



Spotlight on Austria

By *Fahreta Boskovic** and Kirk Samson

Preface: why location really matters

Europe is a diverse market: culturally, linguistically, and economically. Each location offers special opportunities...and challenges. At Samson Atlantic, we work with companies to find the best locations throughout Europe – offering market entry research, political risk assessment, and site selection assistance tailored to your needs. In this *Spotlight* on Austria, we will discuss the highlights and challenges of doing business in this key nation. Centrally located in the middle of Europe, with outstanding logistical connections to all corners of the continent, Austria offers an unbeatable quality of life, and a set of important, growing industry clusters attracting worldwide interest.

Austria is an exciting, cosmopolitan business destination with one of the most livable cities in the world: Vienna. A dynamic bridge between proven markets in ‘Old Europe’ such as Germany, Switzerland and Italy and exciting, growing locations in southeastern Europe such as Croatia, Hungary, Romania and Slovenia, Austria represents one of the most attractive business locations in the world, much less Europe.

Austria: educated and cosmopolitan

Austria is home to one of the best educated and highly-skilled work forces in Europe. The economy is diverse and quality of life is extremely high. Not surprisingly, Austria is the fourth richest country (based on their GDP) in the EU, according to the Eurostat office. Mercer has ranked Vienna as the city having the highest quality of life *in the world* for eight years straight – an amazing statistic. Compared to other European economies, Austria stands out thanks to its stability. Situated on the edge of the former iron curtain, Austria maintained neutral status after World War II and did not join NATO, but was one of the first EU member states, joining in 1995 (when it was still called the European Community (EC)). Austria is a part of Schengen and uses the Euro, simplifying business transactions and travel to neighboring EU nations. Outside of the

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EU, Austria provides ideal access to the emerging markets of Central & Eastern Europe. The airport in Vienna is regularly voted into the top ten airports in Europe, and as you can see below provides a convenient hub to major markets:

	Distance	Flight time
Vienna - Budapest	165 miles	45 minutes
Vienna - Warsaw	459 miles	60 minutes
Vienna – Berlin	325 miles	55 minutes
Vienna - Prague	186 miles	45 minutes
Vienna – Moscow	1031 miles	2hrs 50 minutes

Apart from its ideal geographical location, the strong Austrian banking network reaches all the CEE and SEE countries. Their financial experts have profound knowledge of these markets and have built up a strong network of branches throughout the transitional countries over the last three decades. Compared to other Central European countries, Austria has a remarkably reliable legal system and transparent economy, ranking behind only Germany in both perceived corruption and the strength of their rule of law.

Top draws to Austria: excellent labor pool, high quality of life, and a growing economy

Employers looking for a new home in Europe will appreciate the strong educational system which ensures a highly-skilled and competitive labor pool in Austria. Austria’s first, biggest and oldest University was established in Vienna in 1365 and there are currently 22 public and 11 private Universities in this country of 8.6 million. During the 1990s, Austria introduced “Fachhochschulen” (University of Applied Sciences) in addition to the traditional Universities. The training at these colleges is more tailored to practically applicable professional skills. For foreign companies sending families abroad, there are international schools in five Austrian cities. English courses are mandatory for every student at the age of 7 in the “Volksschule”, which helps to facilitate business and daily life for those that are not (yet) fluent German speakers. According to the EU Commission, Austria ranks among the top performers in the EU in terms of labor productivity per employee.

Vienna is not alone as being a **fantastic place to live and work** in Austria. Beautiful, vibrant cities such as Innsbruck, Salzburg and Linz are not only centers for amazing cultural treasures and eye-popping locations of natural beauty, they are also filled with business opportunities and world-class universities. Violent crime statistics are remarkably safe, among the



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very best in the world behind places like Japan and Iceland.[†] The high quality of life is a boon not only for employees but for businesses that wish to cater to the elder/health market or luxury goods.



Vienna offers a fascinating mix of beautiful tradition and inspiring modernity

Vienna is home to major international companies such as IBM, Siemens, OMV, and Henkel as well as the headquarters of key international organizations such as the UN's International Atomic Energy Agency and the United Nations Commission on International Trade Law, as well as the Organization for Security and Co-operation in Europe (OSCE). Over 300 international companies have established regional headquarters in the Vienna area. Over the last decade, over 8,000 new firms are established in Vienna every year.

Vienna has a rising startup community and is competing with cities like London and Berlin for the title of Europe's major startup hub. Some rankings have Vienna listed as the 3rd most innovative city in Europe. Austria's capital offers great financial and knowledge management support to entrepreneurs, and Vienna also hosts the annual [Pioneers](#) tech startup events, one of the world's largest; bringing together top innovators, entrepreneurs, executives and investors.

Innovation thrives outside of Vienna as well; with the help of generous government support, a number of **unique industry clusters** have seen great success in Austria. Foremost among them are the life sciences cluster(s) and the intriguing 'mechatronic' cluster[‡] which features over 2,000 companies working in fields such as 3-D printing and smart plastics. There are also

[†] Interestingly, Austria has a burglary rate twice that of the United States – a statistical anomaly that may in part be due to the transient refugee population.

[‡] For life sciences see generally <http://www.lisavienna.at> and for mechatronic cluster information see <http://www.mechatronik-cluster.at/en/mechatronics-cluster/>



substantial clusters in the automotive, food products, wood, and the green/clean industries, reflecting the traditional industries of Austria as well as the forward-leaning bent of the last few decades of politics, which have emphasized sustainable industries and renewable energy sources.

The Austrian economy is on a roll: real GDP growth reached 3.1% in 2017, last seen in the two boom years of 2006 and 2007. The good performance of 2017 will be followed by another year of very robust growth in 2018 (+2.8%). The key driver of domestic growth in 2017, in addition to net exports, is the ongoing strength of domestic demand. Private consumption continues to benefit from the income tax reform that took effect in January 2016 and from the high level of employment growth. Investment by existing businesses has also been playing a decisive role.

OeNB December 2017 outlook for Austria – main results¹

	2016	2017	2018	2019	2020
	<i>Annual change in % (real)</i>				
Economic activity					
Gross domestic product (GDP)	+1.5	+3.1	+2.8	+1.9	+1.6
Private consumption	+1.5	+1.5	+1.6	+1.4	+1.2
Government consumption	+2.0	+1.4	+2.0	+1.1	+0.8
Gross fixed capital formation	+3.8	+5.1	+2.9	+2.0	+1.9
Exports of goods and services	+2.4	+5.6	+5.0	+4.2	+4.0
Imports of goods and services	+3.6	+4.6	+4.1	+3.5	+3.6
	<i>% of nominal GDP</i>				
Current account balance	2.1	1.9	2.1	2.6	3.1

1 – OeNB is the Central Bank of Austria

The current cycle of investment in plant and equipment has been unusually long and strong. Driven first by replacement investment and then increasingly by investment in capacity expansion, investment in plant and equipment has been growing by more than 8% each in both 2016 and 2017. Companies expanding into Austria will appreciate the excellent state support for foreign investors as well: the government offers a wide range of business incentives including funding and financial support measures for small and medium-sized enterprises, research and development, company startups, investments and new technologies.

In 2017 the unemployment rate dropped from 6% to 5.5% (annual average). Employment growth is set to remain strong in the following years, and the unemployment rate is forecast to drop to 5.0% in 2020. The stronger improvement of the job market will coincide with strong growth of the labor supply. On average, some 55,000 individuals will enter the Austrian job market



per year in the period from 2018 to 2020. Labor supply growth will be fueled by in part by migration, which is forecast to stabilize at about 30,000 per year from 2018 to 2020.

Three major challenges: taxation, labor law and the refugee crisis

Corporate taxation rates vary wildly across the EU. Unfortunately for Austria, its rates are above most of the neighboring countries. Home-grown businesses may not find the differences high enough to merit a move, but inbound companies with the flexibility to set up operations anywhere in Europe have a hard time looking beyond the rate differences. For example, the corporate tax rate in Austria is 25%. In neighboring Czech Republic, it is only 19%. In Budapest, Hungary, the corporate tax is only 9%. Of course, there are other taxes to consider, and one sees a substantial return from taxes in improved infrastructure, but **the corporate tax rate is a turn off for potential investors to Austria.**

Austria's bureaucracy is not generally a drawback. In fact, the regulatory atmosphere is quite welcoming for foreign businesses and according to the Ease of Business Ranking published annually by the World Bank, Austria ranks 12th right behind Germany. The Ease of Business Ranking does not cover all aspects of the business environment, though, and **labor regulation Austria can be considered overly rigid.** The European Commission instructed the Austrian government in 2012 to initiate structural reforms in order to reduce bureaucracy. Above all the labor market is not flexible enough. Start-up companies could suffer from the high level of restrictions. Despite the otherwise excellent pool of labor talent in Austria, the low unemployment rate means that there are hiring 'choke points' for certain fields: IT specialists, finance experts and certain medical professionals are in especially high demand.

The ongoing refugee crisis is a burden to the state and has pushed the politics of the country towards populism. Over 788,000 refugees passed through Austria in the major wave of 2015, and they continue to transit Austria. More than 120,000 sought asylum in Austria in 2015 and 2016 according to government statistics, which has been a burden on the state, and a challenge to the Austrian society, much as it has been in neighboring Germany (where most of the refugees were heading). The influx of refugees, many of whom are not allowed to work while their asylum requests are being processed (a multi-year process) has led in part to a broad swing in Austrian politics to the far right for the first time since WWII. This trend resulted in a populist victory in Austria. On December 18, 2017 a new Austrian government took office, consisting of a coalition between the conservative People's Party (ÖVP) and the right-wing populist Freedom Party (FPÖ).

The Bottom Line



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Austria is a wonderful country in which to do business. Picturesque and dynamic, wealthy and innovative – the country is one of the world’s great business locations, with Vienna being the undisputed ‘most livable’ city for almost a decade. The few drawbacks we mention above are not to dissuade investors. Instead, they are simply factors to take into consideration when an American company is weighing the overall benefits of Austria versus another business location, such as neighboring Germany, in aiming their European expansion. At Samson Atlantic, we run these considerations through a prism of over 12 major **Samson Factors**[™] to differentiate between the bad, the good, and the best locations for your business. Each location is unique, and what may be perfect for Honeywell, Cisco and Rockwell Automation may not fit the bill for your company.

If the Austrian market and the great opportunities it offers interests you, please reach out to us at Samson Atlantic for comparative market research information. Austria might not be exactly what you are looking for, but the wide variety of options available in the broader European market means that your perfect new business location is sure to be found somewhere in Europe. We look forward to helping you find it!