

# Austria 2018



Total: 75.49

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## Political Freedom

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### Free and Fair Elections : 9.64

Despite the irregularities that had led to the repeat of the runoff of the Austrian presidential elections in 2016, elections in this country have been free and fair. Turbulent years of Austrian politics continue throughout the observing period. Disagreements in the ruling coalition between Social Democratic Party of Austria (SPÖ) and Austrian People's Party (ÖVP) led to early parliamentary elections on 15th of October 2017. Political parties enjoyed free and fair competition at the elections for the Parliament's lower house - Nationalrat. Political narrative in the country is dominated by the migration policies, with divisions alongside political lines and within society. Although the far-right nationalist party - Freedom Party of Austria (FPÖ) was defeated in the presidential elections, it found its place in the newly built Government of Austria, coalescing with the winner of the elections, the ÖVP. Government was formed in December 2017, with Sebastian Kurz from the ÖVP as the Chancellor (Prime Minister), marking a start of more conservative times in Austrian politics.

### Absence of Unconstitutional Veto Players : 8.33

Austria doesn't have unconstitutional veto players, which is reflected through clear capacity of elected representatives to shape the country's politics. Individual cases of corruption among public officials threaten to undermine the trust in democracy, however mechanisms for prosecuting corruption are efficient and in place. Most prominent such case was the one of a former Minister of Finance, charged for embezzlement. Separation of powers, on legislative, executive and judicial branch, is clear, preventing any threats to undermine democracy.

### Freedom of Press : 7.8

Freedom of the press, granted by the Austrian Constitution, is respected in practice. Journalists are free and independent in their work. However, lack of legislative reforms, turbulent times in politics and country's more conservative orientation definitely had an impact on media environment in Austria. Both political and economic pressure is present, and used to pressurize media reporting. Deterioration of trust in media as a credible source of information, a trend widespread across Europe, allowed politicians, even those from governmental circles, for harsher rhetoric towards journalists. State advertising is a tool which both sides try to take advantage of, resulting in biased reporting in favor of ruling structures. Concentration of media ownership is high. Austria also faces a growing trend of fake news, widely distributed by using social media to shape public

opinion and discredit politicians.

\* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

## Rule of Law

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### **Independence of the Judiciary : 6.92**

Austrian judiciary has proven as independent from the executive branch in numerous politically sensitive cases, from the request for a re-vote at presidential elections in 2016 to a few recent proceedings for alleged corruption or other misuse of office, against Ministers or other high-ranking members of both currently or previously ruling political parties. Finally, in December 2017, Constitutional Court has suspended discriminatory provisions in the laws on marriage and on registered partnerships, thus de facto allowing same-sex marriages after 1 January 2019. Criminal and civil courts are largely free of favoritism, discrimination or corruption, and trusted by citizens.

### **Corruption : 7.5**

Many citizens perceive the entire political class in Austria as corruption-vulnerable and suspicious. Public sector, as being traditionally larger than in comparable countries, provides a fertile ground for it. Recent investigations showed that even Ministers might not be immune – from military procurement to real estate management there were scandals which are currently a matter of judicial proceedings or trials. Politics and banking are more intertwined than in the neighboring Germany. In the past, there were corruption scandals involving huge Austrian banks. Partisanship is present also in the public sector employment. Added the deficiencies in transparency, i.e. in public access to information (there is no political consensus on removing the obsolete “state secrecy” rules), it is very difficult for - otherwise free - press and active NGO sector to cover and analyze numerous dubious decisions by the governments at various levels and whistle blow at the most questionable ones. But, generally, the situation is far from bad, especially taken that petty corruption is very rare. Austria is relatively highly ranked – sharing the places 16-18/180 with Belgium and USA - by the Transparency International in its CPI 2017 report.

### **Protection of Human Rights : 8.64**

There is a multiple, legal and societal, protection of human rights in Austria. As Freedom House noted, academic freedom is generally upheld and “educational system is free from extensive political indoctrination”. Limitations to free speech are mainly in place to deter hate-speech. In spite of the latter, xenophobic and immigrant-skeptic rhetoric is widely and increasingly present in public discourse, especially upon the entrance into Government by the far-right party FPÖ (as a junior partner). Lots of efforts are put by provincial or local governments to integrate people of immigrant background (language training, cultural exchange, etc.), but some of them (such as Roma) still face discrimination in housing, or by service providers. Religious communities are treated differently, whereby foreign funding is allowed to some and restricted to others (such as

Muslims). US State Department noted human (forced-labor, or sex) trafficking as a problem in Austria (it is mainly a transit country), but also government efforts to fight it. Gender pay gap is still wide. In 2017, there were changes in the regulation of street demonstrations, such as longer announcement period (48h instead of 24h), larger safety zones between rival groups and restrictions for the participation of foreign politicians.

## Economic Freedom

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### **Security of Property Rights : 7.43**

Property rights in Austria are well secured. Expropriation of property in Austria is extremely rare, limited to rare cases of public interest, and even that on the basis of legal justification followed by market value compensation to the owner. Judiciary is independent from the executive branch of government or other out-of-the-court interests, thus securing the overall high integrity of the legal system. However, sensitive cases must be reported to the Ministry of Justice, which could then issue legal instructions. Since there are no special commercial courts (apart from the one in the capital Vienna), most commercial cases are administrated by regional courts. Effective bankruptcy procedures allow for a very high recovery rate of 80% of the liabilities, within a reasonable time frame; most companies are not sold through liquidation procedure but as going concerns. High attorney and court fees, and long procedure of contract enforcement, substantially elevate litigating costs. There are no strict adjournment rules, which impede court efficiency: adjournments should be limited to exceptional circumstances, same as their maximum number. New cases are assigned randomly to judges, but manually, and not through court automation services. Transferring real property could also be lengthy, depending on the performance of district courts and respective land registry, with significant costs due to registration fees and a high transfer tax. Legality of 12 Bilateral Investment Agreements (BIT) with the new EU member states are considered dubious by the European Commission; in March 2018 the European Court of Justice called arbitration clauses in these treaties incompatible with the EU law. These BITs will, therefore, have to be changed or abolished. For acquisitions of enterprises in strategic industries above the threshold of 25% one needs approval from the Ministry of economic affairs.

### **Size of Government: Expenditures, Taxes, and Enterprises : 3.47**

Government consumption in Austria reached 49.7% of GDP in 2017, mostly due to high social transfers through redistribution schemes, but also for public pensions and healthcare. These costs are projected to continue growing substantially due to demographic changes. As in many other countries, pension system is unsustainable due to high dependency ratio. High substitution levels and an activity level in the labour market much below the one in comparative countries also pose problems. Economic growth has picked up, due to good economic developments in the main partner countries and a rise in private consumption after the tax reforms, doubling from 1.4% in 2016 to 2.9% in 2017. The deficit has been halved from 1.5% of GDP in 2016 to 0.8%, while the public debt is on a downward path, although still at the high level of 79% in 2017, well above the Maastricht criteria. State-owned enterprises (SOE) are mostly concentrated in the utility and

infrastructure sector, but the government holding OBIB holds significant minority or even majority stocks in many other industries, such as the post office, gambling casinos, telecommunications, etc. Majority equity of energy providers is in state ownership, which can have negative effects on investments and competition. SOEs mostly abide by the same rules in the market as private companies, not distorting competition, except in areas considered as government monopolies, but close political connections between managing boards and political parties can be attested. These political ties could in some cases be misused to prolong legal disputes and their implementation. High tax rates are necessary to finance high government expenses. Corporate income tax is still 25%, but the newly elected government vouches to decrease it through the tax reform scheduled for 2020. Social security contributions remain high, which, coupled with the income tax, keeps the labour tax wedge much above the OECD average, at 47%. The changes in the tax rates in 2016 somewhat lowered this from the starting point of 49.6% in the previous year, but to the detriment of the consumption taxes which were increased through implementation of the new 13% VAT rate (alongside the 10% and 20% rates).

## **Regulation of Credit, Labour, and Business : 7.07**

Business regulation in Austria is generally considered to be business friendly. However, bureaucracy is extensive and regulations are complex. Starting a business is not well organized, with long procedures including local courts, the tax office and even the chamber of commerce. All those procedures make setting up a new business in Austria last up to three times longer than the EU average. Furthermore, there is a high paid-in minimum capital of 5,000 euro. Obtaining a construction permit is associated with several very long procedures, taking up to 7.5 months on average; and it could be prolonged due to strict environmental protection regulations. Getting electricity is relatively simple, with only 7 procedures, but it is very expensive. Tax procedures are not overly burdensome, with low annual number of tax payments and widespread use of electronic services. Labour regulation is a mixture of flexible and restrictive practices. Hiring is flexible since there are no limitations to fixed-term contracts and their duration, and there are low severance pay and short notice periods. However, there are high premiums for overtime and restrictive regulation on the length of overtime, coupled with priority redundancy rules and reemployment obligations. Social dialogue and collective bargaining are widespread in many industries. There is no legal overall minimum wage, and there is a widespread collective bargaining system concerning minimum wages according to different industries. However, in June 2017, an agreement was made through social dialogue that from 2020 on no collective agreements should offer less than 1 500 euros per month, which in fact has the same effect as a general minimum wage. Sectors with wages below this threshold have, until 2020, to alter their collective bargaining agreements accordingly. Many professional services are strictly regulated via certificates of competence or education requirements, limiting new entrants to the market, especially those from other EU countries. Although it was expected that the reform of the Business Licence Act in 2017 would alleviate this problem, effectively no liberalization took place. Restrictive labour regulation, inefficient government bureaucracy and high tax rates have been identified as the most problematic business factors in 2018.

## **Freedom to Trade Internationally : 8.69**

Freedom of trade is generally respected in Austria. As an EU member state, Austria implements the common European trade policy with overall low tariff rates, with the average applied MFN rate of 5.1%. However, tariffs on agriculture products could be significantly higher. Also, non-trade barriers, such as product standardization and certificates, continue to pose obstacles to free trade.

Customs service is professional and very efficient, requiring only 4 documents, both for export and for import of goods, while a good quality of public transport infrastructure reduces freight costs and facilitates trade. The railway sector is under government control though an SOE, which is relying on public subsidies. Main Austrian trade partners are its advanced EU neighbours Germany and Italy, as well as Switzerland. Austria is one of the rare countries within the EU that still requires work permits for Croatian nationals, prolonging this restriction until the end of the transition period in 2020, after which these restrictions would not be feasible anymore. Immigration procedures for foreign workers are slow and restrictive, while foreign diploma nostrifications and professional licensing pose restrictions to other EU nationals in some professions. Austria ratified the Trade Facilitation Agreement of the WTO in 2015, but it has not yet taken actions to implement it.