doing so, it is not committing itself in advance to a specific interest-rate path.

Reduction of the Eurosystem balance sheet continues

Assets vs. Liabilities

Consolidated financial statement of the Eurosystem



Source: ECB SDW (public).

- On 18 December 2024, the last tranche of the TLTRO III reached the end of its term: 29 billion EUR were repaid and the **TLTRO III disappeared from the Eurosystem balance sheet.**
- The APP portfolio has not been reinvested since July 2023 - the PEPP portfolio will start to mature without reinvestments at the beginning of 2025 → Accordingly, the **reduction of the Eurosystem balance sheet will gain momentum.**
- The decline on the assets side will mainly reduce bank reserves (on the liabilities side).

Danke für Ihre Aufmerksamkeit

Thank you for your attention

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External assumptions for the Austrian forecast

International environment

	December 2024					September 2024			Change from Sep.		
<i>annual changes in %</i>	2023	2024	2025	2026	2027	2024	2025	2026	2024	2025	2026
<i>and levels</i>											
Energy prices, exchange and interest rates											
Oil price (USD/barrel)	83.7	81.8	71.8	70.1	69.2	83.2	76.1	73.2	-1.4	-4.3	-3.1
USD-exchange rate	1.1	1.1	1.1	1.1	1.1	1.09	1.10	1.10	-0.3	-3.0	-3.0
Short-term nominal	3.4	3.6	2.1	2.0	2.2	3.6	2.5	2.2	-0.0	-0.3	-0.2
Long-term nominal	3.1	2.9	2.9	3.0	3.1	2.9	2.8	2.9	-0.0	0.0	0.0
GDP											
World	3.2	3.1	3.2	3.1	3.0	3.1	3.1	3.1	-0.0	0.1	-0.0
USA	2.9	2.8	2.2	1.8	1.8	2.5	2.0	2.1	0.2	0.3	-0.3
China	5.2	4.9	4.7	3.9	3.8	4.8	4.1	3.8	0.1	0.6	0.1
India	7.8	6.8	6.6	6.6	6.6	7.0	6.6	6.6	-0.2	0.1	0.0
Japan	1.7	-0.1	1.5	0.8	0.8	0.2	1.4	0.8	-0.3	0.0	0.0
CESEE (EU-6)	0.6	1.6	2.6	3.2	3.2	2.2	3.5	3.4	-0.6	-0.9	-0.2
Trade											
World trade, real	0.5	3.0	3.3	3.3	3.2	2.3	3.3	3.3	0.7	0.0	-0.0
Austrian export markets	-0.4	1.1	2.5	3.1	3.0	0.4	3.2	3.4	0.7	-0.7	-0.3

Source: Eurosystem.

Investments also shrink in 2024, slight recovery from 2025 onwards

Investment in equipment

- Gradual and mild recovery
- Sideways movement in imports of machinery and vehicles
- Capacity utilization below average
- Order situation in industry remains weak

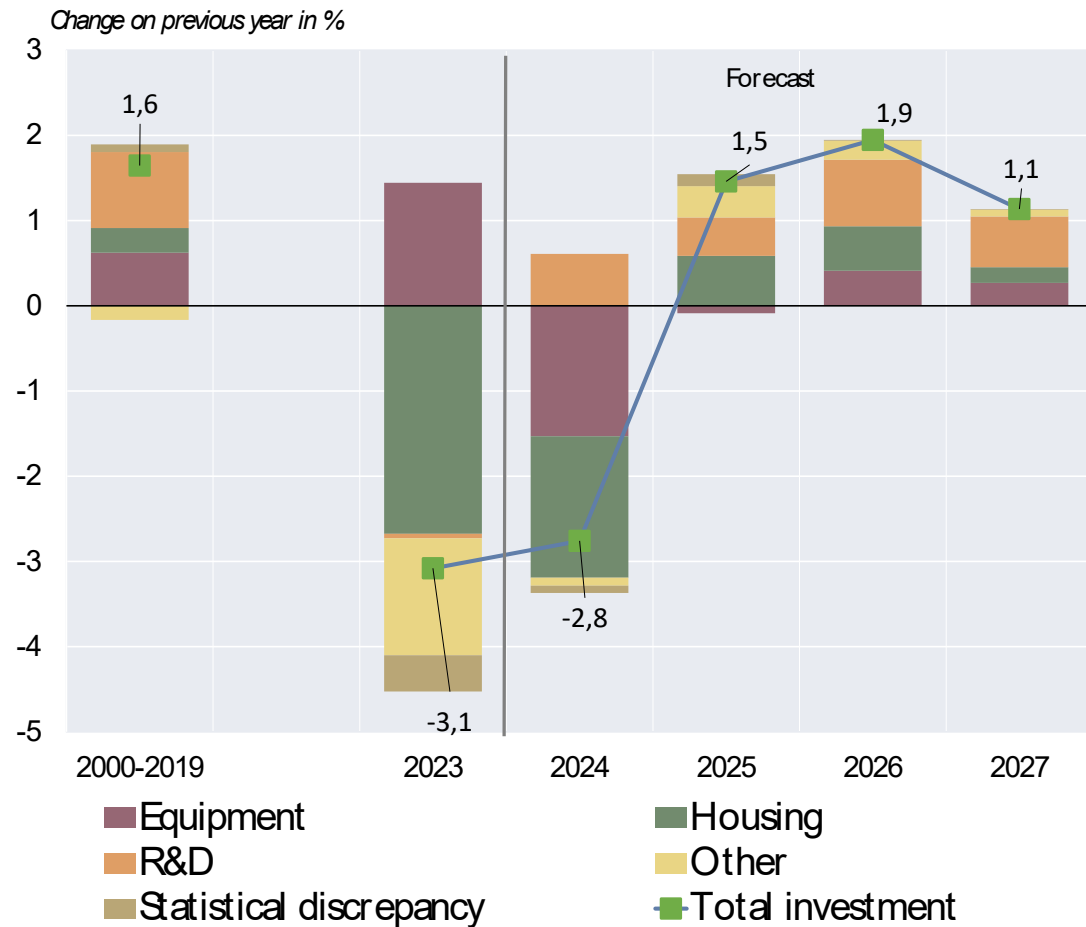
Investment in residential construction

- Sharp slump in 2023 and 2024
- Stabilization of building permits suggests slight recovery in 2025

R&D investments

- Stable development approaching historical average

Investment



Source: Eurostat, OeNB.

US import tariffs as a downside risk for activity and upside risk for inflation

Simulation using the Oxford global economic model

- 60% (CN) or 10% (RoW) tariffs plus retaliation
- 5% USD appreciation against EUR
- Direct import price effect of retaliatory measures

Slight downside risk for AT in the first year

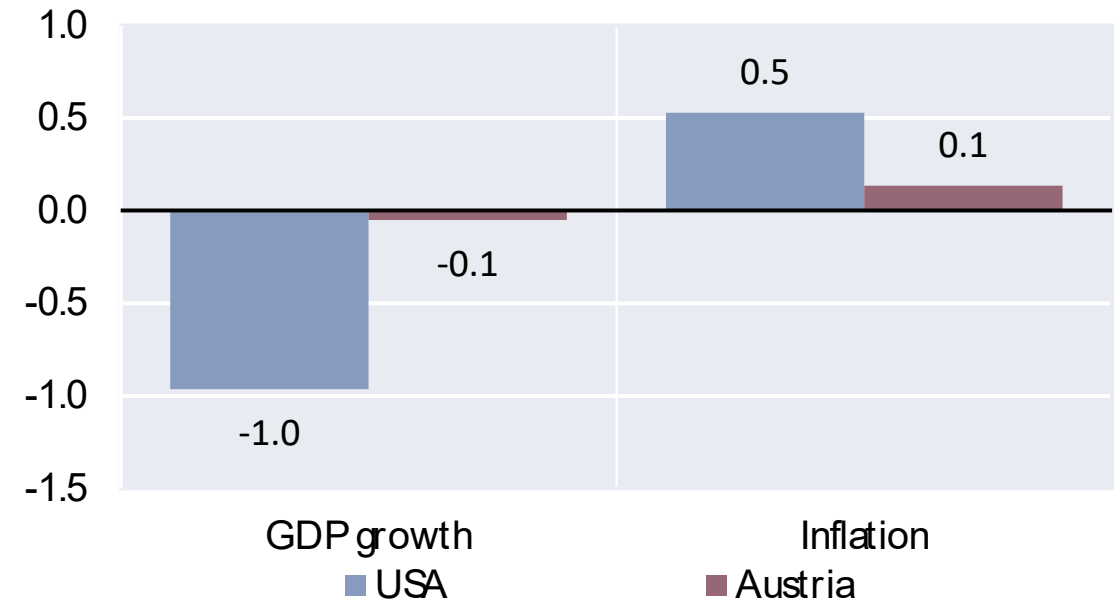
- High uncertainty thereafter: further escalation, monetary policy response, trade diversion of Chinese goods, relocation of production, etc.

Results of other studies for the short-run (2025)

	GDP		Inflation	
	US	AT (DE)	US	AT (DE)
OeNB (2024)	-1.0	-0.1	0.5	0.1
Felbermayr et al. (2024)	-1.7	-0.2	-	-
Mc Kibbin et al. (2024)	-0.4	(-0.17)	2.0	(-0.1)
Obst et al. (2024)	-1.3	(-0.3)	-	-
Saussay (2024)	-0.7	(-0.25)	-	-

Effects of US import tariffs in 2025

Growth effects in percentage points



Source: Oxford Global Economic Model, OeNB.

Increase in savings rate determined by inflation compensation, late effects of the COVID pandemic and interest rate increases

Development 22Q2 - 24Q1

- Savings rate increased by 6.7 percentage points (=0.83 PP per quarter)

Breakdown by components

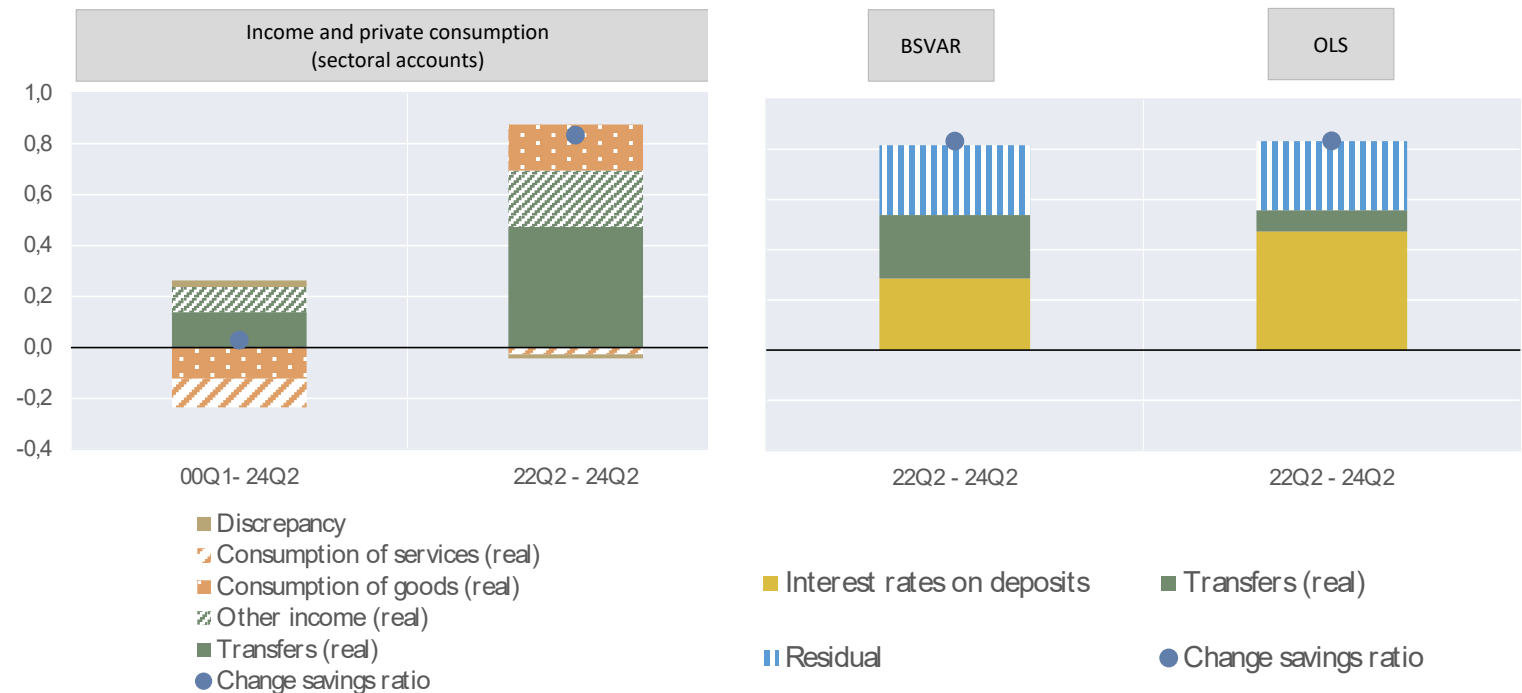
- Strong increase in transfer income (energy cost subsidies, pension increases) and declining consumption of furniture (COVID late effects) as drivers

OLS estimate and BSVAR

- Savings interest rates and transfers
- High proportion (approx. 1/3) of unexplained → uncertainty as a motive?

Contributions to change of the savings ratio from 2022Q23 to 2024Q2

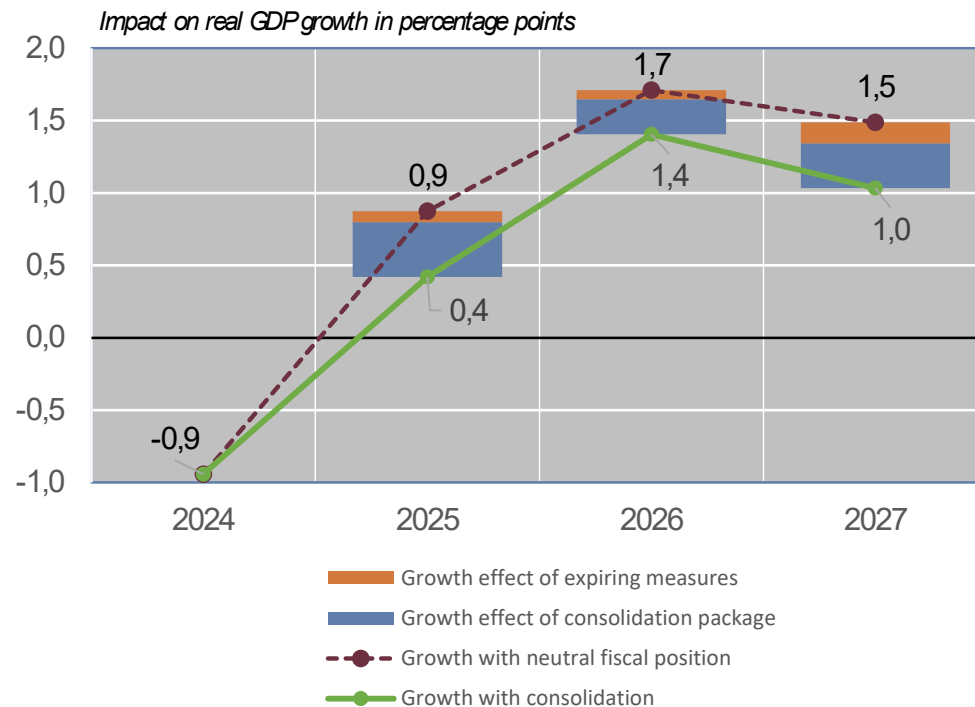
Change of savings ratio per quarter and contributions in percentage points



Quelle: Statistik Austria, eigene Berechnungen.

Growth effects of a probable consolidation package

Growth effects of a probable consolidation package



Assumed minimum consolidation

- 0.9 % of GDP (2025) and 0.5 % (subsequent years)
- A further -0.4pp “on top” of the energy measures already expiring

Sustainable consolidation unavoidable

- Focus on income/expenditure with low growth effects necessary
- Challenge 2025

Estimation of growth effects using the OeNB Fiscal Impact Measure

- 0.3 – 0.5 percentage points p.a.

Unit labor cost gap with the eurozone widens 2024 and remains elevated

Wage growth

- Marked decline in wage growth from 2025 onwards
- Wage share falls slightly as of 2025, but remains 2 ½ percentage points above the 1995-2019 average

Unit labor costs

- Unit labor cost gap with the euro area continues to widen 2024 and remains elevated
- Compared to 2019 (8 percentage points relative to 2010), the gap will widen to 21 percentage points by 2027

Inflation and wages in Austria



Unit labor costs in an international perspective

