Prosperity in Central and Eastern Europe

2016

A Legatum Institute Prosperity Report

The Legatum Institute

The Legatum Institute is an international think tank and educational charity focused on understanding and measuring prosperity.

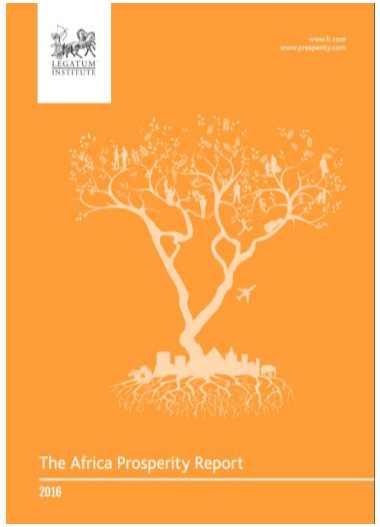
Over the past ten years, the Prosperity Index team has acquired a vast amount of experience in the design of indices - the collection, standardisation, and presentation of data – and their application in both the policy and business fields.

The Legatum Prosperity Index™, the Institute's signature publication, measures prosperity as more than just the accumulation of material wealth, but also the joy of everyday life and the prospect of an even better life in the future.

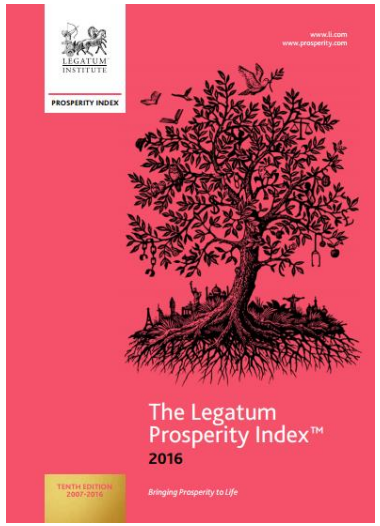
The Prosperity Index team has extensive experience in using indices to inform practical recommendations in helping people lead more prosperous lives.

Recently commissioned research:

- Royal Bank of Canada Prosperity Index for Canadian Provinces
- Erste Bank Prosperity Report for Central and Eastern Europe
- Policy advisory for the UAE Government.



The third edition of the Africa Prosperity Report



The tenth edition of the Legatum Prosperity Index™

The first ever edition of the UK Prosperity Index

Our 2016 publications

The *Legatum Prosperity Index™*

The Legatum Prosperity Index™ is a global measure of prosperity – wealth and wellbeing – across 149 countries globally, of which 16 are in Central and Eastern Europe.

The Index measures prosperity through the annual assessment of each country's performance across 104 variables that form the nine 'pillars' (or sub-indices) of prosperity: Economic Quality, Business Environment, Governance, Education, Health, Safety & Security, Personal Freedom, Social Capital, and Natural Environment

- The Index combines both objective and subjective data, measuring not only how prosperous a country is, but how prosperous its citizens feel.
- 2016 is the Index's tenth edition. With a decade of data, the Index is a unique global benchmarking tool, providing governments with an insight into where they have delivered for their citizens, where they have not, and why.
- Tracking performance over time, particularly in the context of peer nations, the Index is also a powerful tool for citizens to hold their governments to account.

Delivering Prosperity

2016 Prosperity Index rankings

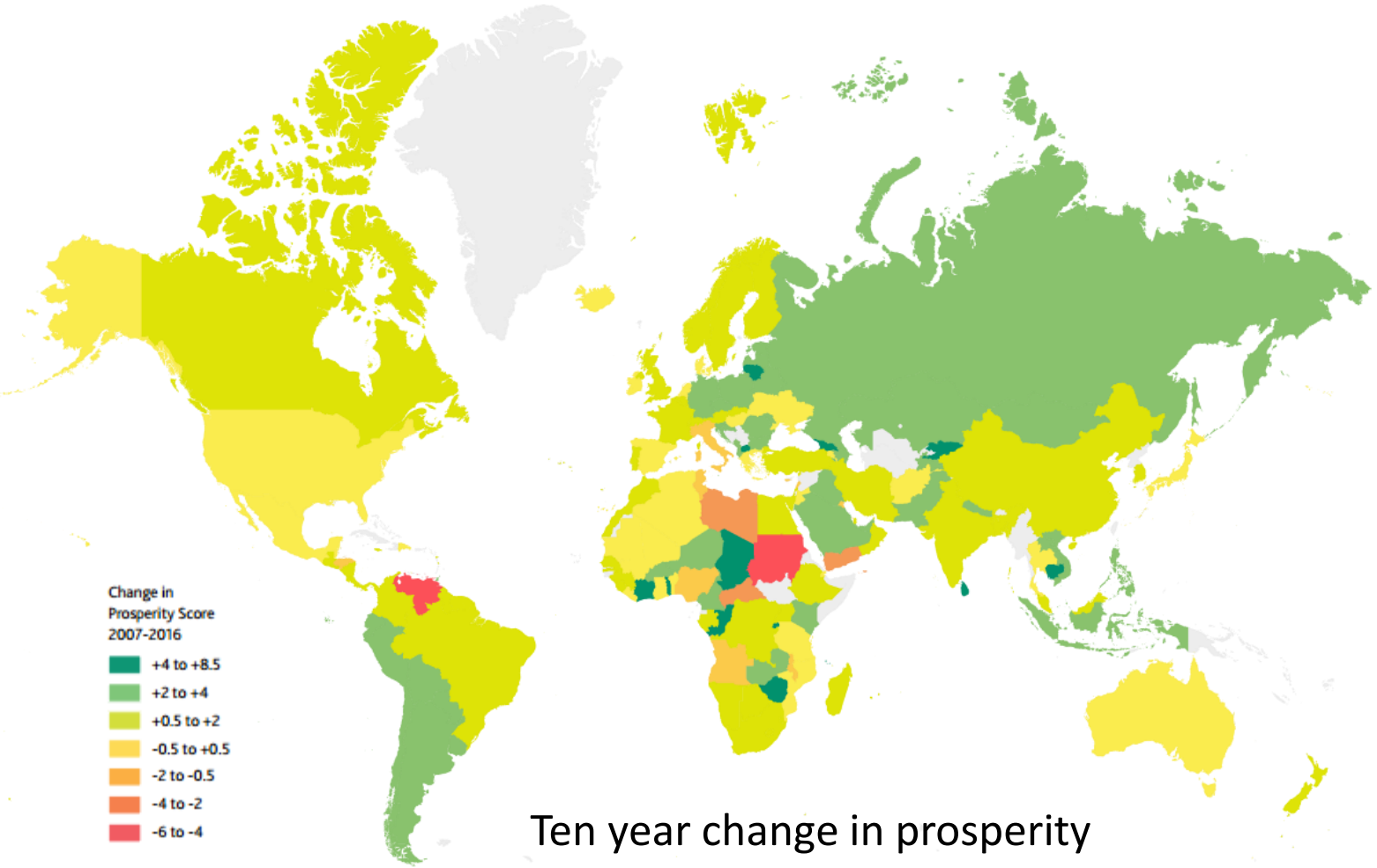
Rank	Country	Sub-Indices								
1	New Zealand	1	2	2	15	12	19	3	1	13
2	Norway	7	10	3	5	13	6	11	6	5
3	Finland	12	8	1	3	21	18	8	11	2
4	Switzerland	4	9	6	1	3	8	18	16	8
5	Canada	13	3	9	14	16	22	2	3	19
6	Australia	15	7	13	4	8	20	12	2	14
7	Netherlands	2	14	4	2	5	12	7	13	36
8	Sweden	3	13	5	13	6	10	14	18	9
9	Denmark	6	11	7	12	23	5	13	7	18
10	United Kingdom	10	5	11	6	20	13	15	12	10
11	Germany	5	12	10	16	10	7	21	9	6
12	Luxembourg	9	29	8	27	1	2	1	23	3
13	Ireland	25	15	14	7	24	16	5	10	25
14	Iceland	18	17	12	28	22	4	4	5	17
15	Austria	11	20	15	11	25	9	23	15	12
16	Belgium	16	19	16	9	11	30	9	24	26
17	United States	14	1	22	8	32	52	26	4	35
18	France	17	18	23	18	14	28	22	49	4
19	Singapore	8	6	18	10	2	1	97	31	11
20	Slovenia	30	60	38	23	35	14	20	22	1
21	Spain	38	42	35	22	17	15	16	29	15
22	Japan	19	21	17	20	4	3	49	101	48

The 2016 Prosperity Index Report

One of the greatest strengths of the *Legatum Prosperity Index*™ is that it is not just a snapshot in time. Capitalising on ten years' worth of data, we can evaluate long-term changes in prosperity, pinpointing the drivers of progress and highlighting those nations that have made the greatest strides in turning their wealth into greater prosperity.

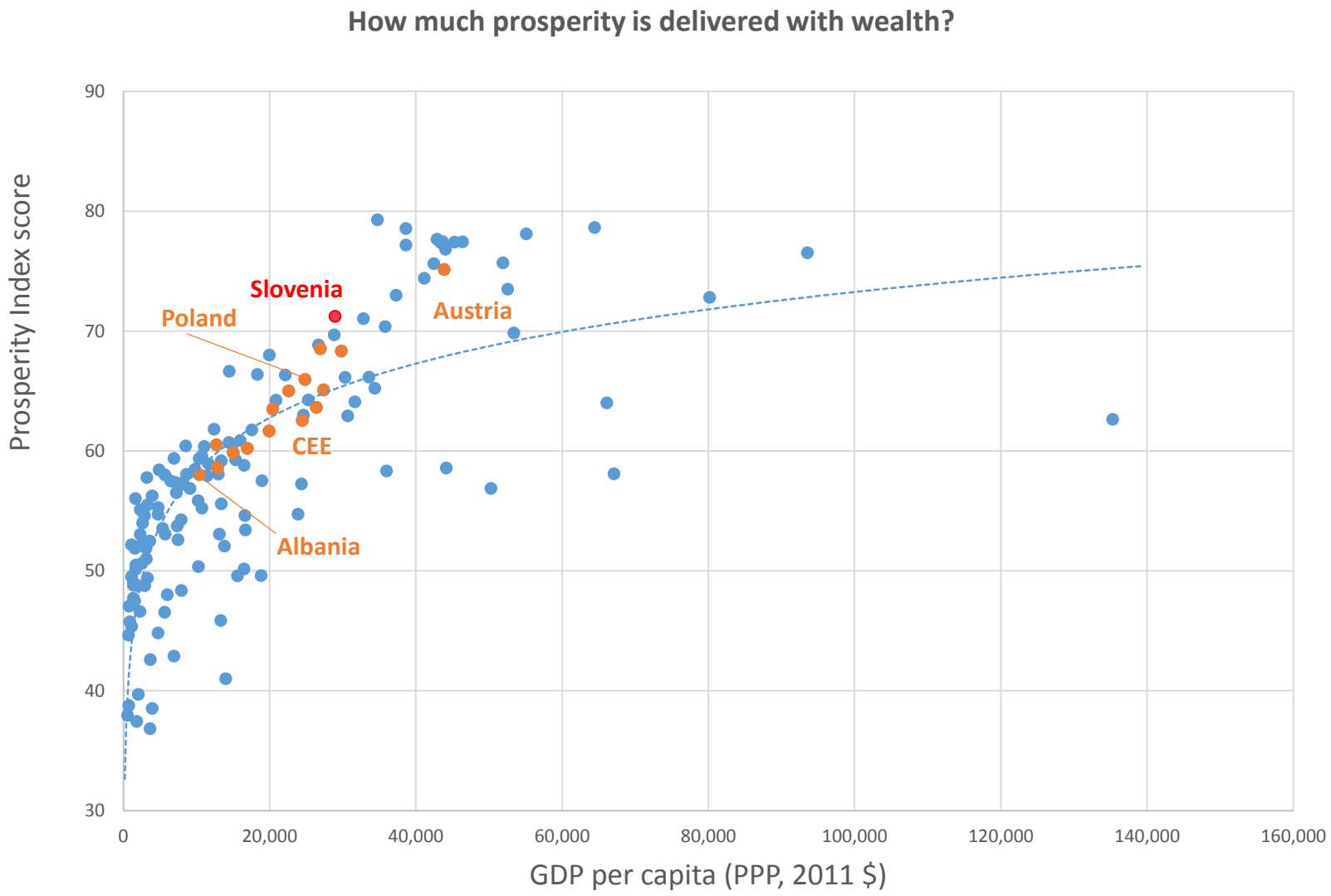
The 2016 Index shows the different models that deliver prosperity.

The report finds that the characteristics of delivering high levels of prosperity with your given wealth transcend wealth itself, a powerful message for policy-makers trying to return to an era of fast economic growth in a slower-growth global climate.



Ten year change in prosperity

Delivering Prosperity in CEE



Slovenia has the 21st biggest positive prosperity gap out of the 149 countries we cover, despite having the 35th lowest level of wealth.

Along with Austria, Slovenia is one of the only CEE countries that is meaningfully over-delivering prosperity.

Slovenia outperforms all other countries with the same/similar level of wealth.

The Prosperity Gap

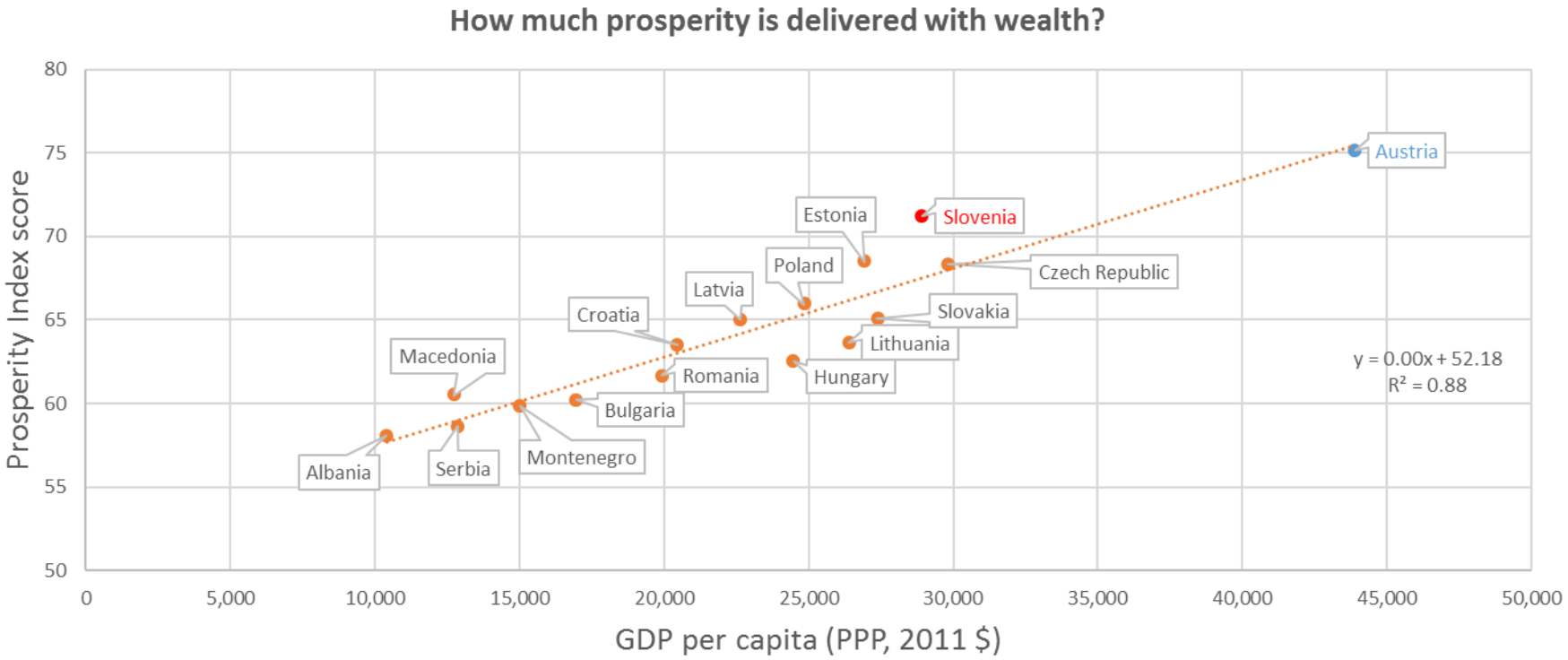
What is the level of prosperity a country in CEE should deliver given its wealth?

We can compare prosperity to wealth and model expected prosperity given a certain level of GDP per capita.

This is then compared to a country's actual prosperity. Those that deliver more prosperity than expected given their wealth have a positive prosperity gap, or 'prosperity surplus'.

Those that deliver less than expected have a negative prosperity gap, or 'prosperity deficit'.

This prosperity gap is effectively a measure of how well a country translates its wealth into prosperity.



- Looking within the CEE region, Slovenia has the second highest Prosperity Index score, after Austria, and the biggest Prosperity Gap in CEE.
- What's behind Slovenia's success?

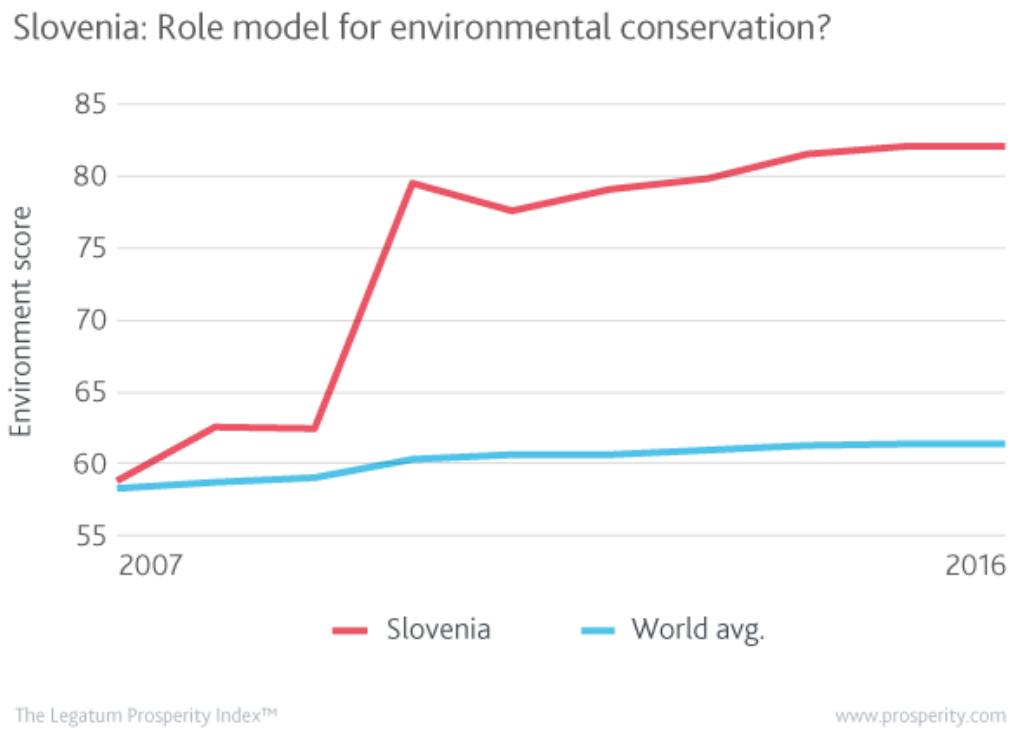
Slovenia – Natural Success

Slovenia's best performance is in the Natural Environment sub-index where for the fifth year running it ranks 1st globally.

The Prosperity Index records that after 2009, Slovenia saw a dramatic increase in the percentage of land and marine areas that were protected which saw the country move up 52 ranks to 1st.

98.4% of its marine area is protected, the highest by far of any country in the Prosperity Index – Ecuador sits far behind in 2nd place with 75.6%.

Slovenia also has the highest overall percentage of its land protected at 54.5%, which is an impressive 41.4 percentage point increase since 2009.

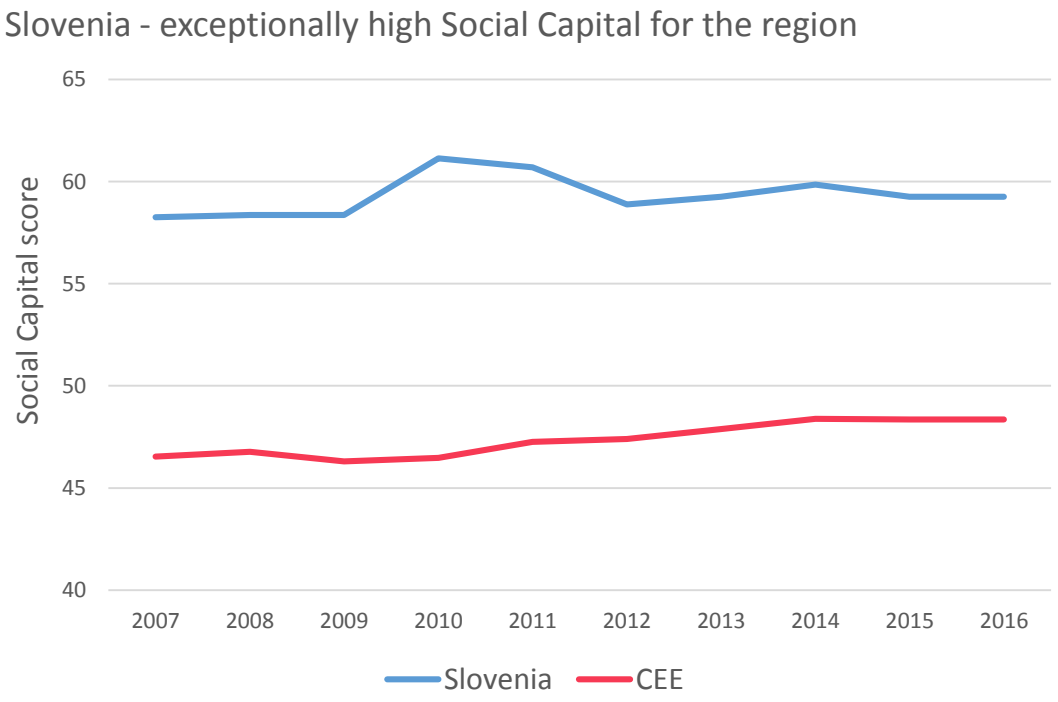


Slovenia – Social Success

Our Social Capital sub-index measures the strength of personal relationships, social network support, social norms, and civic participation in a country. It forms the basis for prosperity and growth.

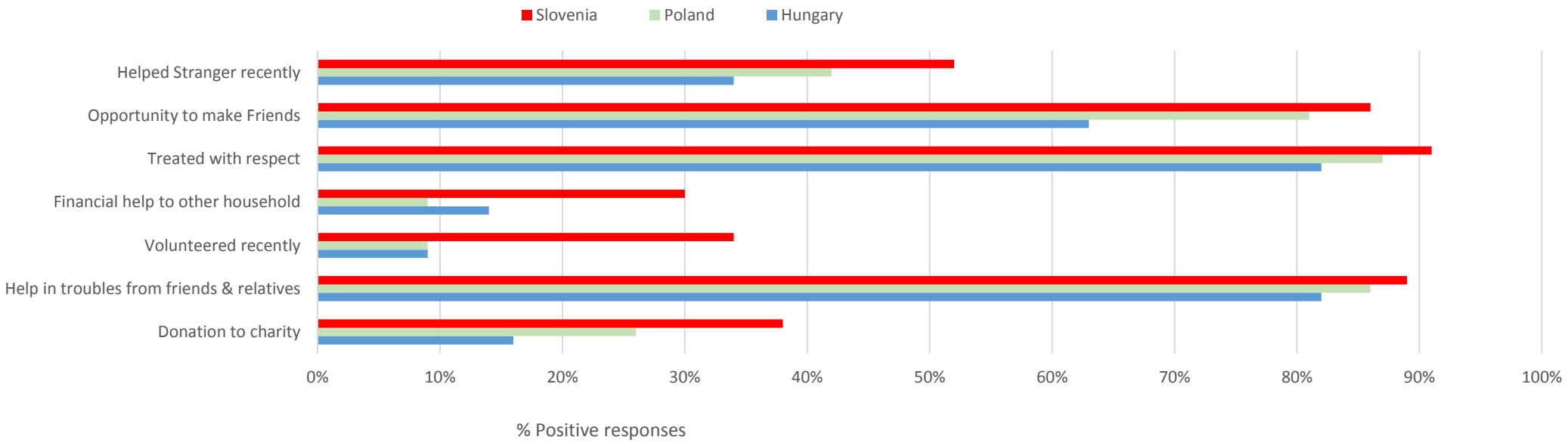
Slovenia's Social Capital scores above the EU and OECD averages. It is the 2nd best performing country in the EU, behind Ireland, when it comes to citizens volunteering in organisations on a regular basis.

Slovenia's success is exceptional for CEE, which has long suffered from structural Social Capital deficit.



Slovenia – Social Success

Slovenia outperforms neighbours across Social Capital components



Slovenian social capital is so high thanks to levels of **social network support** and **civic participation**. It outperforms its neighbours on most Social Capital metrics.

This matters: our work has found that Social Capital is a powerful driver of prosperity delivery.

Countries with biggest Prosperity Gaps have highest Social Capital scores: New Zealand, Australia, Canada, Denmark, Finland, UK, Switzerland…

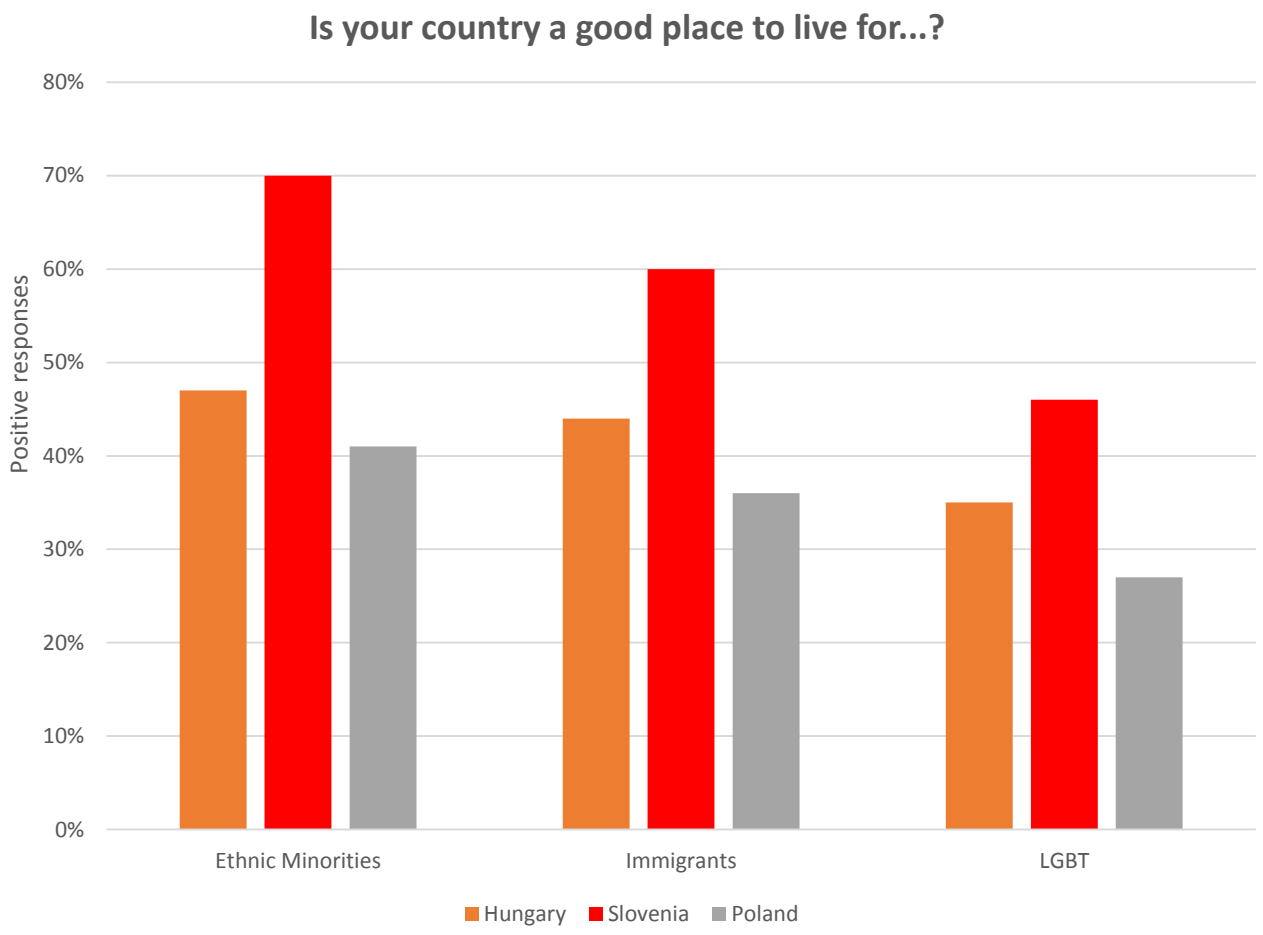
Sustainable prosperity is built on strong societies, trust between individuals and supportive and active social networks. These characteristics are usually missing in CEE but not Slovenia.

Slovenia – Land of the Free

Slovenia ranks in the global top 20 for Personal Freedom, six ranks above the USA.

Slovenia has a diverse free press and there is widespread tolerance for immigrants, people of ethnic minorities, and the LGBT community.

It outperforms its Eastern European peers in these areas. Neighbouring Hungary and Poland, by contrast, has seen tolerance for immigrants and minorities decline.

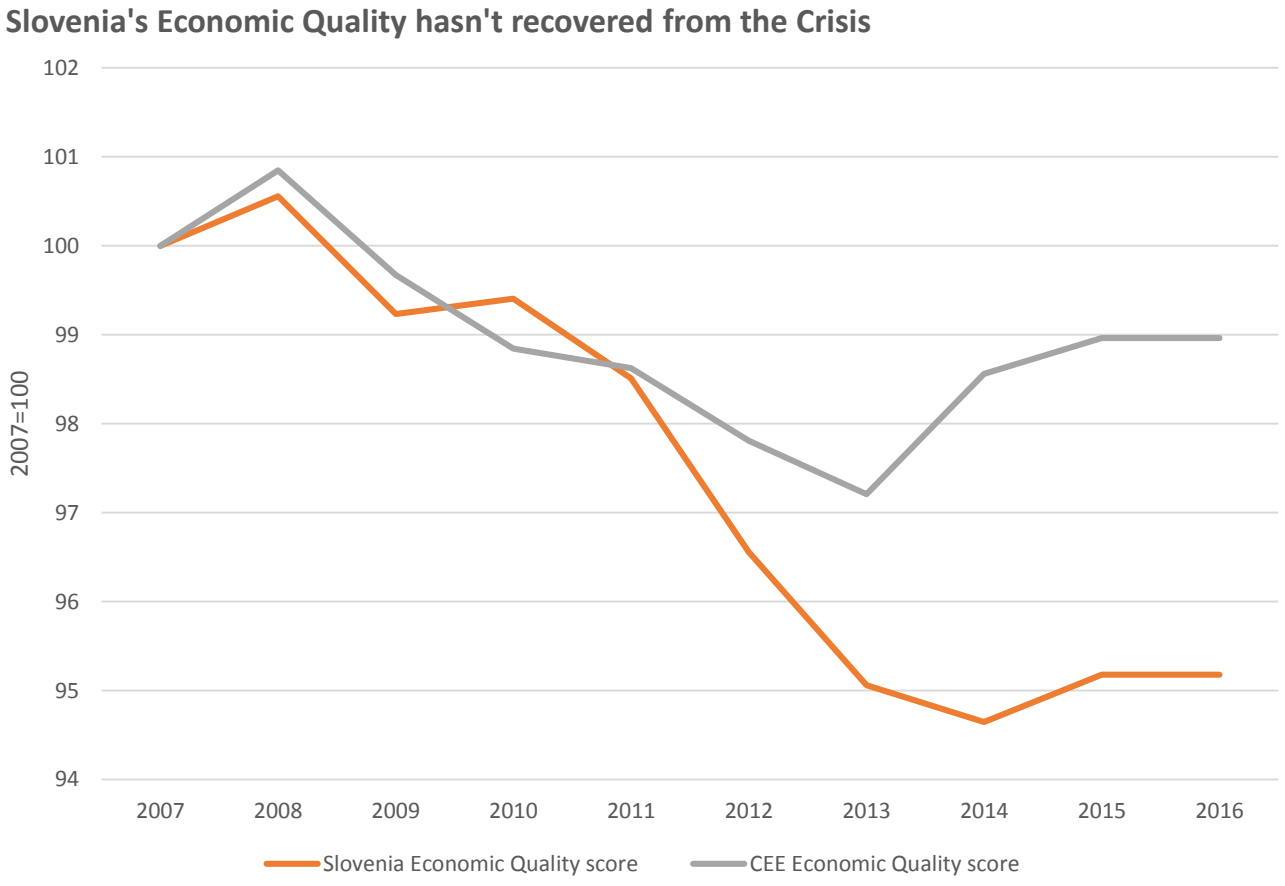


Slovenian Economic Quality Still in Recovery

Slovenia was hit hard by the financial crisis of 2008 and GDP per capita declined by 8.6% in 2009, so it is unsurprising that it has seen a decline in its Economic Quality over the past decade.

There is a higher rate of unemployment, though this peaked at 10.2% in 2013 and has dropped to 9.5% in recent years.

Although Slovenia's Economic Quality is higher than its CEE neighbours, its recovery from the crisis has been much slower.

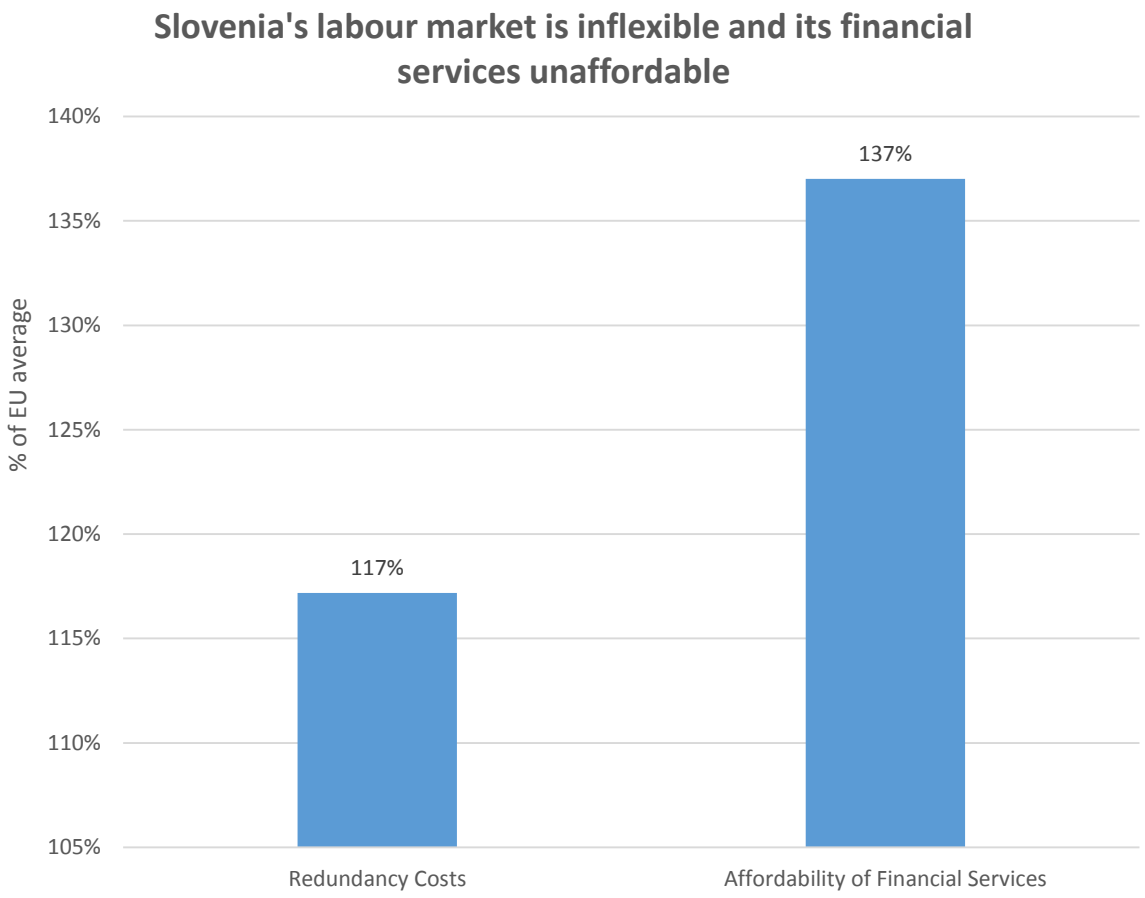


Slovenia Needs a Better Business Environment

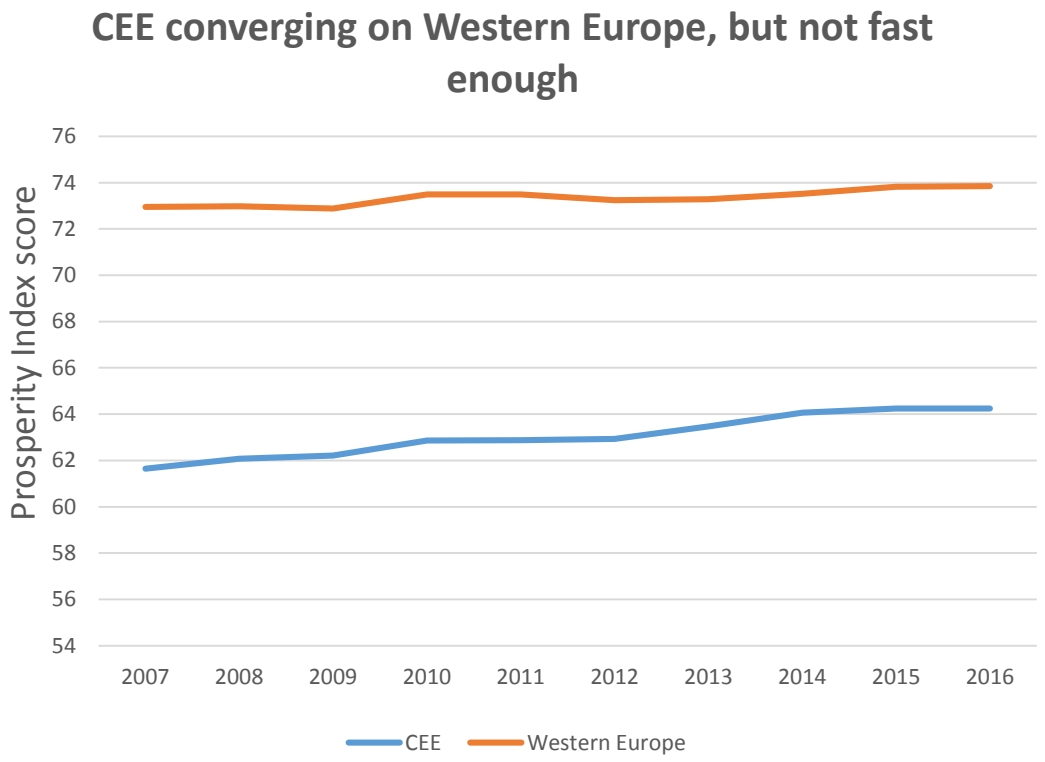
Ranked at 60th, Slovenia's worst performance comes in the Business Environment sub-index, though good progress has been made over the past decade.

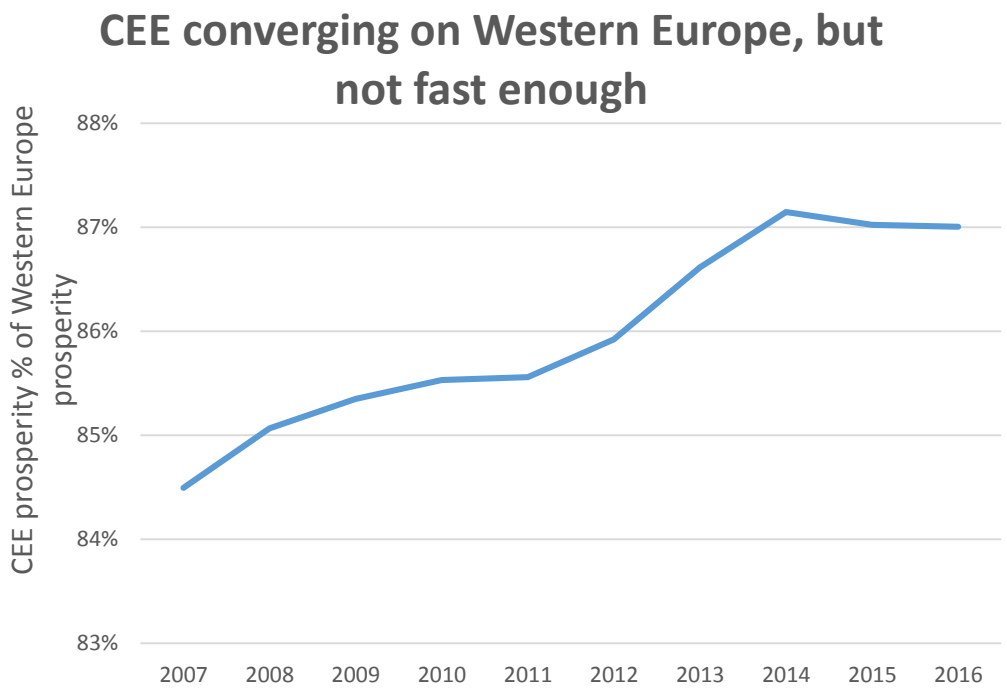
Slovenia benefits from a good geographical position in Central Europe and good infrastructure, making supply chain costs low. The Prosperity Index indicates that logistics performance has improved and that it is far easier to start a business than in 2007.

However, Slovenia has been criticised for being slow in introducing reforms to boost competitiveness. While redundancy costs have been reduced, the labour market remains among the least flexible in the EU. Notably, financial services are the most difficult to afford among EU member states.



Convergence on Western Europe

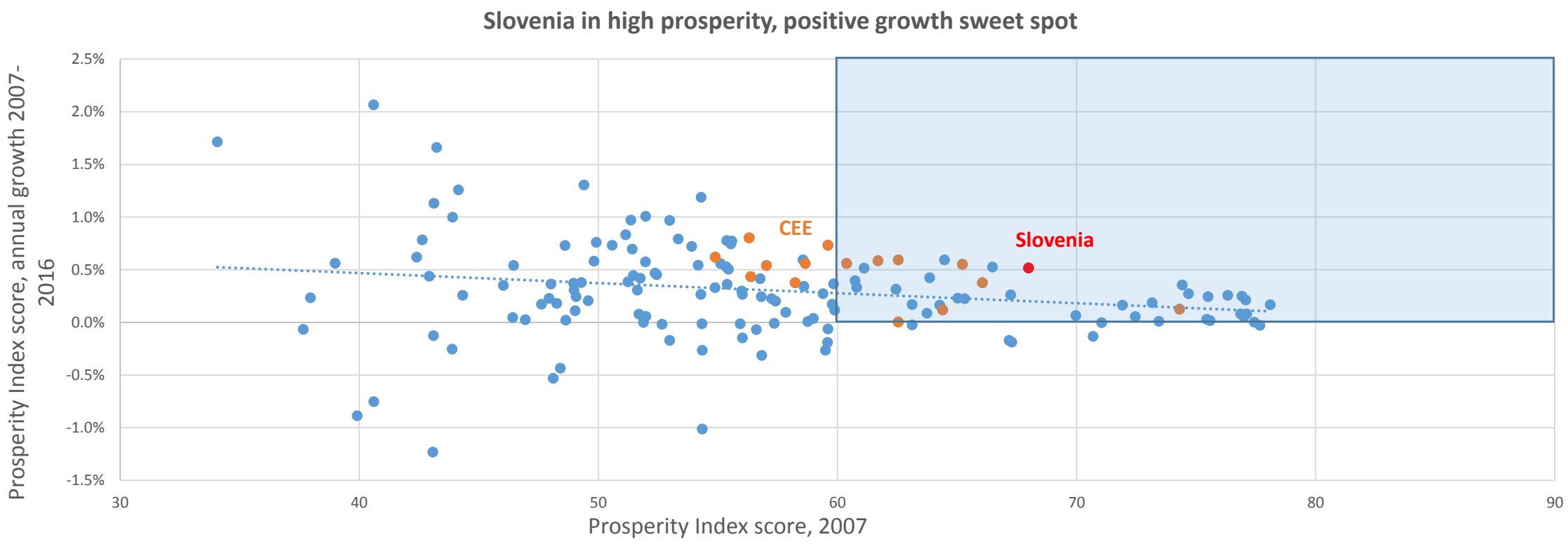




The Prosperity Index shows CEE converging with Western Europe, having improved its prosperity at a faster rate than western countries.

But poor performance in Governance, Personal Freedom, and Social Capital means that CEE is not as prosperous as it might be. The convergence with Western Europe, though steady, should be faster than it is.

Convergence



Despite a sluggish economy and business environment, Slovenia enjoys the unusual combination of high overall prosperity and strong positive growth.

This combination has enabled it to rise up the global Prosperity Index rankings, showing that a narrow focus on economic variables misses broader trends in a country's success.

Looking Forward

- Slovenia is a “model of success” for the CEE region. It over-delivers prosperity relative to its wealth, and stands out from its neighbours in terms of Social Capital, Personal Freedom, and the Natural Environment.

- How can we take this success elsewhere?

    - Why is Slovenian Social Capital so high?

    - How/why is the country bucking the trend towards lower Personal Freedoms?