

## EXECUTIVE SUMMARY

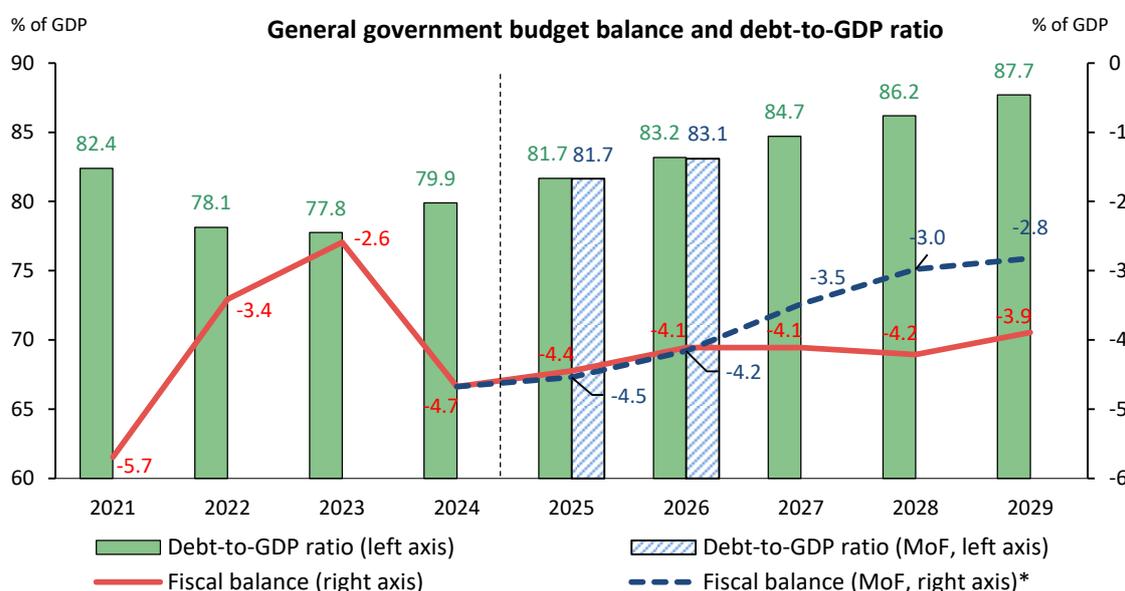
- Large parts of the COVID-19-related measures and inflation-relief support expired in 2024, yet the budget deficit increased to 4.7% of GDP. The total government deficit as a share of GDP was made up of the following contributions: central government (3.4%), regional governments (0.5%), local governments (0.6%) and social security funds (0.2%). In this context, the marked deterioration in the budgetary position compared with the pre-crisis years can be attributed primarily to the lasting economic and budgetary consequences of the multiple crises, generous, poorly targeted crisis support measures, ambitious climate-related policies, extraordinary pension hikes and large infrastructure investments – mainly into railroad infrastructure – and various tax cuts against the background of weak underlying macroeconomic performance. Economic policy measures introduced since 2020 had a negative impact of EUR 17.5 billion on the budget in 2024. Furthermore, the rise in age-related expenditure in the fields of health care, long-term care and pensions that has been forecast for decades started to emerge, and interest payments rose substantially, in line with the normalization of market interest rates.
- The looming excessive deficit procedure (EDP) that was then opened led the federal government to adopt a consolidation package totaling EUR 14.6 billion (fully effective in 2029) with a view to pushing the deficit below the 3% threshold again as of 2028. For 2026, the Fiscal Advisory Council expects the targeted consolidation volume of EUR 8.7 billion to be achieved. The deficits forecast for 2025 and 2026 are, at 4.4% and 4.1% of GDP, respectively, slightly below the figures planned by the federal government.
- For the years from 2027, clearly specified measures covering the consolidation targets in full have not been set out yet. The Fiscal Advisory Council believes that specific measures yielding amounts of EUR 1.1 billion (2027), EUR 2.0 billion (2028) and EUR 2.8 billion (2029) currently still need to be identified and implemented under the announced set of measures. The Fiscal Advisory Council also forecasts deficit ratios of close to 4% of GDP in the medium term, totaling 4.1% (2027), 4.2% (2028) and 3.9% (2029). Therefore, additional consolidation efforts will be needed. It is our estimate that, even if the measures announced by the government are implemented in full, this will not be enough to push the deficit below 3% in the medium term. The measures presented to date focus on reducing the gap between revenue and expenditure in the short term. However, the different levels of government have thus far failed to initiate measures to fundamentally change the structural growth differential between revenue and expenditure.
- The gap between revenue and expenditure that emerged during the pandemic will, despite the expiry of all crisis support measures, remain in evidence across the entire forecast horizon. Decreasing subsidies and slowing increases in expenditure for employee compensation (new pay deals) will be more than offset by rising spending on health care, long-term care and pensions. Furthermore, the large-scale military spending packages will start to have a negative impact on the budget, and investment into the railroads will remain high. Revenue growth largely reflects weak economic growth and has been dampened by tax cuts since 2019. Overall, the increase is not sufficient to close the gap between revenue and expenditure.
- While the planned government measures are suited to stop the deficit rising any further, the consolidation that has been initiated is not sufficient in the medium or long term to prevent the level of government debt rising further. The Fiscal Advisory Council forecasts that the debt-to-GDP ratio will rise steadily from 79.9% in 2024 to 87.7% in 2029. However, a maximum average deficit of 2.6%<sup>1</sup> of GDP per annum would be needed to stabilize or lower the debt-to-GDP ratio over the forecast horizon.

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<sup>1</sup> Macroeconomic feedback effects not included. Taking these effects into account would mean that the budget deficit needs to be reduced even further.

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- The Fiscal Advisory Council’s autumn forecast indicates that the annual growth in net expenditure will exceed the permitted limits in both 2027 and 2028. The differences are posted to a control account; the annual limits for the control account will also be exceeded in 2027 and 2028. Against this backdrop, additional corrective measures with a lasting effect of around EUR 0.1 billion will be required in 2027 for the permitted thresholds to be observed and for further steps to be avoided in the EDP. The limit breach in 2028, however, is attributable to a statistical one-time effect (no income from carbon emission trading) and will have no consequences under the EDP.
- Maintaining the net expenditure path is considered a sufficient adjustment (“effective action”) under an EDP, even if the deficit is not expected to fall below the threshold until 2028 according to the Fiscal Advisory Council’s autumn forecast. In this case, an extension of the EDP can be expected; financial sanctions are not likely at this stage.
- Based on the Fiscal Advisory Council’s autumn forecast, the deficit will remain well above the Maastricht limit of 3% of GDP in 2028. Consequently, there is a need for additional consolidation totaling EUR 8.9 billion (taking into account negative macroeconomic feedback effects) to meet expected requirements from the EDP or for the EDP to be closed. A sizable need for consolidation of more than EUR 5 billion remains, even if one takes into account the one-time loss of revenue resulting from the one-off statistical effect totaling EUR 1.6 billion – and even if the federal government’s consolidation plan is implemented in full by 2028. For the government’s consolidation plan to fully materialize the Fiscal Advisory Council sees consolidation need of about EUR 2 billion that still needs to be specified.
- The fiscal rules (“debt safeguard”) call for the debt-to-GDP ratio to be reduced by an annual average of at least 0.5 percentage points once the EDP has been closed. Achieving this will require a much smaller budget deficit of around 2% of GDP and consequently additional large-scale adjustment measures – alongside the consistent pursuit of the consolidation path that has been taken.



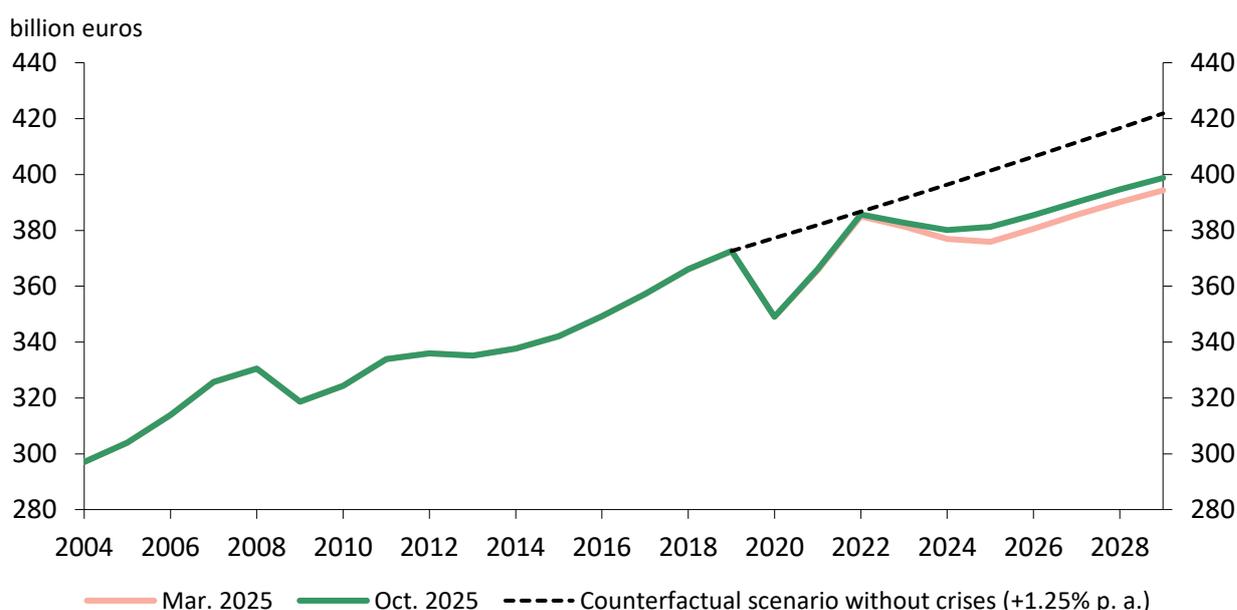
Source: Statistics Austria, FISK autumn forecast 2025 and MoF-ED Report 2026. \*) starting 2027 MoF-Strategy Report.

## MAIN RESULTS

The budget deficit rose to 4.7% in 2024 despite the expiry of large parts of the COVID-19-related measures and inflation-relief support. This increase was preceded by a largely balanced budget in the period from 2015 to 2019, when the average deficit across the economic cycle amounted to 0.4% of GDP. The marked deterioration in the budgetary position in such a short space of time can be attributed primarily to the lasting economic and budgetary consequences of the pandemic and the high-inflation period, generous, in part lasting, crisis support measures, ambitious climate-related policies, generous pension hikes, large infrastructure investments (mainly into railroad infrastructure) and tax cuts – which all came at a time when economic activity was weak. The lasting effects of the crisis comprise the much lower GDP trajectory (Chart 1) and the sharp rise in pension and health care spending in particular, as well as public sector investment. Also, we started to see the increase in demographics-dependent expenditure resulting above all from the aging of the boomer generation that has been forecast for decades. This led additionally to higher spending on health care, long-term care and pensions. Government debt rose sharply because of the high budgetary volume of temporary support measures; the high volume was the result of inefficiently designed crisis support – such as the compensation for lost sales – and a lack of information about households’ income situations (targeted transfers were only possible to a limited extent).

Uncertainty among consumers remained very high, despite the large transfers to households during the multiple crises. Nominal consumption constantly failed to match expectations and indirect tax receipts remained weak. The ongoing normalization of interest rates pushed up interest expenses sharply recently; that said, in 2024, interest payments relative to GDP were still below the level seen from 2015 to 2019, which helped counteract the rise in the budget deficit. Economic policies have been highly expansive since 2020, with the budget impact of stimulus measures amounting to EUR 17.5 billion in 2024. All levels of government contributed to the general government deficit in 2024, with the central government accounting for 3.4%. The budget deficits of regional governments, local governments and social security funds amounted to 0.5%, 0.6% and 0.2% of GDP, respectively.

**Chart 1: Change in real GDP since 2004**



Source: WIFO medium-term forecasts. Counterfactual scenario from Baumgartner and Kaniowski (2025).

**Consolidation efforts will stop the deficit from increasing, but they are not sufficient to prevent the debt-to-GDP ratio from rising further**

The fiscal position remains very difficult over the forecast horizon. The economic adjustment program launched by the federal government represents the first time since the pandemic that budgetary issues have been actively addressed. However, the consolidation volume of EUR 4.5 billion for 2025 is just sufficient to prevent a further sharp deterioration of the general government fiscal balance. The Fiscal Advisory Council’s forecast indicates that the fiscal balance will improve by the relatively small amount of EUR 0.3 billion to –EUR 21.8 billion in 2025, given the expected consolidation volume. This means that, without corrective measures, the deficit would have risen to well above the 5% mark. What is more, the economic recovery that is expected in the coming years and the additional consolidation efforts undertaken will not suffice to push the annual general government deficit below EUR 20 billion. Nominal GDP growth will help to steadily lower the deficit ratio from 4.7% of GDP in 2024 to 3.9% of GDP in 2029, thanks to the denominator effect (table 1). In 2028, the deficit will rise temporarily to 4.2% of GDP because of a statistical artifact created by the changeover from the national carbon emissions pricing scheme to the European emissions trading system (ETS II), which will give rise to an income gap.

The medium-term improvement in the fiscal balance is not, however, sufficient to prevent a substantial rise in the debt-to-GDP ratio. This will rise from 79.9% in 2024 to 81.7% (2025), 83.2% (2026) and 87.7% (2029) in the medium term. The deficit ratio that would allow for the debt-to-GDP ratio to stabilize would average 2.6%<sup>2</sup> of GDP over the forecast period, which is well below the forecast deficit path.

**Table 1: Main results of the autumn forecast of the Fiscal Advisory Council**

% of GDP	2024	FISK autumn forecast 2025				
		2025	2026	2027	2028	2029
<b>Fiscal balance</b>	<b>-4.7</b>	<b>-4.4</b>	<b>-4.1</b>	<b>-4.1</b>	<b>-4.2</b>	<b>-3.9</b>
Primary balance	-3.2	-2.8	-2.3	-2.2	-2.2	-1.7
<i>Memo: Cyclical budget component</i>	-0.7	-0.9	-0.6	-0.4	-0.2	0.0
<i>Memo: Structural primary balance</i>	-2.5	-1.9	-1.7	-1.8	-2.0	-1.7
Reference path, growth in %	-	2.6	2.2	2.2	2.0	2.3
<b>Net primary expenditure, growth in %</b>	<b>-</b>	<b>2.1</b>	<b>2.2</b>	<b>2.8</b>	<b>2.9</b>	<b>1.9</b>
<b>General government debt</b>	<b>79.9</b>	<b>81.7</b>	<b>83.2</b>	<b>84.7</b>	<b>86.2</b>	<b>87.7</b>
		MoF ED Report		MoF Strategy Report		
% of GDP	2024	2025	2026	2027	2028	2029
<b>Fiscal balance</b>	<b>-4.7</b>	<b>-4.5</b>	<b>-4.2</b>	<b>-3.5</b>	<b>-3.0</b>	<b>-2.8</b>
Primary balance	-3.2	-2.9	-2.4	-1.4	-0.8	-0.4
Reference path, growth in %	-	2.6	2.2	2.2	2.0	2.3
<b>Net primary expenditure, growth in %</b>	<b>9.2</b>	<b>2.3</b>	<b>2.0</b>	<b>1.5</b>	<b>1.5</b>	<b>2.1</b>
<b>General government debt</b>	<b>79.9</b>	<b>81.7</b>	<b>83.1</b>	.	.	.

Source: FISK autumn forecast 2025, MoF ED Report 2026 and Strategy Report, WIFO and Statistics Austria.

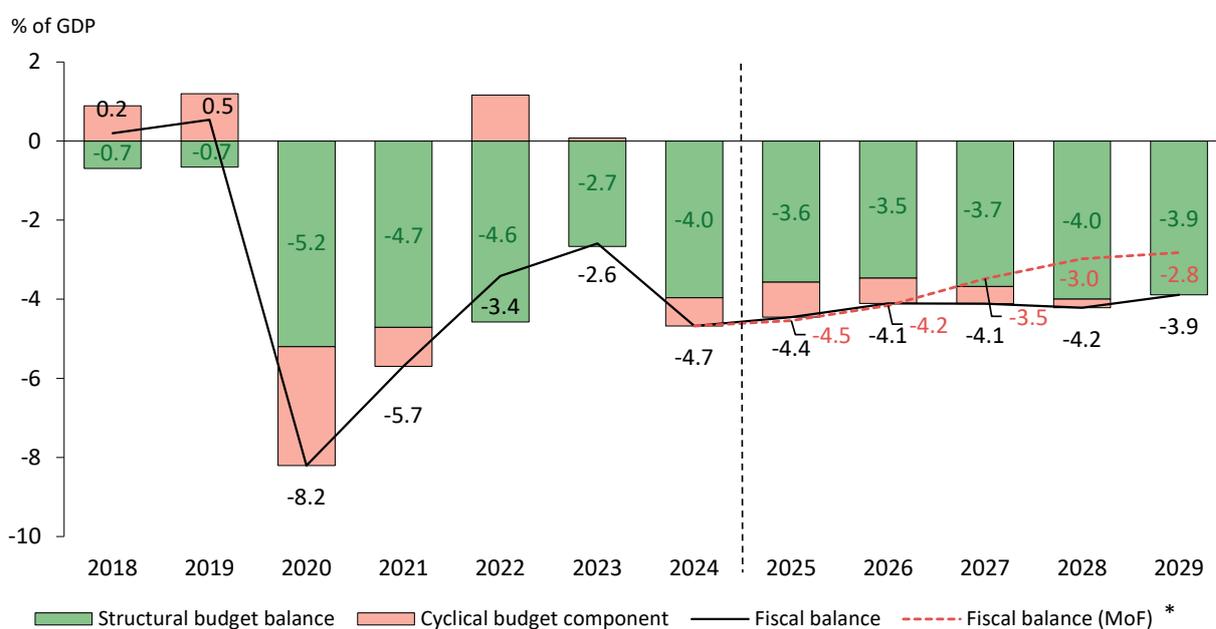
**The continuing structural deterioration is canceling out most of the additional consolidation effects**

Despite initial signs of a cautious economic recovery, Austria is still in a phase of distinct capacity underutilization. The unemployment rate has reached a new high of 7.5%. The weak economic performance

<sup>2</sup> Macroeconomic feedback effects are not included. When we take these effects into account, we see that the budget deficit should be reduced even further.

explains 0.9 percentage points of the projected 2025 general government deficit of 4.4% of GDP. The negative output gap will not start to close again until real GDP growth reaches 1.1% in 2026, as forecast by the Austrian Institute of Economic Research (WIFO). The structural primary balance adjusted for cyclical effects is expected to improve substantially from 2024 (−2.5%) to 2025 (−1.9%), but only very marginally thereafter, to −1.7% (2029) (chart 2). This means that much of the intensified consolidation efforts after 2025 will be canceled out by the underlying structural deterioration, without contributing to a structural budget improvement to any great extent. Accordingly, the improvement in the fiscal balance after 2025 will largely only be the result of the economic recovery that is forecast for these years.<sup>3</sup> Compared with the spring macroeconomic forecasts, inflationary pressures in particular are proving more persistent than expected (2025 consumer price index: +3.5% instead of +2.7%). Whereas this will even support the consolidation efforts in the short run thanks to substantial increases in revenue in nominal terms, the pressure on spending growth that will follow with a lag will give rise to additional challenges for the medium-term consolidation path.

**Chart 2: Austria’s structural balance and its components from 2018 to 2029**



Sources: Statistics Austria, FISK autumn forecast 2025 and MoF ED Report 2026. \*starting 2027 Strategy Report 2025.

### Despite the expiry of crisis support measures, economic policies continue to weigh heavily on the budget

A series of expansionary economic policies enacted over recent years continue to affect the fiscal balance over the entire forecast period. The measures implemented during the COVID-19 pandemic had a negative impact of EUR 18.0 billion on the budget in 2020 (chart 3). In the years that followed, the various crisis-related measures were replaced almost seamlessly by new packages, such that the total negative impact on the budget of EUR 17.5 billion in 2024 was only slightly below that of 2020, the first year of the pandemic. Among the factors weighing on the budget in the coming years are, alongside the reform of tax brackets included in the eco-social tax reform, the permanent measures enacted under the inflation-relief package (primarily including the lowering of payroll taxes and extraordinary pension hikes), the

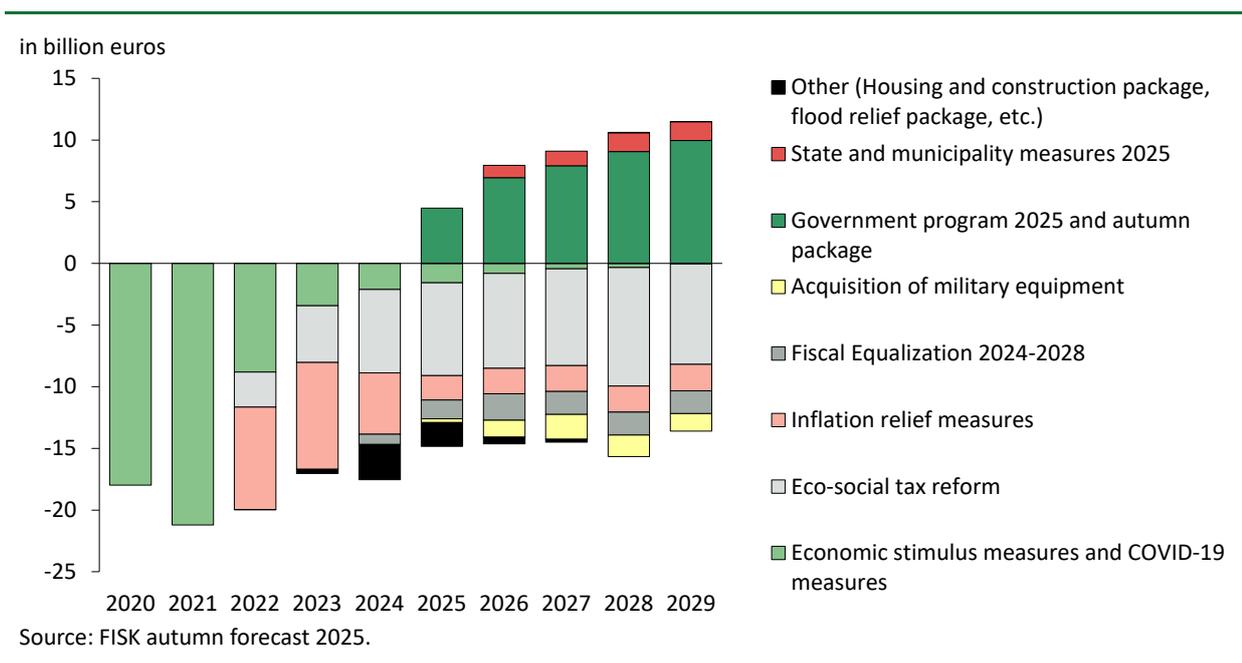
<sup>3</sup> The gradual disappearance of the cyclical component over time shown here can be attributed to the closure of the output gap within four years inherent in the EU methodology.

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additional central government funds assigned to regional and local authorities under the most recent fiscal equalization agreement and fast-rising defense spending.

The legislative agenda for 2025 represents a first visible attempt to address the budgetary issues. The major components of the consolidation package include abolishing “climate bonus” payments, suspending a third of the inflation indexation of the income tax schedule, limiting the “corridor pension” scheme, raising health insurance contributions paid by pensioners and concluding lower pay deals in the public sector. Furthermore, initial corrective measures have been set up at regional and local government level. Only those corrective measures that have been specified in sufficient detail are included in the Fiscal Advisory Council’s forecast, however. The Fiscal Advisory Council expects that the federal government’s consolidation target will be achieved in 2026. This will happen because the renegotiated lower pay rises for public employees take effect from next year – a year earlier than originally planned. At the same time, some cost-containment measures (task forces) remain outstanding, however. Starting from 2027, there is still an “implementation gap” totaling EUR 1.2 billion (2027), EUR 2.0 billion (2028) and EUR 2.8 billion (2029) from measures that have been announced but still need to be fleshed out. The implementation gap will total 0.5% of GDP in 2029. Given a forecast deficit of 3.9% of GDP in 2029, this means that, according to the Financial Advisory Council’s current assessment, additional measures would need to be taken to return the deficit below the 3% threshold in the medium term, even if all the announced measures were implemented in full.

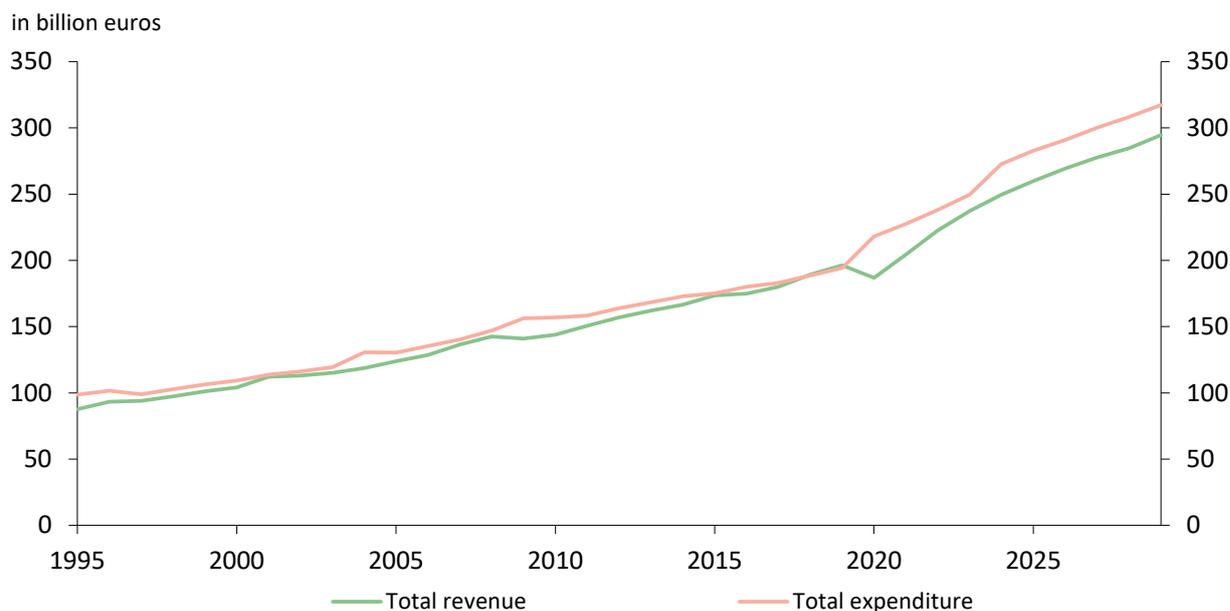
**Chart 3: Budgetary impact of economic policy measures**



### The gap between revenue and expenditure that emerged during the pandemic is becoming entrenched

Public spending rose quickly in response to the pandemic, with government revenue declining at the same time. Furthermore, the delayed impact of the period of high inflation and demographic change will increase public expenditure more than government revenue. The slump in the real economy caused government revenue to rise at a slower pace as well. Despite the expiry of all temporary crisis-related support measures, the gap between revenue and expenditure will persist across the entire forecast horizon (Chart 4). The continuously high budget deficits are a consequence.

**Chart 4: Change in nominal revenue and expenditure since 2015**

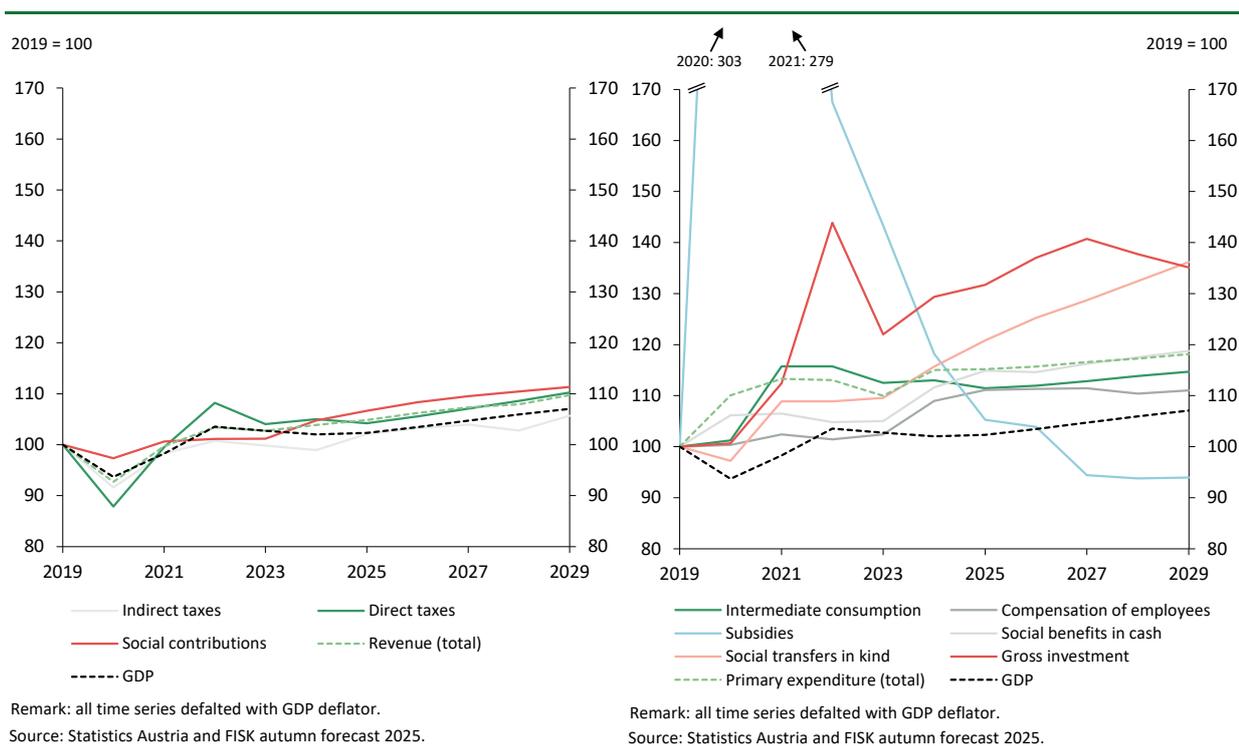


Source: Statistics Austria and FISK autumn forecast 2025.

A comparison of the real changes in the individual revenue and expenditure categories reveals the underlying dynamics of the emerging revenue-expenditure gap. In this context, Chart 5 shows the ESA budget categories in real terms (deflated using the GDP deflator), indexed to 2019. This makes it possible to carry out a relative comparison in real terms of the changes in the budget categories and in GDP, which the WIFO forecast expects to be 7% higher in 2029 than in 2019. All revenue categories largely follow the pattern of real GDP growth. Up until 2024, direct taxes and social security contributions grew somewhat faster than real GDP, due among other things to the rising labor share. Indirect taxes, by contrast, rose at a below-average pace during the same period on account of the weak outturn in the tax on mineral oils and the temporary suspension of energy and green electricity levies. This gap should close by the end of the forecast horizon. All in all, real incomes are currently rising somewhat faster than real GDP, which will also push up the ratio of government revenue to GDP.

The changes in expenditure are far more volatile than the changes in revenue due to the high levels of spending related to the crisis support measures. In particular, subsidies jumped to a high level in real terms during the pandemic but are expected to fall again to below the original level across the forecast horizon owing to the expiry of the support measures and a reduction of climate-related subsidies. By contrast, all other primary expenditure categories will grow much faster in real terms than real GDP. The relative increase in real terms through 2029 will be highest for social transfers in kind and gross investment spending, at 36% and 35%, respectively. The increase in social transfers in kind is mainly attributable to the entrenched sharp rise in spending on health care that was triggered by the pandemic. The rise in this expenditure category is the result of increased spending on health care provided by registered doctors – which is covered by the social security funds – coupled with the progressive aging of the population. The sharp rise in gross investment spending in real terms can be attributed to high capital expenditure on railroad infrastructure and defense. Real cash social benefits, and primarily pension expenditures, will increase by 19% through 2029 due to inflation and demographic factors, which is faster than real GDP (+7%). Low pay deals in the public sector through 2028 mean that real spending on employee compensation will, at around 11%, increase far less quickly, although this is still much faster than real GDP.

**Chart 5: Real change in revenue and primary expenditure components since 2019 (=100)**



### Planned measures are not sufficient to reduce the deficit to 3%

The Federal Ministry of Finance (MoF/BMF) expects a deficit of 4.5% of GDP in 2025 and 4.2% of GDP in 2026, according to the “Report on Effective Action to Correct the Excessive Deficit” published in October 2025 (BMF, 2025b; the “ED report”). The deficit ratios are thus unchanged from those in the spring as shown in the strategy report (BMF, 2025a). The composition of the deficit has shifted, however, with higher outlays by regional and local governments, which should be offset by improved central government and social security fund balances.

The development of the debt-to-GDP ratio is no longer directly comparable with the path expected in the spring on account of the sharp upward revision of nominal GDP by Statistics Austria in September 2025. According to the ED report, the debt-to-GDP ratio will rise from 79.9% (2024) to 81.7% (2025) and 83.1% (2026).

The Ministry of Finance’s forecast for 2025 and 2026, regarding both the deficit ratio and the debt-to-GDP ratio, is thus largely consistent with the present assessment by the Fiscal Advisory Council. As of 2027, however, the Fiscal Advisory Council’s forecast and the deficit path targeted by the federal government, as set out in the strategy report, start to differ greatly. Whereas the government plan aims for a gradual reduction of the deficit to 2.8% of GDP by 2029, it will, according to the Federal Advisory Council’s autumn forecast, only decline to 3.9% of GDP as things stand today. The difference can be explained in part by measures factored into the government plan but not yet adequately specified so that the Fiscal Advisory Council cannot take them into account in its forecast at this point in time. As the “implementation gap” for 2029 currently stands at 0.5% of GDP, however, this explains just under half of the different medium-term assessment of the fiscal balance. This means that, based on the present forecast, the Fiscal Advisory Council believes that additional consolidation efforts that have not yet been announced will be needed to lower the deficit to less than 3.0% of GDP by 2029 as planned.

**So long as the net expenditure path is maintained, breaching the deficit limit in 2028 will only lead to the EDP being extended**

Maintaining the net expenditure path is considered a sufficient adjustment (“effective action”) under an EDP, even if the deficit – as shown in the present Fiscal Advisory Council autumn forecast – will not fall below the threshold until 2028. In this case, an extension of the EDP can be expected; financial sanctions are not likely at this stage.

Based on the Fiscal Advisory Council’s autumn forecast, however, annual net expenditure growth will exceed the permitted limits in both 2027 and 2028. The differences are posted to a control account, and the annual limits for the control account will also be exceeded in these years. Additional corrective measures with a lasting effect of around EUR 0.1 billion will be required in 2027 for the permitted thresholds to be observed and to prevent the EDP from being stepped up. The overshoot in 2028 can be attributed to the one-off statistical effect from the delayed booking of the income from the ETS II; according to an assessment provided by the European Commission, this will not be treated as a rule breach.

Based on the Fiscal Advisory Council’s autumn forecast, the deficit will remain well above the Maastricht limit of 3% of GDP in 2028. Consequently, there is a need for additional consolidation totaling EUR 8.9 billion to meet the expected requirements from the EDP or for the EDP to be closed. A considerable need for consolidation remains, even if the federal government’s consolidation plan is implemented in full by 2028, and taking into account the one-time loss of revenue resulting from the one-off statistical effect.

The fiscal rules (“debt safeguard”) call for the debt-to-GDP ratio to be reduced by an annual average of at least 0.5 percentage points once the EDP has been closed. Achieving this will require a much smaller budget deficit of around 2% of GDP and also additional large-scale adjustment measures – alongside the consistent pursuit of the consolidation path that has been taken.