

# Austria 2016



**Total: 76.57**

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## Quick facts

Population:	8.621 million
Unemployment rate:	5.7 %
GDP:	350 682 billion EMU
GDP growth rate:	0.9 %
GDP per capita:	40 680 EMU

## Political Freedom

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### Free and Fair Elections : 9.64

Austria retained the same score, regarding elections, as in the Freedom Barometer 2015 issue. However, it will expectedly decline in the next year`s edition, due to the fact that the second round of presidential elections, held in May 2015, was annulled by the Austrian highest court. The decision was made on the grounds of broken rules that could have had influenced the result, albeit without a proof that it had influenced the final count. Aside of this, Austria generally maintains free and fair elections. It was demonstrated during a couple of state or local elections in 2015. The country`s bicameral parliament consists of the National Council (the lower house) and the Federal Council (the upper house). It shares constitutional power with the President of Austria.

### Absence of Unconstitutional Veto Players : 8.33

Austria doesn't have unconstitutional veto players, but allegedly some influential people from politics and businesses can interfere in government decisions. Corruption is not that often in Austria. However some cases which included high ranking politicians do occur, and prosecution processes can be very slow. Transparency International ranked Austria on a high 16th place in their 2015 Corruption Perception Index.

### Freedom of Press : 7.7

Press is free in Austria. Broadcast, print, radio and online media outlets enjoy high level of freedom and independence. Government aims to ensure sustainability of printed media by

increasing subsidies to all newspapers. It started discussion on the topic in 2015. More importantly, in 2015, the discussion on a new freedom of information law has started. According to Freedom House, journalists have criticized parts of the first draft, such as, among other things, the restricted definition of “information”, or the lack of independent oversight body. Austria is known for its very bad access to information mechanisms. Defamation remains punishable by the criminal code.

## Rule of Law

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### **Independence of the Judiciary : 6.84**

The judiciary in Austria is to a large degree independent of the influences of the executive power or corruption. Citizens maintain huge trust in it. The average mark citizens gave it regarding its integrity, on the scale between 1 (best) and 5 (worst), was 2.5, according to Transparency International. Of other fields of public life, just education (2.3), NGOs (2.3) and military (2.5) could match it. In mid-2016, the Constitutional Court demonstrated its autonomy by annulling and ordering a re-run of the second round of presidential elections (held on 22 May), due to relatively small irregularities regarding postal ballots and eligibility for voting. Both candidates and all major political parties have nevertheless accepted the decision without further comments.

### **Corruption : 7.6**

Corruption is a non-neglect problem, even though the country is better than the EU average. Transparency International's Corruption Perception Index 2015 is placing it, together with the USA, as 16 (out of 168 countries). Austria's situation and CPI score are improving ever since 2013. Citizens perceive business and political parties as areas most affected by corruption. In August 2015, a civil employee and a media owner were convicted for misuse of state advertising funds. Favoritism towards friendly companies or individuals in public procurement, fraud or bribery, especially at the regional or local level, remain as Austria's competitive disadvantage vis-a-vis other advanced parts of the EU. Employment in local administration, or job advancement, might be dependent on the adherence to the rules of political correctness as set by the specific political parties that govern the place.

### **Protection of Human Rights : 9.06**

Level of protection of human rights is high. Academic freedoms, as well as freedom of religion, are hardly disputable. The sole limitations to freedom of speech - those regarding a ban on neo-Nazi or anti-Semitic propaganda - might be explained by history. Equality under the law as a principle is enshrined in legislation and public discourse. Alas, recent refugee crisis reintroduced some discriminatory practices – and derogatory speech - against immigrants or foreigners. Austria did not build walls to control the flows of migrants, yet since 2015 it has de facto suspended free movement of people across some of its borders within the Schengen Area. In its efforts to cope with the enormous number of refugees or asylum seekers, Austria has had varying success, as elaborated in the annual report by Amnesty International for 2015/2016. Treatment of same-sex couples is improving - registered partnerships were recently granted additional adoption or reproductive rights. Women are well represented in politics and employment, although overall

there is still a gender pay gap.

## Economic Freedom

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### **Security of Property Rights : 7.54**

Property rights in Austria are well secured. Expropriation of property in Austria is extremely rare. It happens only in cases when public interest is at stake. It can proceed only on the basis of legal justification as well as on the condition that the owner receives a just compensation. Judiciary is independent from the executive government and other out-of-the-court interests, securing the overall high legal system's integrity. However, sensitive cases must be reported to the Ministry of Justice, which could then issue instructions. Effective bankruptcy procedures allow for high recovery rate. Enforcing contracts could be more expeditious. High remuneration for attorneys and a long procedure of enforcement of judgment elevate costs. Court efficiency could be increased by introduction of adjournment regulation, limiting them to exceptional circumstances and limiting their maximum number. Furthermore, transferring real property could also be lengthy, depending on the performance of district courts and respective land registry, with significant incurring costs due to registration fees and transfer tax. Reliability of the police is high, making business costs of crime low.

### **Size of Government: Expenditures, Taxes, and Enterprises : 3.66**

Government in Austria is excessive, with high public expenditures, reaching 51.7% of GDP in 2015. Such high level of consumption is mostly due to high social transfers due to redistributive schemes, especially in the field of retirement plans and healthcare. These costs are projected to continue to grow substantially due to demographic changes. Pension system is already unsustainable, due to high dependency ratio, coupled with high substitution levels and an activity level in the labour market that is much lower than in comparative countries. Austria has been recording sluggish economic growth recently, but it is expected to pick up due to acceleration in partner countries and increase in exports, as well as due to the implemented tax reform. Although measures of fiscal austerity delivered results in containing the deficit, public debt is at an elevated level of 86% of GDP in 2015, asking for further prolonged efforts to comply with the Maastricht criteria. High taxation level is needed to sustain excessive government consumption in Austria. Austria has introduced significant changes in its taxation system, effective since January 2016, moving away from taxing labour and somewhat lowering progression of the personal income tax. The lowest income (above 11 000 euro per annum) is now taxed by 25% instead of 36,5%; higher tax rate of 50% is now applied on a much higher threshold than before. And, a new rate of 55% was introduced for the highest earners. At the same time, a new VAT rate of 13% was introduced for certain goods and services, alongside the already existing 10% and 20% rates. Corporate income tax remains 25%. Social security contributions still remain high, divided between the employer (21.7%) and the employee (18.2%), which, coupled with the income tax, keeps the tax wedge high. State-owned enterprises (SOE) are mostly concentrated in the utility and infrastructure sector, but the government holding OBIB holds minority stocks in many other companies where government presence is unnecessary. SOEs abide by the same rules in the market as private companies, not distorting competition except in areas considered as government monopolies.

## **Regulation of Credit, Labour, and Business : 7.4**

Business regulation in Austria is generally considered to be business friendly. Starting a business is not well organized, with long procedures at local courts. There is a high paid-in minimum capital. Getting electricity is relatively expensive, but it is fairly easy and quick. Obtaining a construction permit is not just lengthy but also a costly procedure. Tax procedures are not overly burdensome, with low annual number of tax payments and widespread use of electronic payment. Labour regulation is a mixture of flexible and restrictive practices. Working hours are flexible and there are no limitations to fixed term contracts, thus lowering difficulties in hiring. Low severance pay and short notice periods also bring flexibility to the labour market, but this is often offset by priority redundancy rules and reemployment obligations. Trade unions in the country have a strong role and social dialogue is widespread in many industries. There is no general minimum wage but industry-specific rules of employment, among which minimum remuneration is determined through social dialogue. Vast majority of work-force is covered with some kind of collective bargaining. Obligatory military conscription lasts for six months.

## **Freedom to Trade Internationally : 8.8**

Freedom of trade is generally respected in Austria. Taken the open small economy, foreign trade is very important for Austria, encouraging specialization in production. Being one of the EU members, Austria implements the common European trade policy with overall low tariff rates. However, some non-trade barriers regarding product standardization and certificates pose obstacles to free trade. Customs service is professional and very efficient, being at the efficiency frontier regarding the number of border compliance hours. Trade is facilitated by good public transport infrastructure, which considerably reduces freight costs, but port infrastructure quality is

lagging behind railways and roads. The railway sector is controlled by the government, i.e. by the public-owned enterprise which is relying on public subsidies, reducing competition and stifling innovation. Main Austrian trade partners are its advanced neighbouring EU countries, Germany and Italy, as well as Switzerland. Since Switzerland is neither an EU nor European Economic Area member-state, trade relations with it are maintained via series of bilateral treaties. Austria is one of the few countries within the EU that has prolonged restrictions regarding access of Croatian citizens to its national labour market, in the sense of work permits, which are unnecessary only for some professions. Furthermore, foreign nationals face restrictions in some professional areas, such as diploma nostrification.