



2012

AUSTRIA

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ECO 310-90

11/18/2012

Note: This paper uses APA style. However, the in-text citations should have been inside the periods rather than after them.

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The country of Austria has had a rich history. It traces back to pre-historic times with the Celtic people originally settling in that area along the Danube River around 50,000 B.C.E. Countries and their Cultures.) The country is located in Central Europe and shares borders with eight other countries including, but not limited to, Italy, Germany, Hungary, and Switzerland. It covers 32,377 square miles, with only 32% of the country below 1,640 feet due to it being situated in the Alps (Austria.)

With its over 8.4 million residents, Austria is now one of the richest countries in the world. It has a nominal per capita GDP of \$46,330, has a well-developed social market economy, and developed a high standard of living (Austria.) In fact, it's one of the top 15 United Nations countries for Standard of Living (Market and Customers, 2012) Austria has been a member of the United Nations since 1955 and also became a member of the European Union in 1995. As with other member states of the European Union, it adopted the euro as its currency in 1999.

Austria has a workforce of approximately 4.2 million. The country sees approximately 67% of workers employed in services, while there are 28% in industry and 5% in agriculture. (DHL, 2012)

International Trade

Austria is sustaining economic growth and has become the fourth richest country in the European Union. In the first half of 2012, their exports had a growth of 1.6%, and imports grew 1.1%. (Table 1) They have a trade deficit of 3.72 billion euros, down from the 4 billion euros they faced in 2011. (Xinhua, 2012) Although Austria has great trade relations with Switzerland, the United States and China, their strongest relationship is with Germany. In fact, Germany is one of Austria's largest partners in exports.

The over eight million consumers in the country are benefiting from economic policies that are market oriented and that also include limited restrictions that are imposed. (Market and Customers, 2012)

Exports:

Austria's volume for exports was \$180.7 billion in 2011. In recent times, the Austrian Federal Economic Chamber has developed a marketing campaign of "Go International" in an effort to increase their exports and to concentrate on the emerging markets of Asia, the Middle East, Latin America, and a few African nations. Their goal is to increase their shares of exports to these markets from 14 percent to 20 percent by the year 2020. (Xinhua, 2012) Some of the major exports include iron and steel products, timber, paper, textiles, electro-technical machinery, chemical products, and food products. (DHL, 2012)

Imports:

Austria's volume for imports was \$183.1 billion in 2011. Their biggest volume of imports comes from Germany, with a volume share at 44.5%. (Austria Trade, Exports and Imports, 2010) Some of their major imports include machinery, vehicles, chemicals, iron and steel, metal goods, fuels, raw materials, and food products.

Commercial Policy

The tariff rate for imports in the European Union varies depending on the good. The highest Austria has seen came in 1990 at 5.86, and the lowest rate was seen in 2009 at 1.54. (Austria- Tariff Rate) The tariff rates are low for most of the U.S. exports, and U.S. firms don't have any non-tariff barriers if they enter the market in Austria. Also, there are tariff quotas that are important to know for goods such as electronics and chemicals. These are given on a "first-come, first-served licensing basis." (United States Commercial Service, 2012) Import licenses are required in Austria for several products, such as agricultural produce and products. (United States Commercial Service, 2012)

Also, the government in Austria is in the process of constructing new wind farms and have put 11.5 million euros towards the project. Austria, through the Austrian Economics Ministry, has developed new “feed-in” tariffs that are for these wind and solar farms. These tariffs were 9.45 cents per kWh in the later part of this year in a way to provide incentives for the construction of wind farms in the country in “efficient areas.” (Brown, 2012)

Exchange Rate Determination (Past, Present, and Future)

The Austrian currency is the euro, adopting this in 1999 after becoming a member of the European Union. Currently, the exchange rate is approximately one euro equals 1.27 US dollar. (Austrian Economy-Table 2)

From the years 1957 through 2012, the Euro Exchange Rate averaged around 1.3600. Its highest number came in 1973 at a rate of 1.8700, and the lowest rate occurred in 1985 at a rate of 0.7000. (Euro Exchange Rate)

Foreign Direct Investment Policies

In 2010, the total of foreign direct investments in the country of Austria was at 124 billion euros. (Austrian Business Agency, 2012) There have become 303 CEE headquarters to locate in Austria, which dominates other competitive countries that account for 84 headquarters combined.

As stated earlier, Germany has become a major partner with Austria and is the most important investor to the country. They account for more than 14% of Austria’s foreign direct investment. (Austrian Business Agency, 2012) In reference to soft business location factors, as noted below, Austria is now rated among the best in the world in international rankings. (Austrian Business Agency, 2012)

These refer to the following:

- Quality of life
- Security
- Legal certainty

- Protection of people and property.

Tax Policies:

Austria levies a high tax and Social Security burden on labor income. (Taxing wages: Country Note for Austria, 2012) Single taxpayers making an average wage bring home about 52% of total labor costs. Those that make a higher wage take home less than 50%. (Taxing wages: Country Note for Austria, 2012) Their maximum Social Security rates are at 21.7%-21.83% for the employer and 18.07% to 18.2% for the employee. (Austria Income Taxes and Tax Laws, 2012)

Austria's individual income tax rates are progressive, ranging 0% to 50% in four tax bands. Their corporate tax is at 25%, and capital gains of companies are at a 25% tax rate. Foreign companies are tax exempt for dividend income and capital gains due to the participation exemption rules. (Austria Income Taxes and Tax Laws, 2012)

A corporation tax is imposed on a company's profits, and these are the following: business/trading income, passive income, and capital gains. Capital gains are generally taxed at the same rate as ordinary income. Various incentive programs are available, such as 10% cash premium on certain R&D expenses. (Austria Highlights, 2012)

Austria also has a real property tax of up to 2% on up to five times the assessed value of the property. They do not pose, though, any such inheritance/estate tax or net worth tax on individuals. (Austria Highlights, 2012)

Economic Structure and Performance

Degree of Privatization:

Austria has had its milestones through the years of dipping its hands in privatization. It has such a strong history of government intervention, and over the last decade it's seen many attempts in

privatization in the areas of transfer of ownership and liberalization to activities to promote competition within the government.

In the nineties, Austria had one of the largest privatization experiments it had seen by selling the majority of all large industrial firms (transfer of ownership). After going through many steps, this privatization experiment was a success. Austria also tried to privatize two of their largest banks but failed in doing so. Revenues from privatization are large when comparing to other countries and also comparing to the size of the stock market in Austria. (Aiginger, 1998)

State of Infrastructure:

The country of Austria is continuously proving itself as having a competitive advantage based on their infrastructure. They rank second when it comes to the railway system in Europe, covering 3,744 miles of railroad. (Infrastructure, 2012) Much of the transportation of oil, natural gas, and electricity for the European countries are traveling through Austria.

One-fifth of the country's trade is in 217 miles of inland waterways. There are many main waterways in the country, but the main waterway is the Danube River. It is the only navigable waterway that can carry barges carrying weights of up to 1,800 tons. The Danube River is an important waterway that connects Austria to the North Sea, Germany, and the Black Sea. (Austria - Infrastructure, Power, and Communications, 2012)

There are 55 civil airports in the country, and, of those, there are 20 paved runways. There is also a main international airport that is located outside of Vienna, the capital of Austria.

For many years, there was a monopoly in Austria in their telecommunication industry. Post and Telecom Austria (PTA) is a state-owned company that was the only supplier of networks and telecommunication systems. Then with the European Union's liberalization directives, legislation was enforced by the government to open the market, and competitors came in to Austria. Now, there are

approximately 4 million telephones, 27 radio stations, and 47 television stations. (Austria - Infrastructure, Power, and Communications, 2012)

There is also a diversified energy supply source in the country. The total supply source includes 38% of liquid fuels, 24% of natural gas, 13% of hydropower, 12% of coal, and 13% of other renewable sources. Nuclear power is a banned source, since a referendum that was put into place in 1978. (Austria - Infrastructure, Power, and Communications, 2012)

Macroeconomic Performance Indicators:

Currently, in the third quarter, Austria had no economic growth. For 2012, they've seen only a growth of 1% in GDP, inflation rose to 2.2% in August of 2012, which was a decline of less than 2% from the previous year, and unemployment rose to 7.1%. (Austrian Economy) (Table 3)

Retail sales are seeing a small growth of 2.7% in the first half of 2012. The second half of the year is showing a slower turn, but all in all, for 2012, growth should be at a moderate number.

Output in the industrial market is also slowing, but they will see nothing like what was faced when the country entered the economic crisis in 2008-2009. Total growth for 2012 may result in only 1%. (Austrian Economy)

The last report for benchmark interest rates was at .75%, when the average was 2.65% for the years 1998 to 2012. The high was reported in 2000 at 4.75%, and the low was recently achieved in July of this year at a rate of 0.75%. (Austria Interest Rate)

Labor Markets:

Compared to the rest of the European Union, Austria has seen low unemployment numbers, with the second lowest rate in the EU. There are approximately 3,350,000 citizens employed in Austria in 2007. Job turnover and labor turnover are high, but wages are viewed as flexible. Less than 27% of people work in the industry sector, while the majority of people work in the service sector. Because of pension reforms, Austria is seeing a larger number of older individuals remaining in the workplace, and

women have seen a larger force entering the labor market. (Austria: Labor Market) Wage rates vary between the men and women, but the average rate for a full-time employee was 41,872 euros for men and 45,562 euros for women. (Wage Tax Statistics 2011, 2012)

Environmental Issues:

As with most concerns for countries throughout the world, Austria is also battling an issue with air pollution. They're battling poor air, acid rain, and extreme weather changes with grey slush instead of snow. Because of concerns, the government has put into place environmental protection for citizens.

Austria is now one of the leading European countries in environmental protection policies and has put into place the Environmental Information Act, protecting against air pollution, waste management, and chemical usage. With this Act, information is made public for everyone to understand about the country's establishment of environmental protection. Also, thanks to the EU Water Framework Directive and Water Act, the lakes in Austria are now in excellent levels against pollution.

Forest degradation is also an increasing problem for Austria. As part of the National Forest Programme, environmental goals for the forest sector are being put into place. Hunting, nature conservation, spacial planning, and agriculture are a part of those goals. (Environmental Performance Review of Austria, 2012)

Cultural Complications

The country is 95% Austrian, but there is also a presence of Slovenes, Croats, and Czechs. Their official language is German, although their version is a softer version than what is heard in Germany. In Vienna, the dialect is Wienerisch, different from the German dialect. English is a second language taught in the school system.

One-third of the population lives in the larger cities of Vienna, Salzburg, Innsbruck, Graz, and Linz. Others live in the rural areas of the country where you will find many farmhouses that have been

passed down in families throughout the years. With the country being situated in the Alps, the farmlands are isolated and very small.

Middle-class residents dominate the culture. Education is highly stressed because it's believed that will help someone have a better lifestyle. In the country, there are many that still think women are to stay home, take care of the house and children, and cook for the family. Women can be found in the workplace, but it's nothing in comparison to other European countries. Their pay is much less than a man working the same position, but the Equal Treatment Law that was passed in 1979 is still trying to make changes for equality. (Austria)

The country is lucky to have the status of a peaceful country and has a low crime rate. The citizens of the country respect the law. The people are free to practice religion and worship one of their choice. Approximately three-fourths of the people are Roman Catholic.

When Austrians meet each other, they address each other formally with a shake of the hand and saying "Gruss Gott" (greet God) or "Gruss dich" (greet you). They end their conversation by saying "Auf Wiedersehen" (goodbye). At the dinner meal, a toast is made by saying "Prost," which is "cheers." (Austria)

Austria and U.S. business practices are very similar. When entering a business meeting, business casual is preferred, and this would be a dark suit and tie for men and a business suit for women. Titles are used when addressing each other, and those titles would be used when speaking. (Austria Culture) You will not find any type of protocol in regard to passing out business cards. Direct eye contact is stressed when speaking to someone, and punctuality is extremely important.

Social and Political Stability

In the 1950s and 1960, the two political parties in Austria, the Austrian People's Party and the Social Democratic Party of Austria, worked closely with each other, and the country saw a considerable growth in their economy with also high employment rates and wages for the citizens. Since that time, and

beginning in the 1980s, the country began seeing the parties splitting, and now the country is faced with a reduction in the growth of their economy, with an increase in unemployment, and a rise in the budgetary deficits. (Social Partnership) Since Austria entered the European Union, they now have to work with other countries in the EU in areas of monetary policies and agriculture, to name a few.

Politically, Austria has a president, after having won the election by a popular vote. They are in office for six years, and the president will choose the chancellor, or prime minister, and the cabinet. The chancellor is head of the cabinet and presides over the House of Representatives, which is also elected by popular vote. Austria also has a Senate, and they are chosen by the “provincial assemblies.” (Austria: Government)

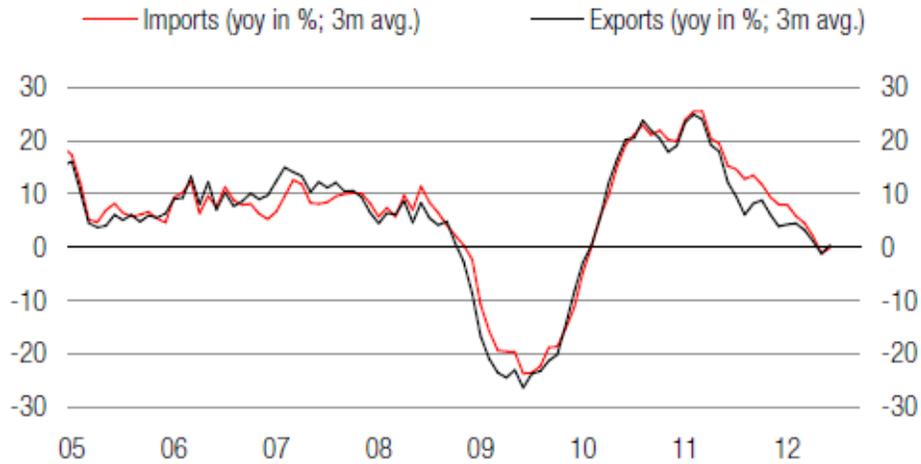
Conclusions and Recommendations:

Overlooking Austria would be a mistake. It is one of the most prosperous nations in the world. Though suffering through pains from the economic crisis and recession in 2008-2009, Austria is seeing some improvement compared to other countries in the European Union. Austria is an attractive area for U.S. companies that want to expand into Southeast Europe. They’re becoming a popular area to locate regional headquarters as well. Currently, there are about 350 firms in the U.S. that have “subsidiaries, affiliates, franchisees, and licensees” in the country. (United States Commercial Service, 2012)

Without many trade barriers, Austria is a great export market for the U.S. industries. In 2011, there were approximately \$4.34 billion of U.S. exports into Austria, and there were approximately \$6.59 billion of U.S. imports from Austria. (United States Commercial Service, 2012) The country offers a great market area for the U.S. to enter.

APPENDICES

Austria's exports and imports



Source: Bank Austria Economics & Market Analysis Austria

Table 1

Exchange rates

USD per Euro



Source: Bank Austria Economics & Market Analysis Austria

Table 2

Austrian Economy - Selected indicators								Forecast	
	2006	2007	2008	2009	2010	2011	2012	2013	
<i>Change against prev. year in %</i>									
GDP (real)	3.7	3.7	1.4	-3.8	2.1	2.7	1.0	1.2	
Industrial output (real)	7.7	6.4	0.9	-12.6	6.9	7.1	1.0	3.0	
Gross fixed capital formation (real)	0.5	3.6	0.7	-7.8	0.8	7.3	1.5	2.2	
CPI (yearly average)	1.5	2.2	3.2	0.5	1.9	3.3	2.1	1.9	
Unemployment rate (yearly average)	4.8	4.4	3.8	4.8	4.4	4.2	4.3	4.3	
General gov. balance (in % of GDP)	-1.5	-0.9	-0.9	-4.1	-4.5	-2.5	-3.0	-2.1	
GDP (nom., Euro bn)	259.0	274.0	282.7	276.2	286.4	300.7	309.5	318.5	
Per capita GDP (in euro)	31,330	33,011	33,916	33,020	34,145	35,710	36,617	37,524	
<i>in EUR mn</i>									
Merchandise exports **)	103,741	114,680	117,526	93,739	109,373	121,774	125,946	132,959	
Merchandise imports **)	104,201	114,254	119,568	97,574	113,652	131,008	134,298	141,361	
Current account balance **)	7,258	9,620	13,757	7,487	9,740	1,741	5,200	5,000	
Current account balance (in % of GDP) **)	2.8	3.5	4.9	2.7	3.4	0.6	1.7	1.6	
Foreign direct investment (inflow, net) **)	6,324	22,762	4,682	6,697	3,220	10,163	6,000	6,000	
Gross foreign debt (end of period)	498,573	555,005	596,517	577,590	597,865	606,672	616,672	626,672	
Gross foreign debt (in % of GDP)	192.5	202.5	211.0	209.2	208.8	201.7	199.2	196.8	
Import cover (in months *)	n.a.								
EUR/USD (yearly average)	1.26	1.37	1.37	1.39	1.33	1.39	1.29	1.34	

*) not useful for Austria as a member of the eurozone

**) 2011 numbers are still forecasts

Source: Bank Austria Economics & Market Analysis Austria, OeNB, Wifo, UniCredit Research

Table 3



The Austrian flag is one of the oldest national flags in the world. Legends tell that the flag was designed in 1191. (Brett)



Austria

Population: 8,414,638 (2011 est.) (Wikipedia)

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