

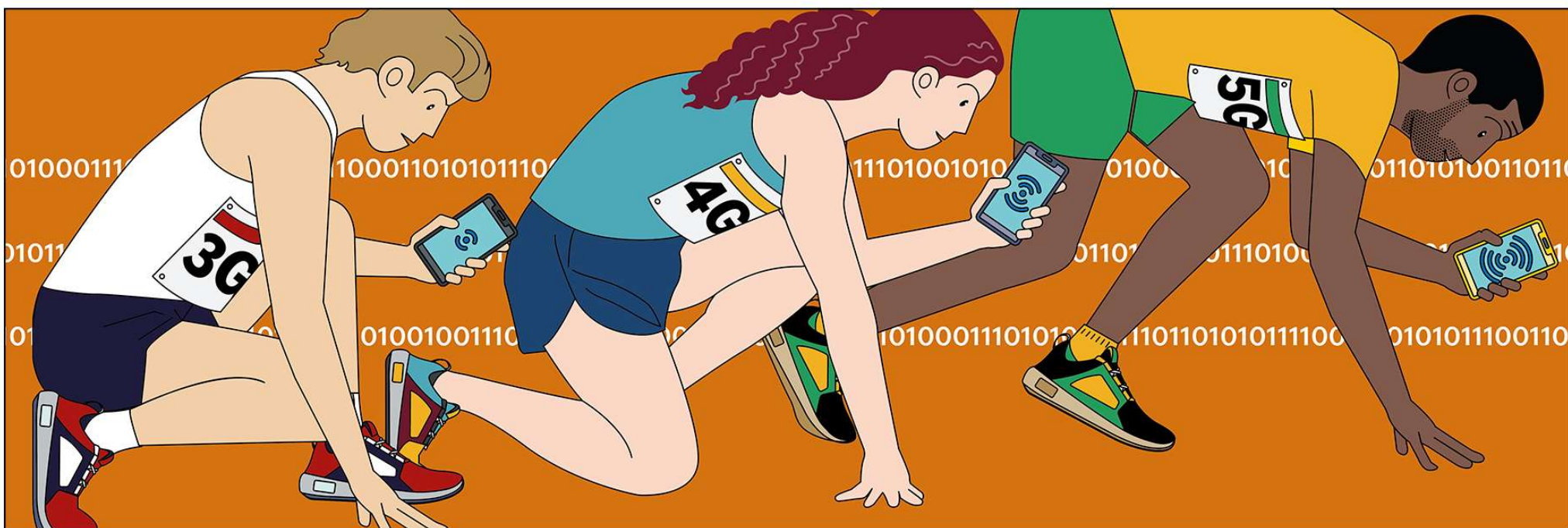
TRANSITION REPORT

2021-22

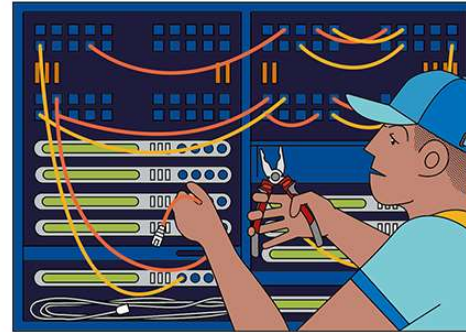
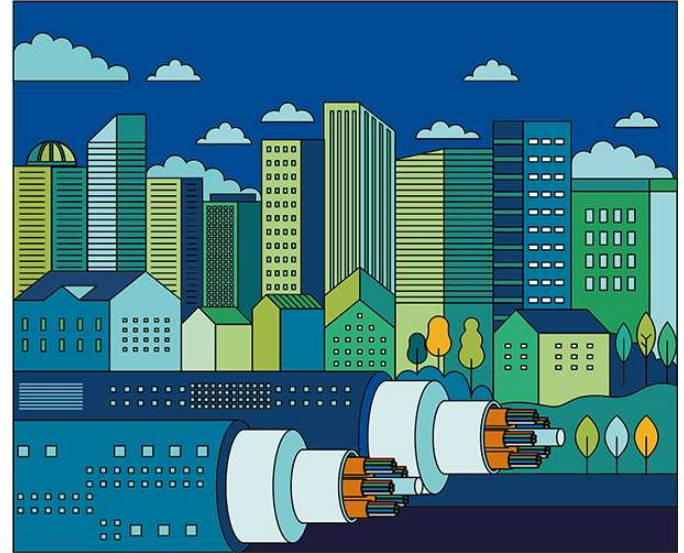


European Bank
for Reconstruction and Development

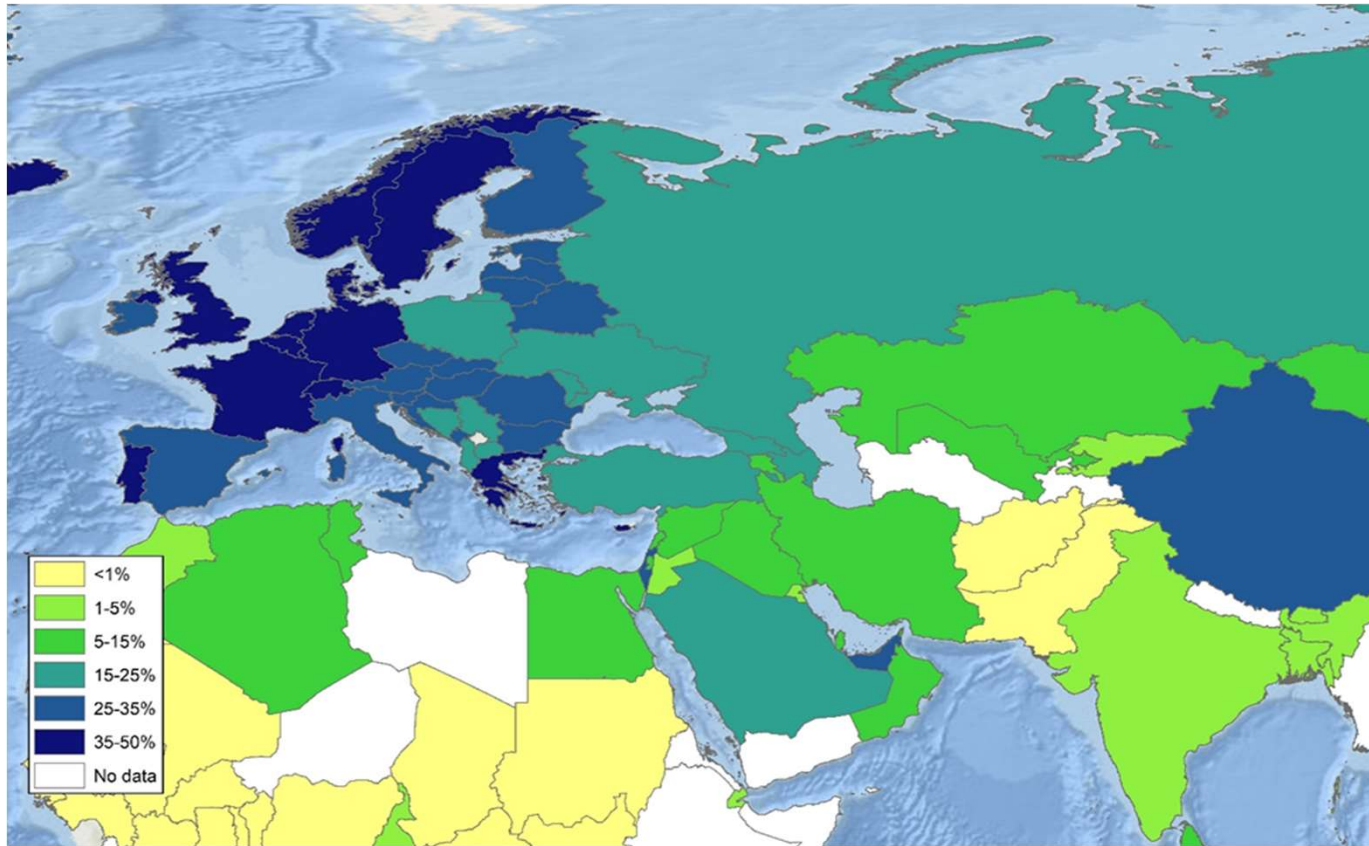
2021.tr-ebrd.com



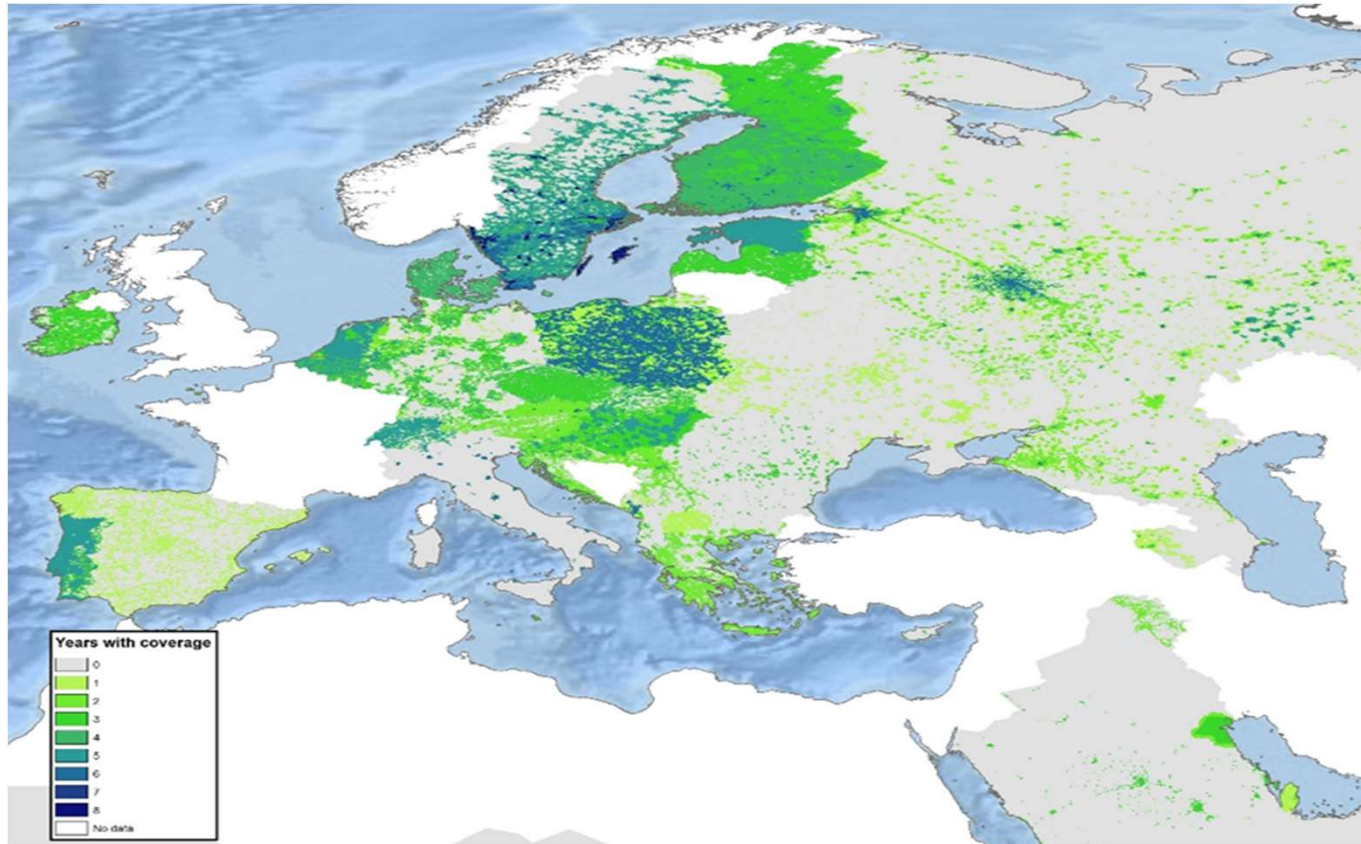
DIGITAL DIVIDES



Adoption of fixed broadband, providing faster internet speeds, remains relatively limited in the EBRD regions

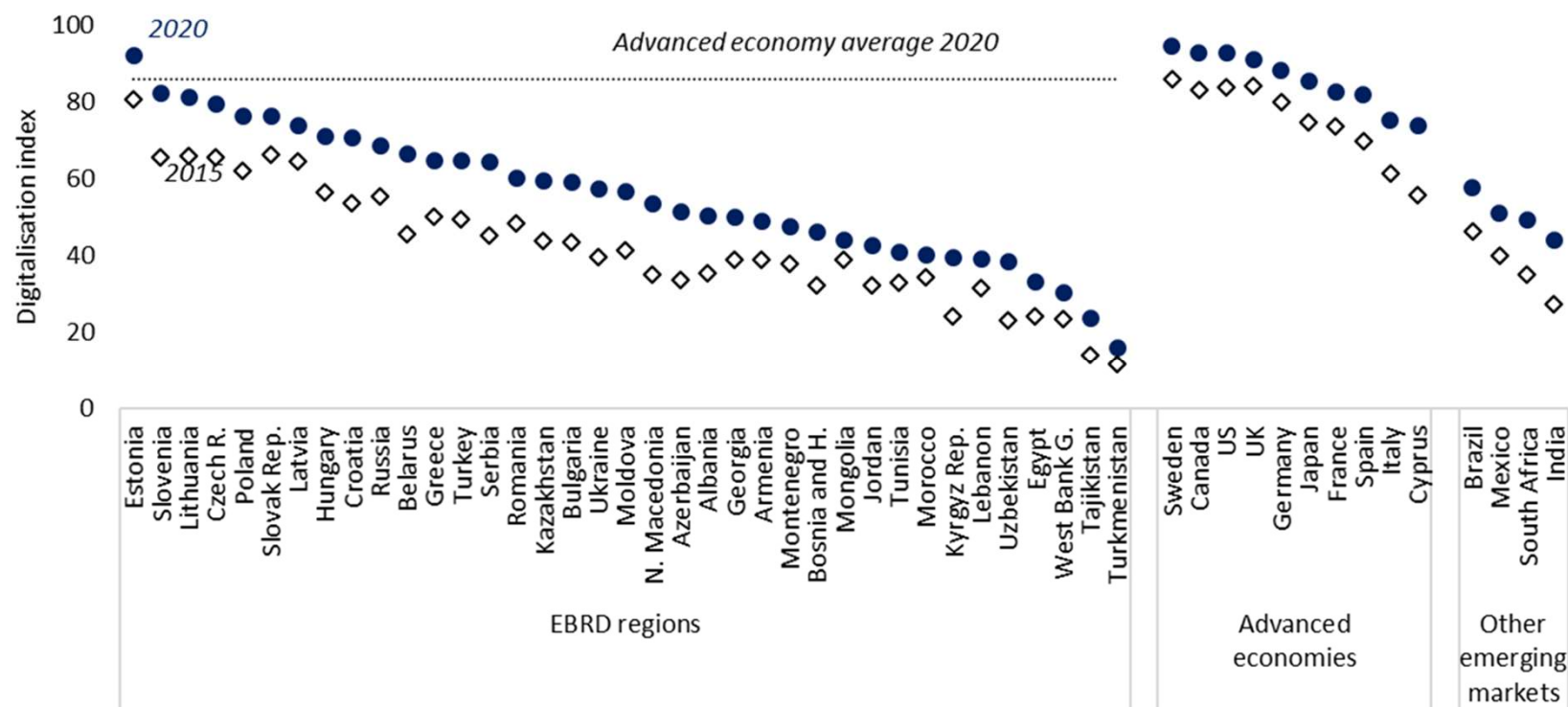


Many economies in the EBRD regions lag western European economies, especially in faster 4G technologies

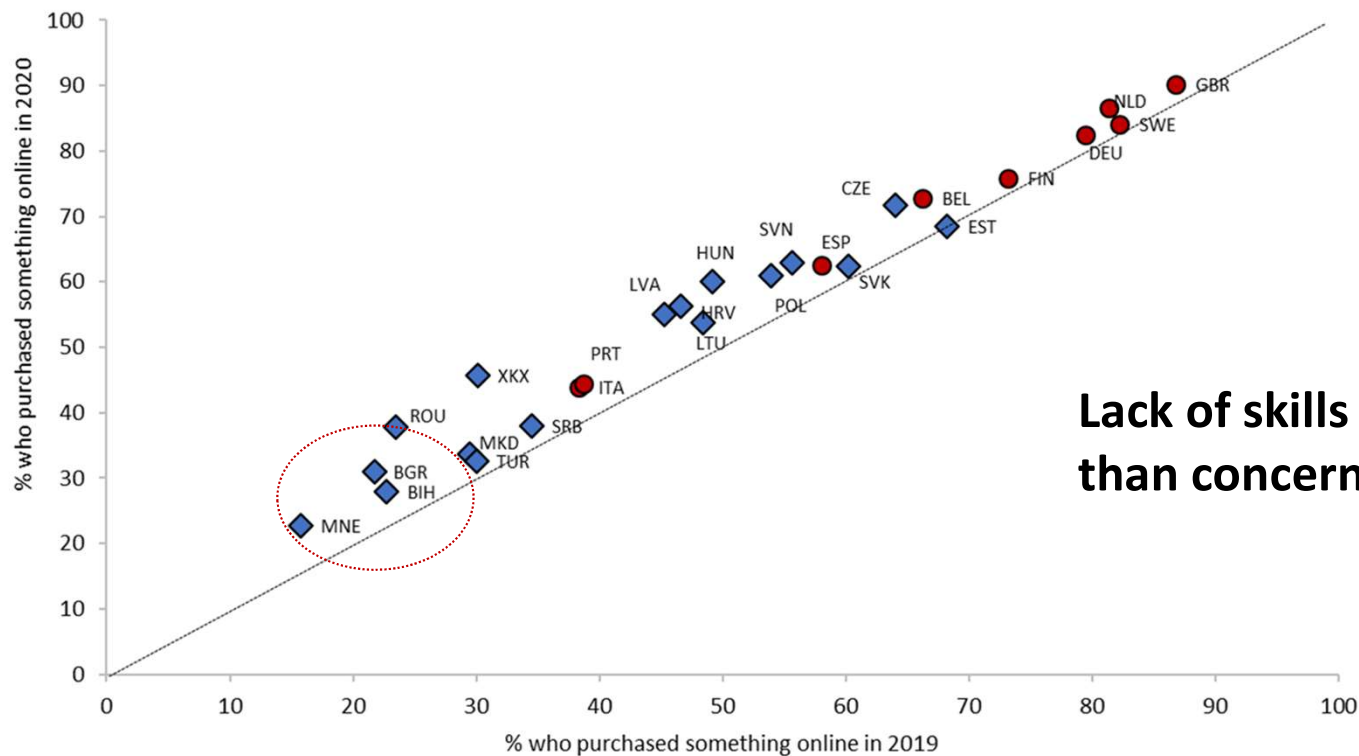


Large digital divides across countries

Large gap between the EBRD regions and advanced economies, especially for more advanced digital technologies

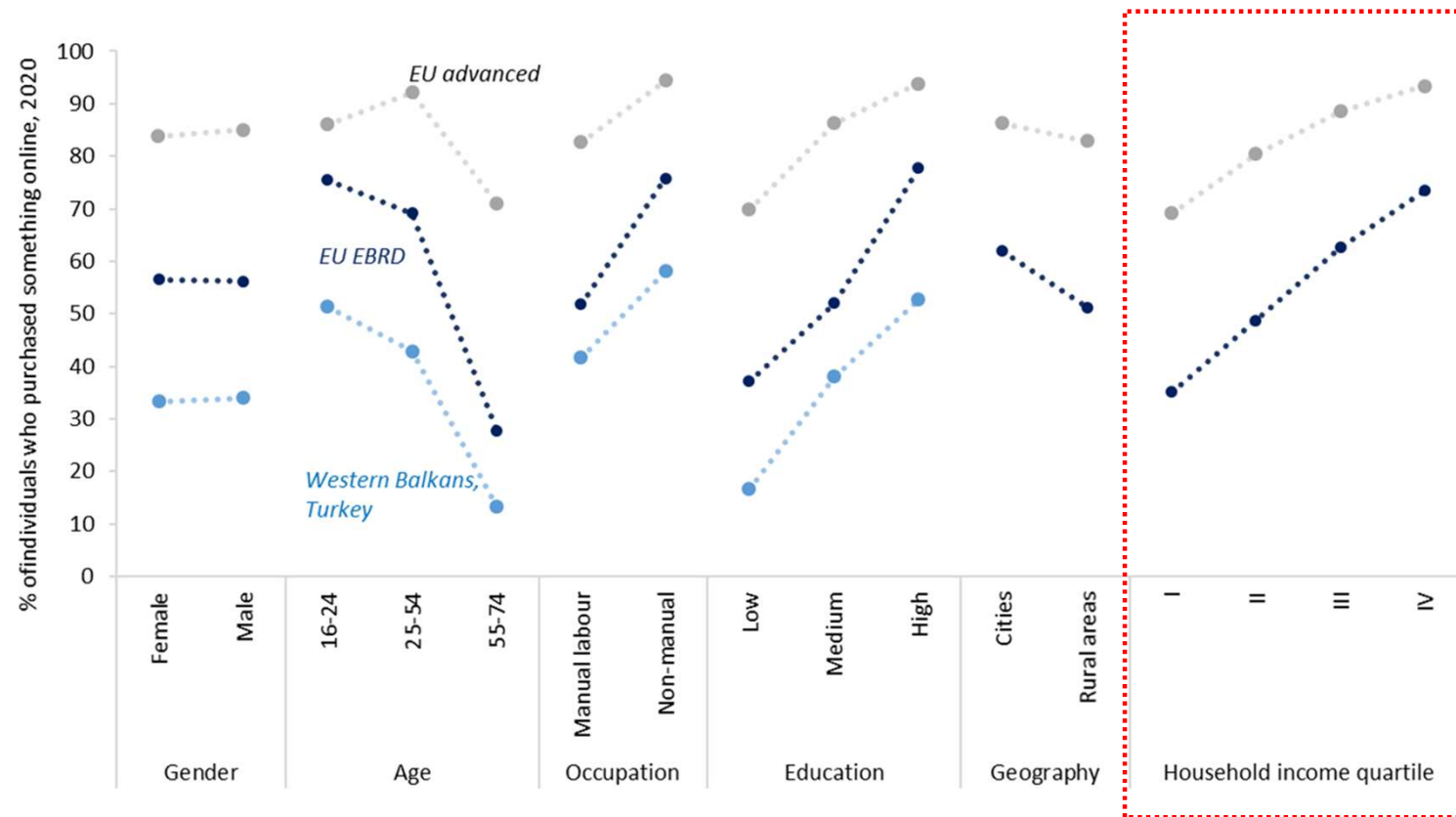


Online shopping has become more common, though still less prevalent than in Western Europe

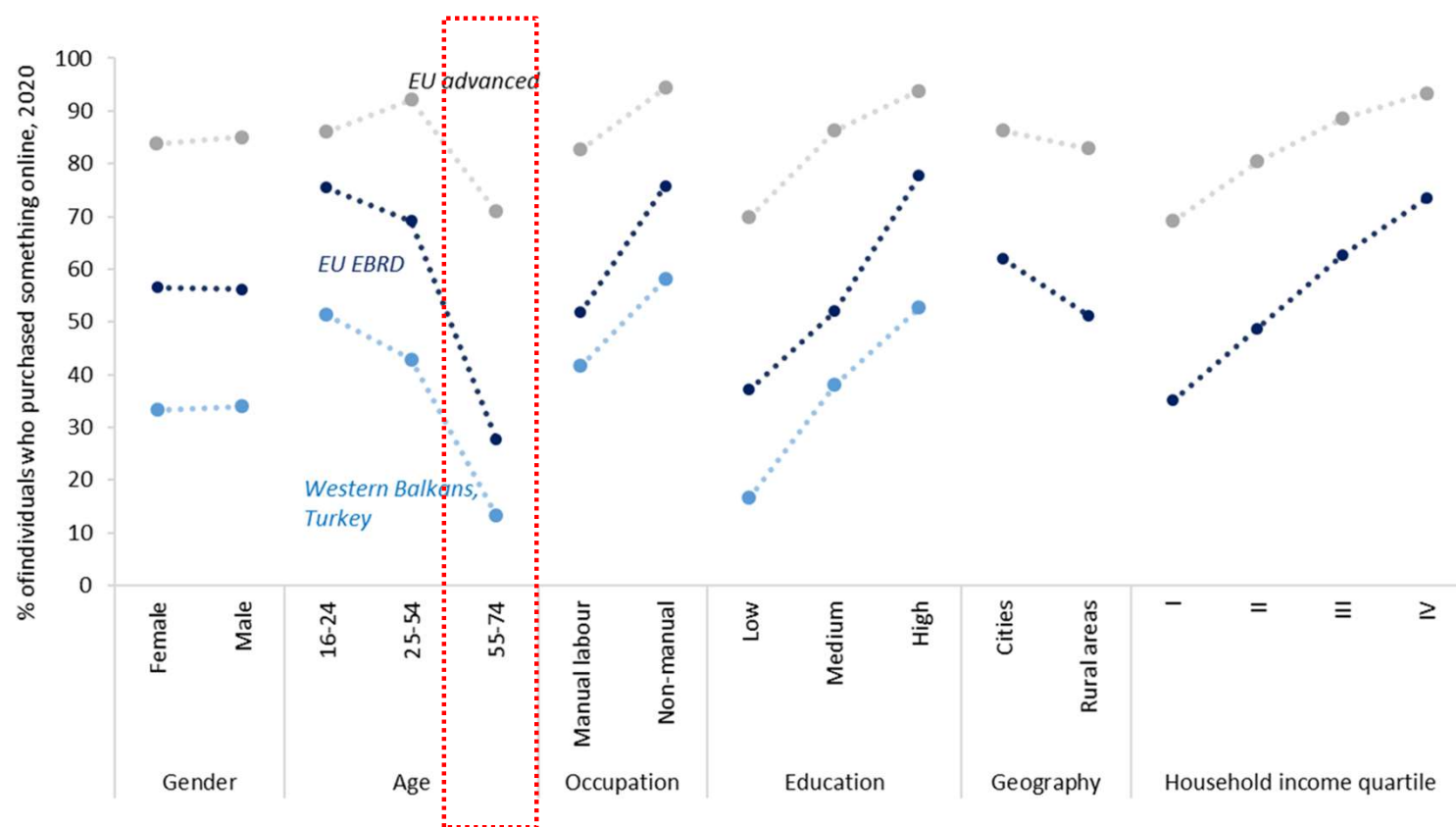


Lack of skills matters more than concerns about payment security

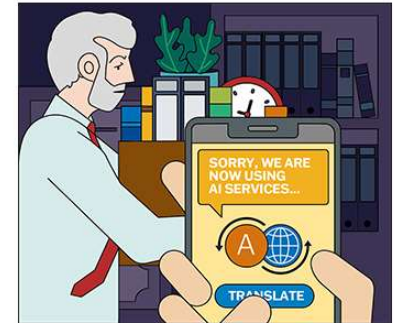
Digital divide also visible within countries



Digital divide particularly pronounced among those over 55 years of age

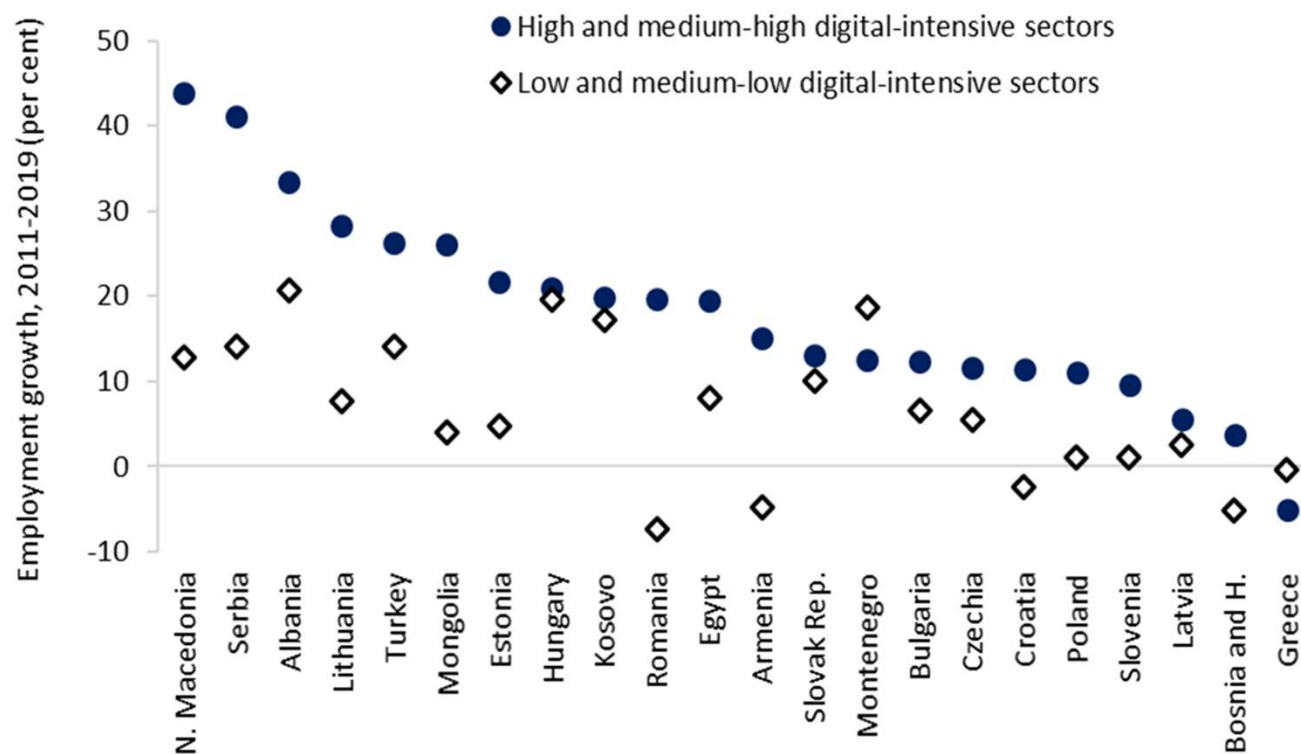


TELEWORKING, AI AND THE LABOUR FORCE

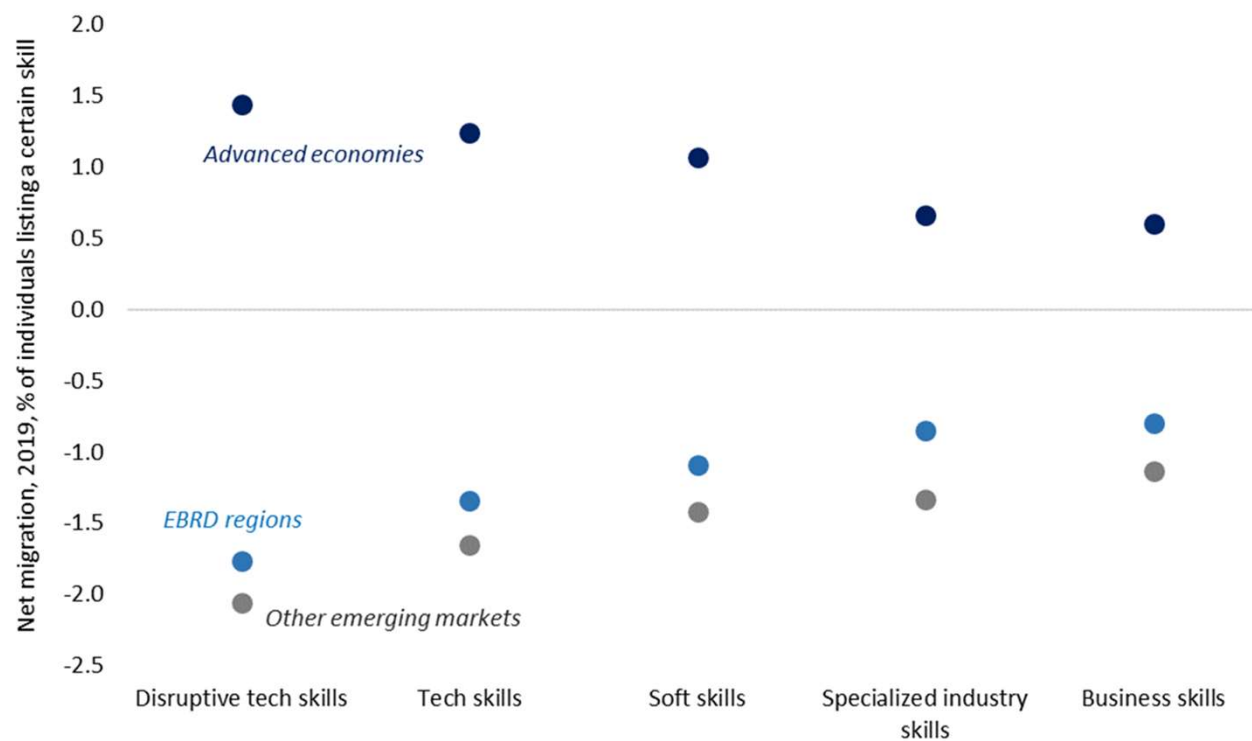


Economies have been shifting towards more digital-intensive sectors

More digital-intensive sectors have seen faster employment growth

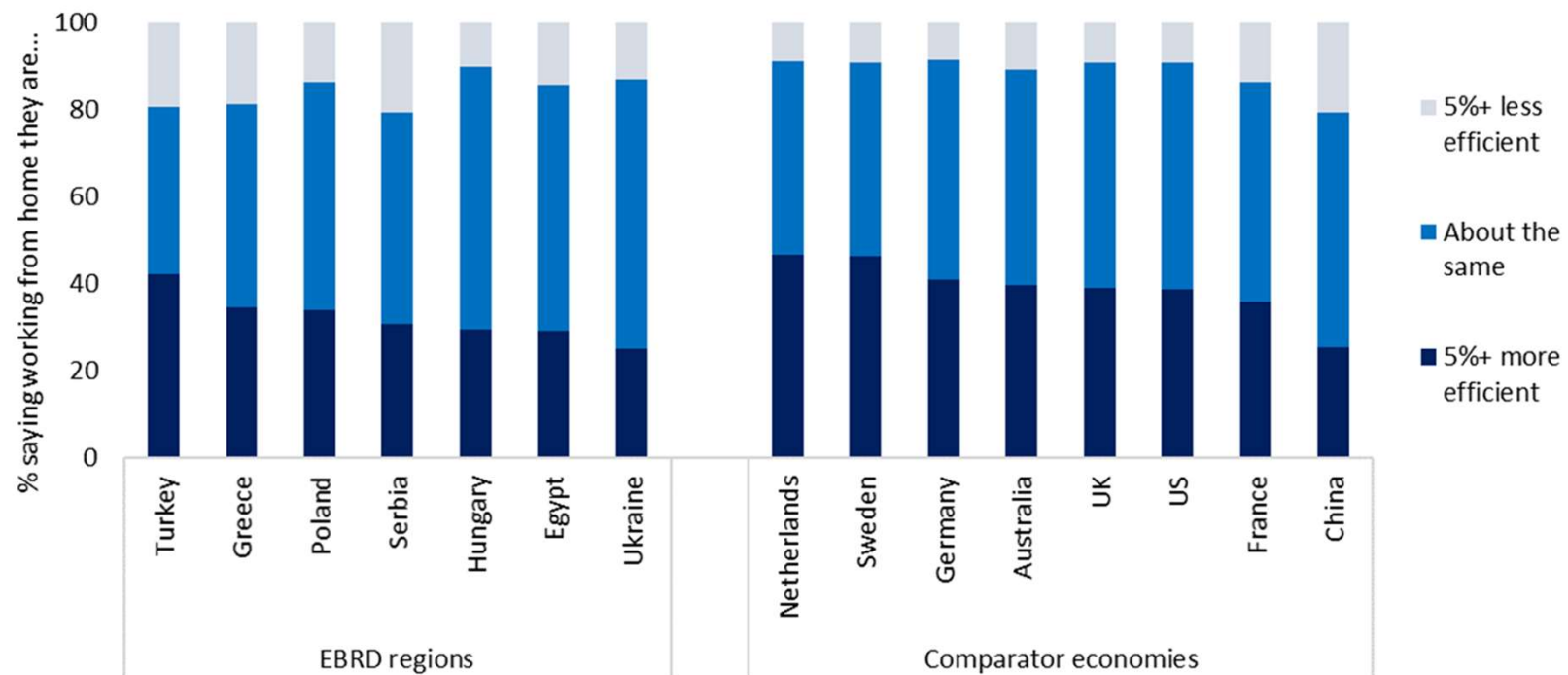


Digital brain drain from the EBRD regions



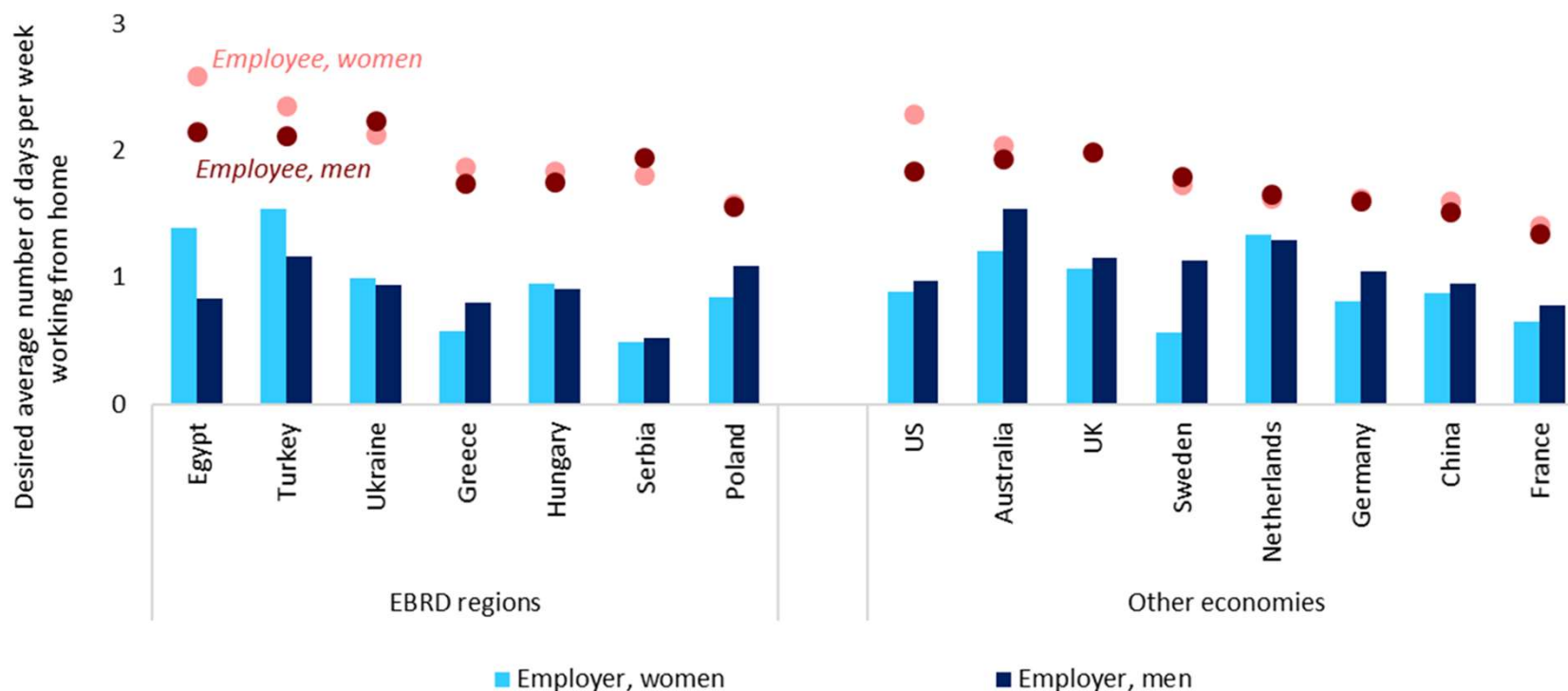
Latest developments: Working from home

Employees, on balance, feel more productive when working from home



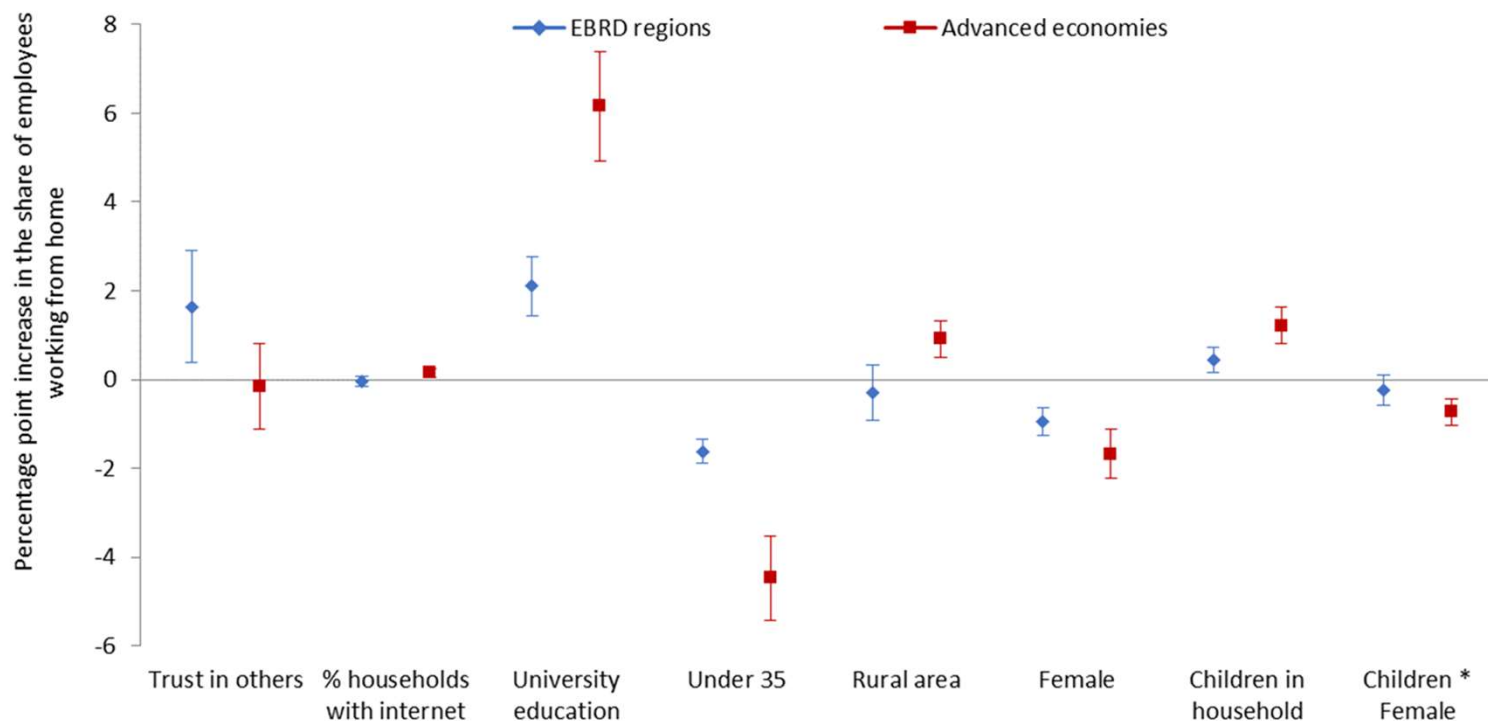
Employers, however, are less keen on work from home

A gap between employee and employer views about working from home



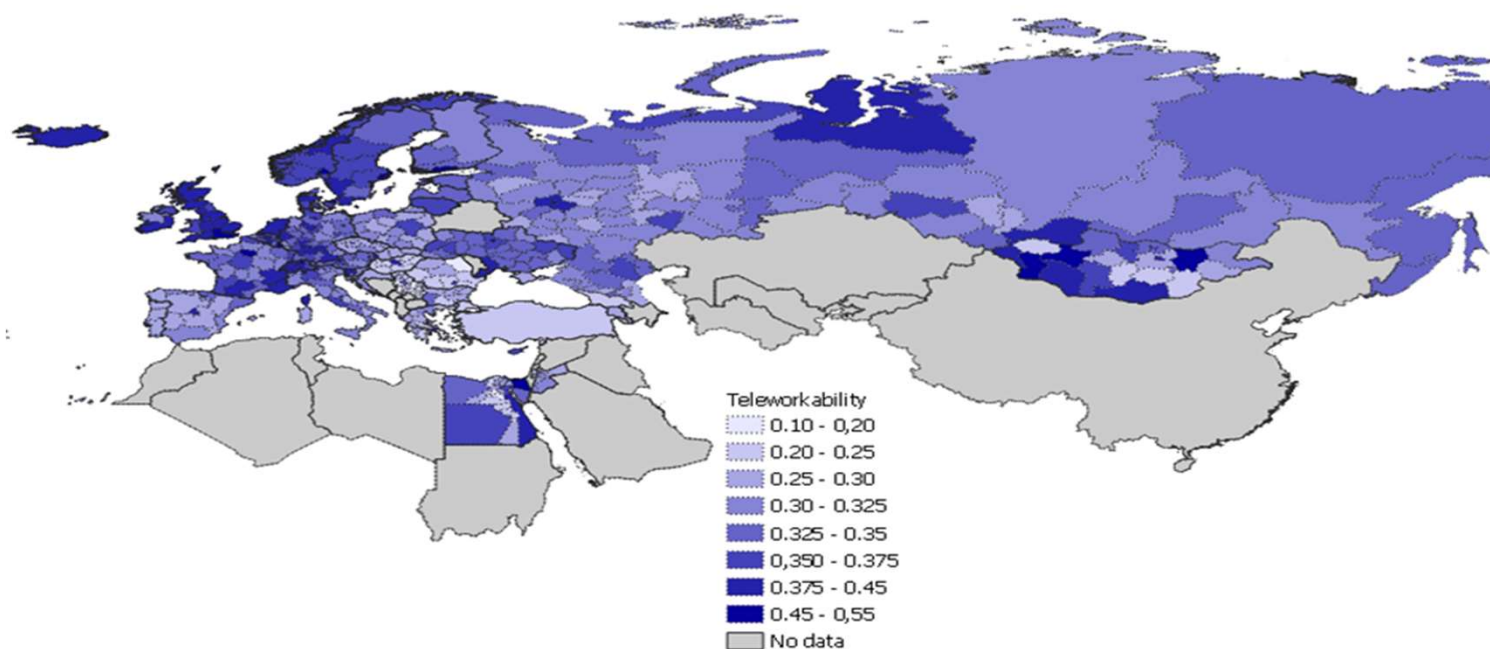
Work from home is more common where interpersonal trust is greater – taking occupation structure into account

Interpersonal trust is strongly associated with working from home in EBRD countries

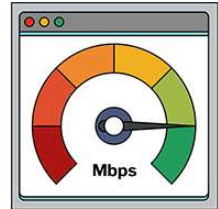
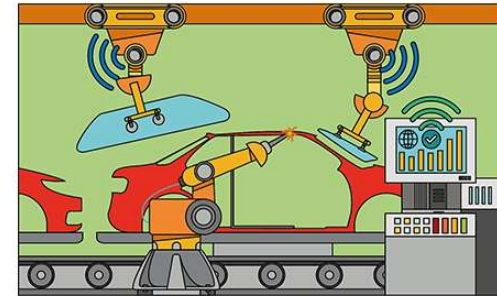


Future trends: EBRD regions have similar exposure to potential AI automation as advanced economies

Around 40% of jobs are estimated to be exposed to automation in the medium term

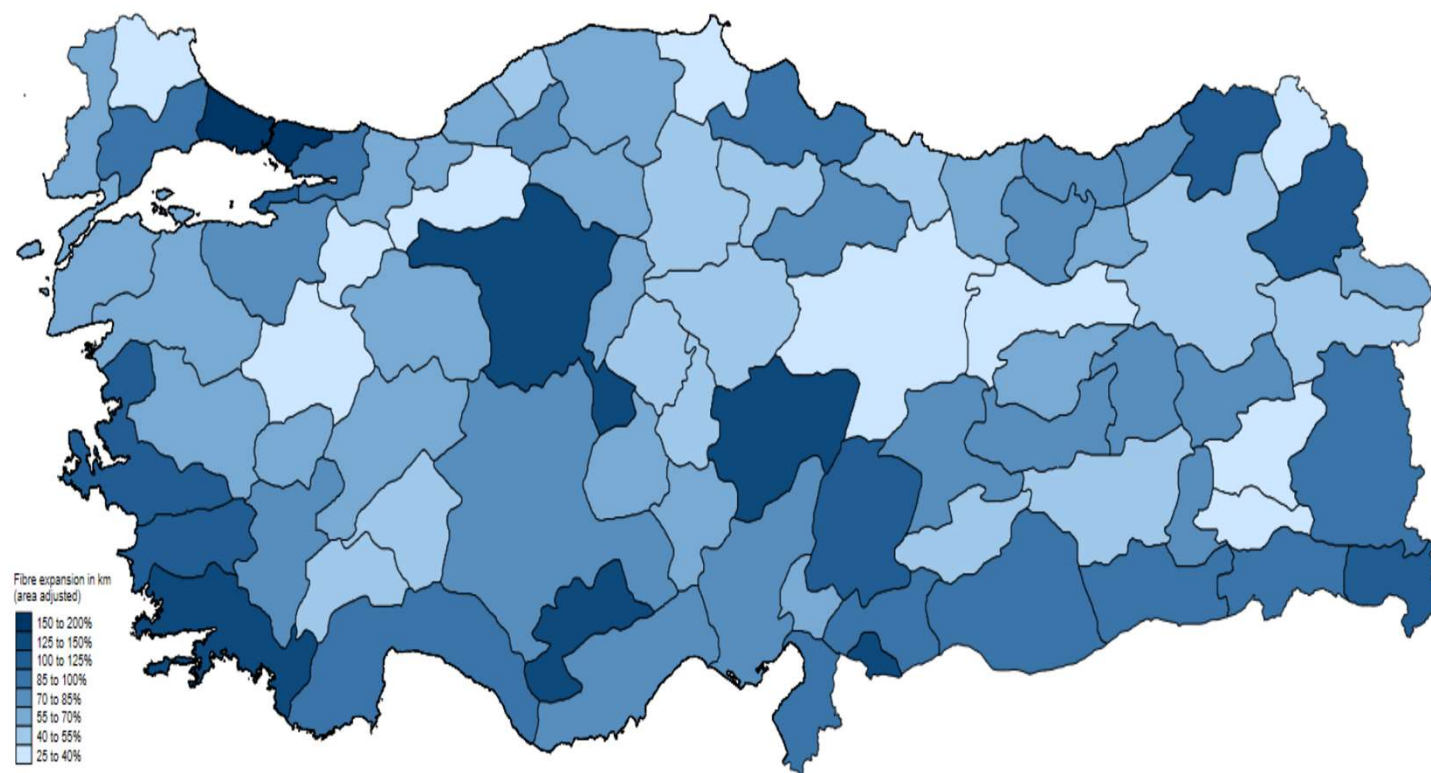


DIGITAL INFRASTRUCTURE AND FIRMS' PERFORMANCE

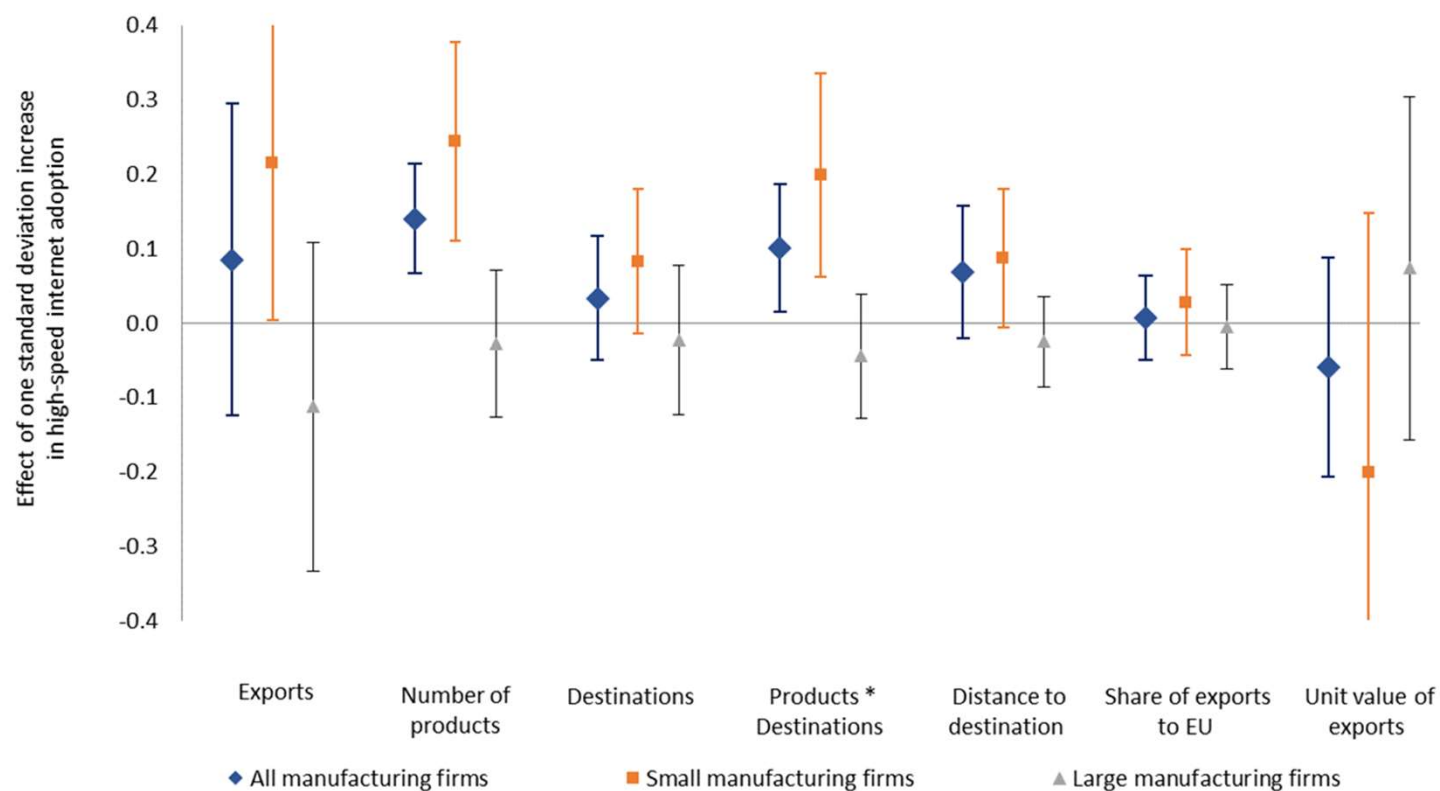


Case study: Turkey has invested heavily in expansion of fibre internet

Turkey: Expansion of fibre internet (adjusted for area), by province

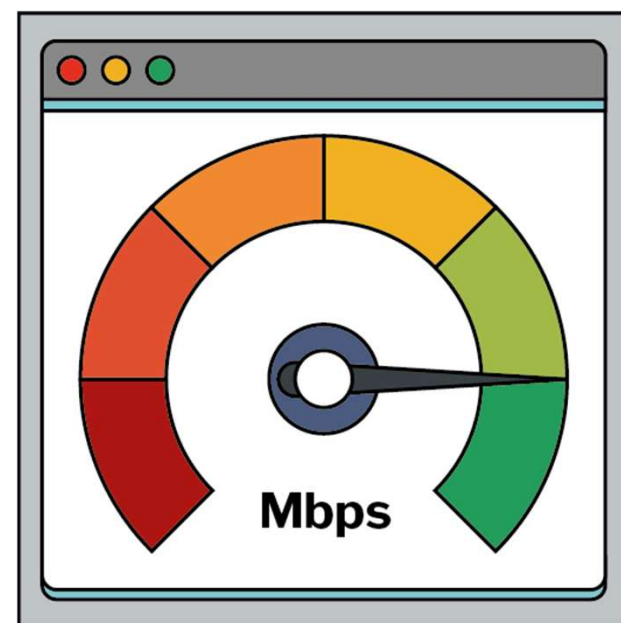
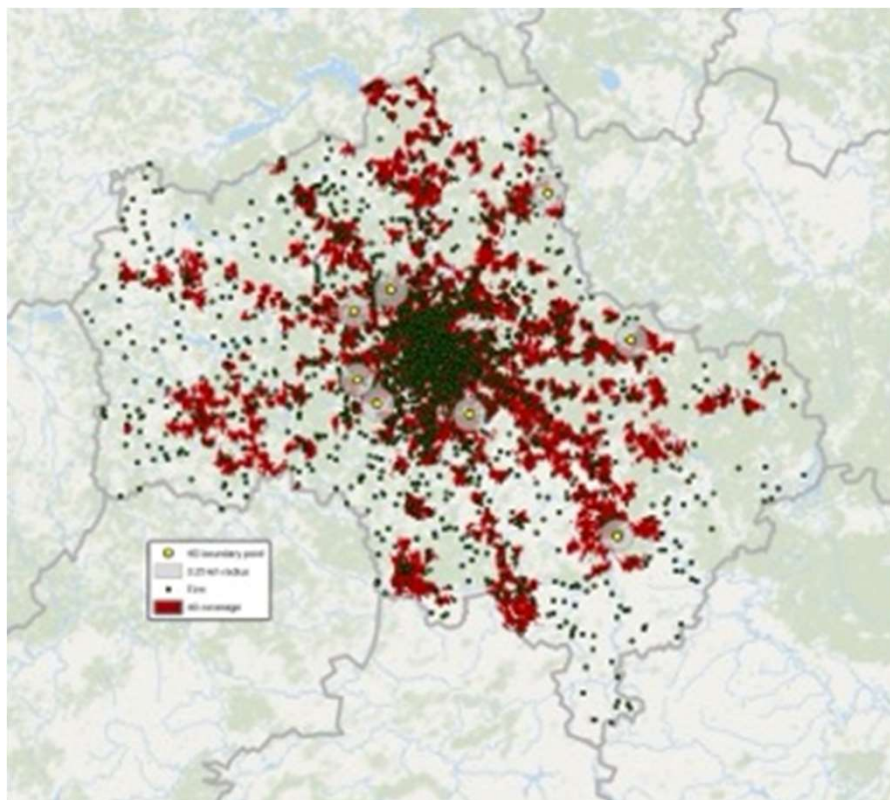


Small manufacturers in ICT-intensive sectors benefitted by increasing the volume of exports and the range of exported products



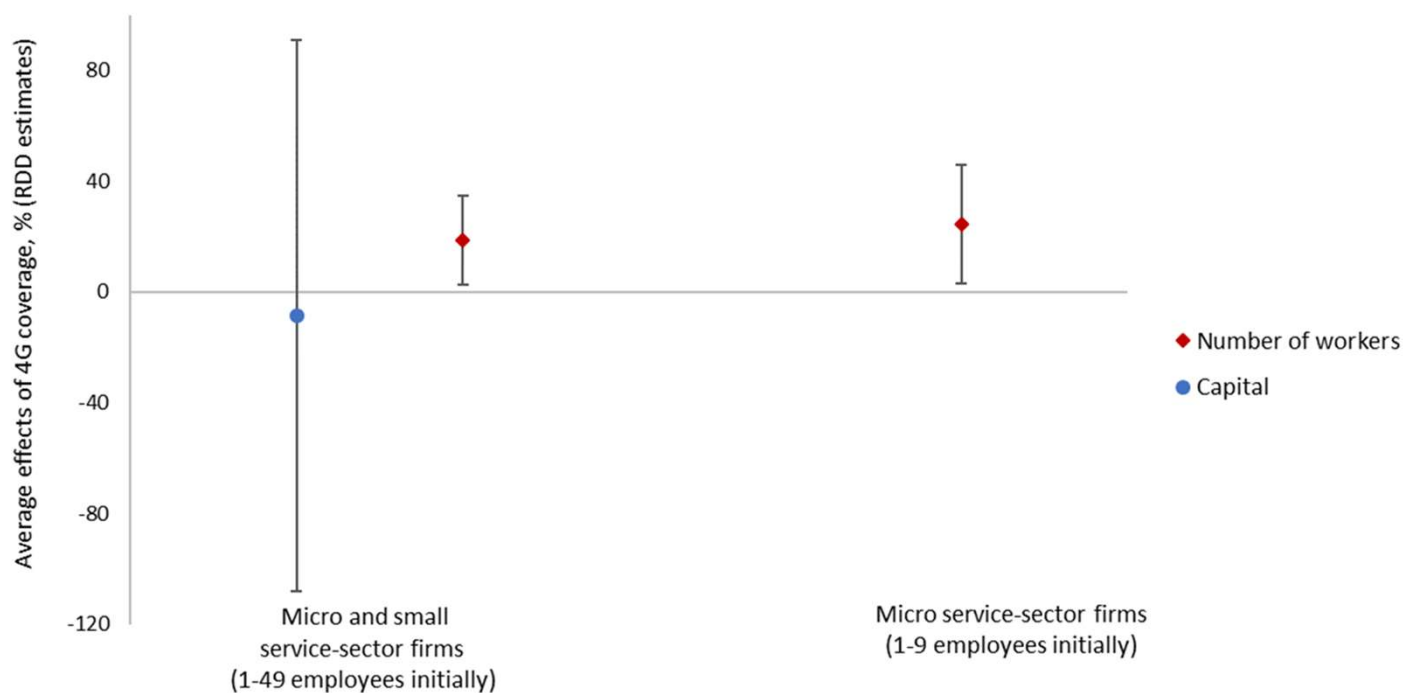
4G rollout: Regression discontinuity analysis using firm geolocations

4G coverage frontiers and firms' locations around Moscow in 2013



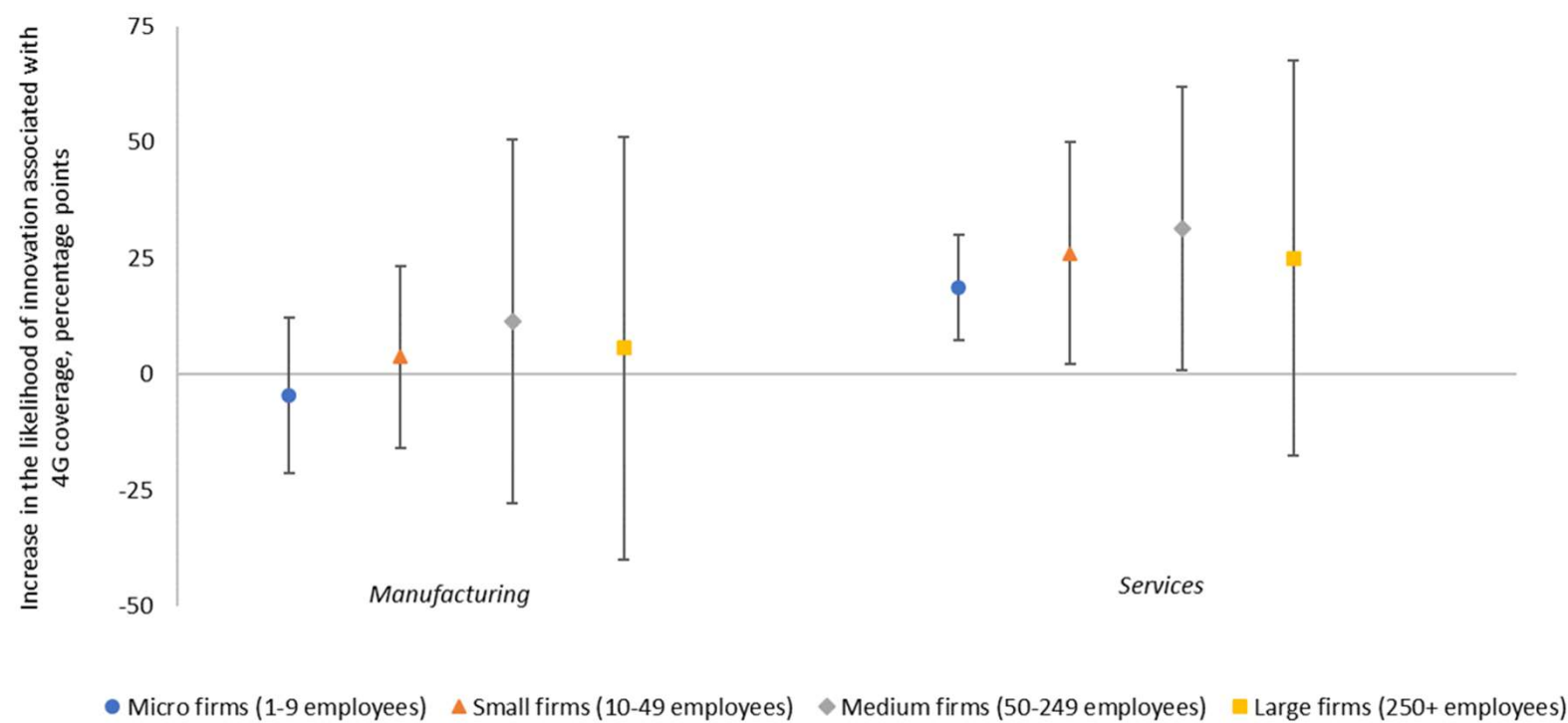
In Russia, smaller firms increased employment by 18% on the back of 4G rollout

In Russia, smaller firms increased employment by 18% on the back of 4G rollout

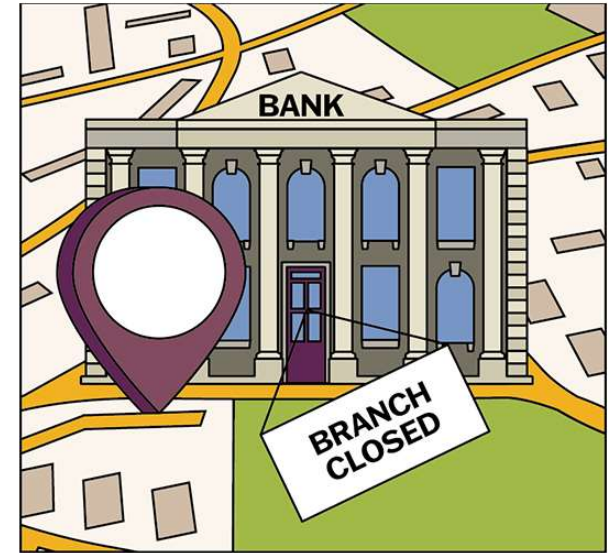


Small firms in the service sector also introduced new products and services on the back of 4G rollout

Firms in the services sector increased innovation following the rollout of 4G network

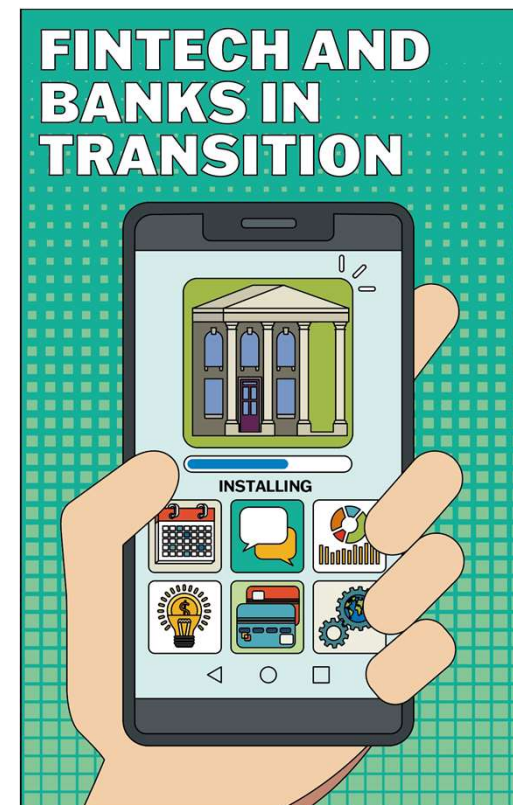
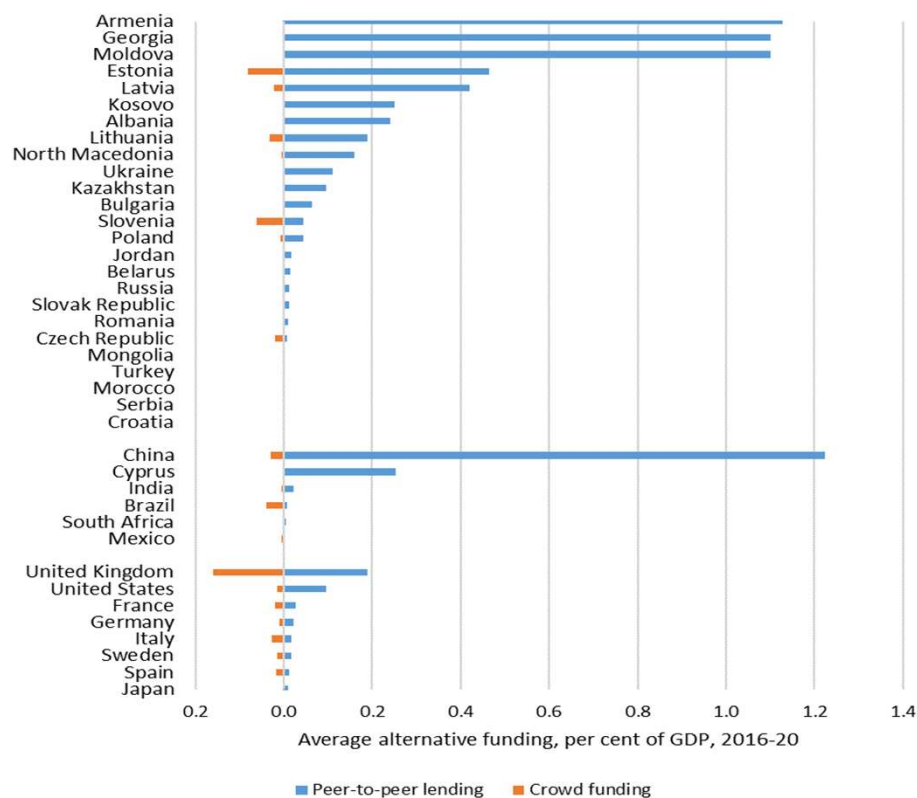


FINTECH AND BANKS IN TRANSITION



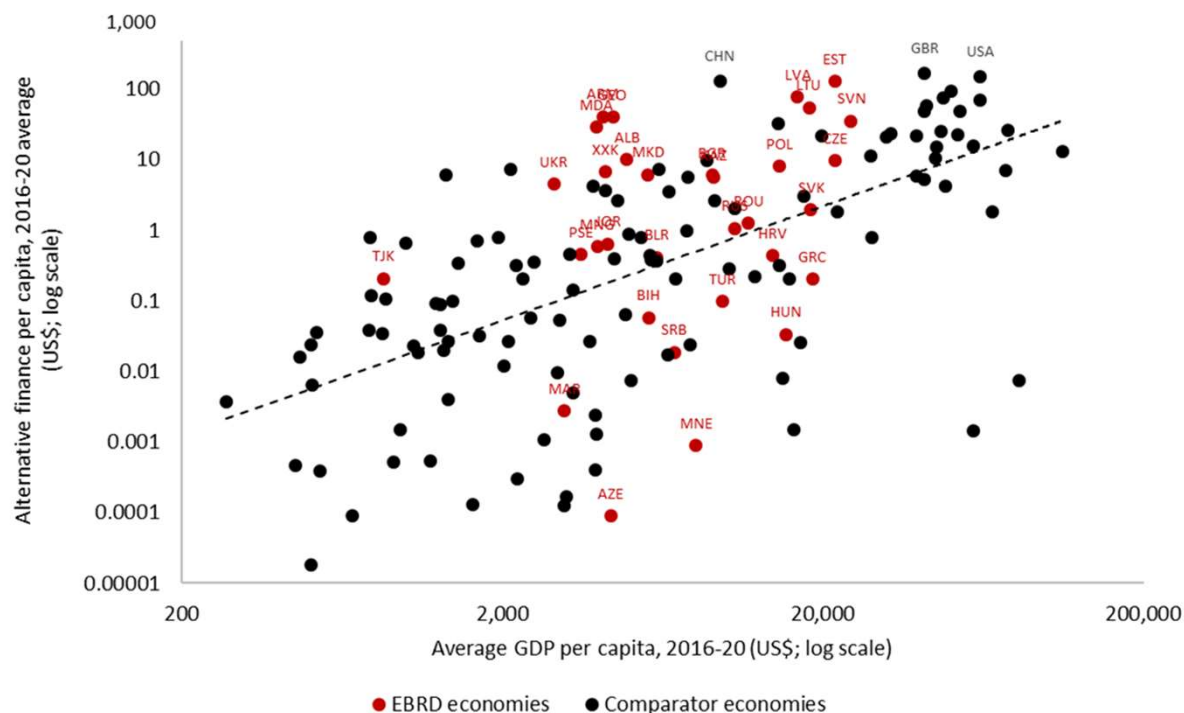
Technological disruption is transforming financial services across the EBRD regions

Alternative finance is sizable a number of economies in the EBRD regions

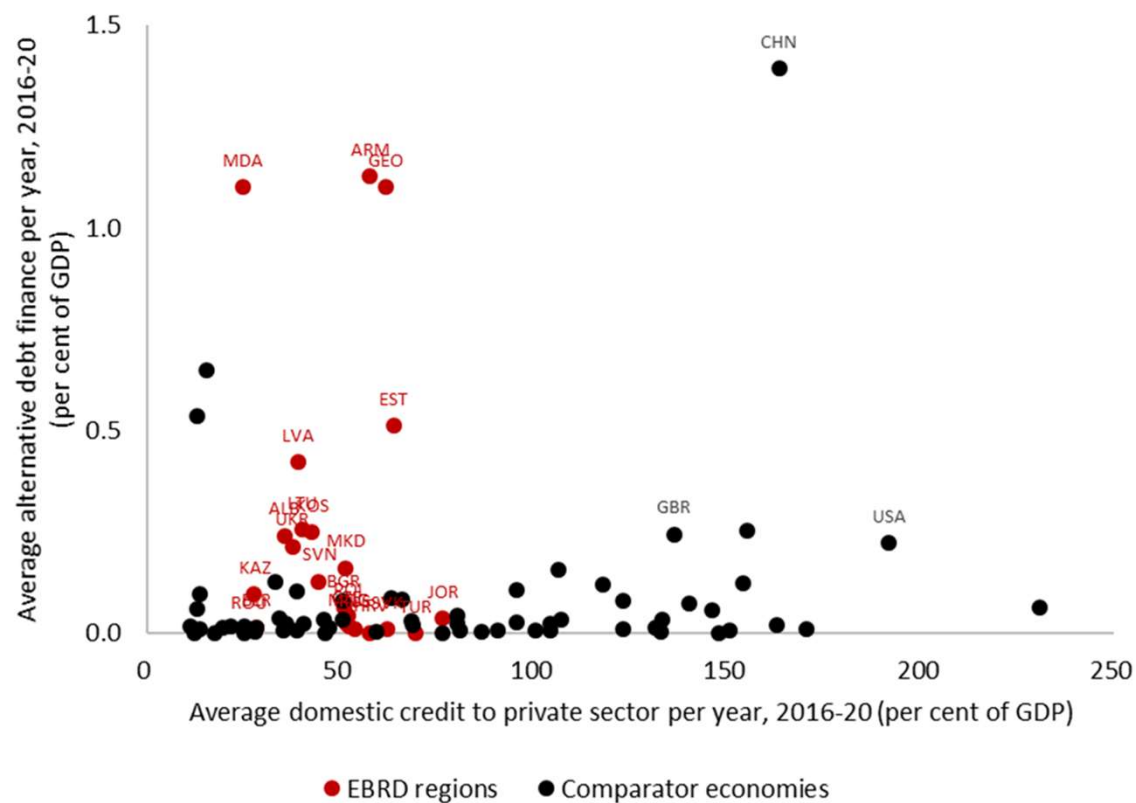


In some economies in EBRD regions, alternative finance is well above levels that could be expected based on per capita income

Alternative finance markets in the Baltics are large relative to per capita income

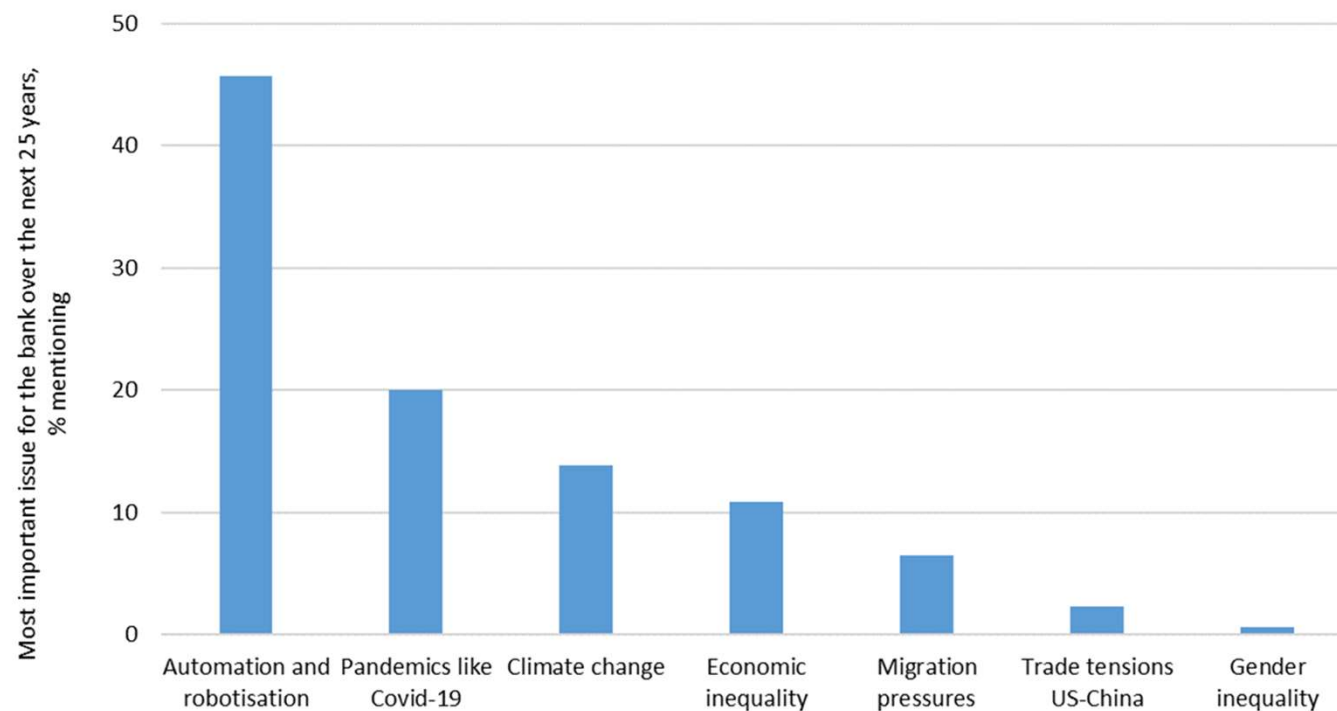


Large fintech sectors both where banking is highly developed and underdeveloped



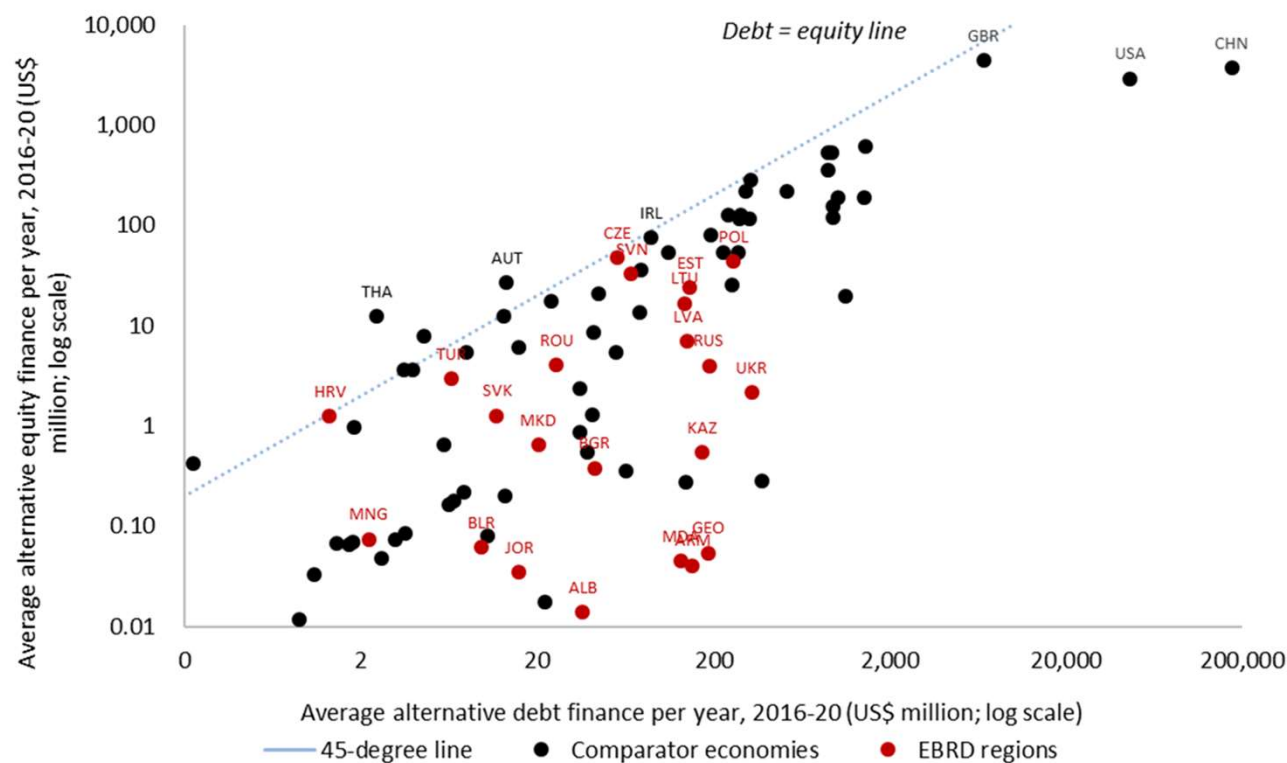
Bank CEOs view digitalisation as the biggest challenge they face in coming years

Automation is a key strategic concern for banks



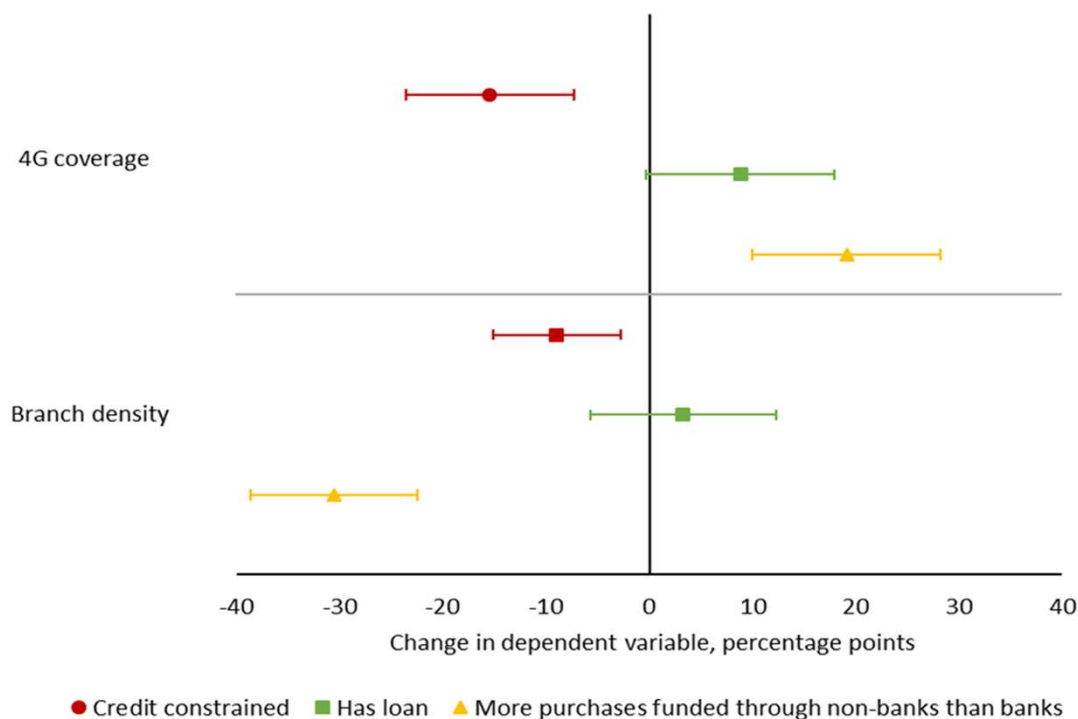
Fintech lending is far more developed than equity, exacerbating debt bias in the EBRD regions

Alternative funding models are also slanted heavily towards debt funding



Faster mobile network coverage has helped relieve credit constraints for businesses

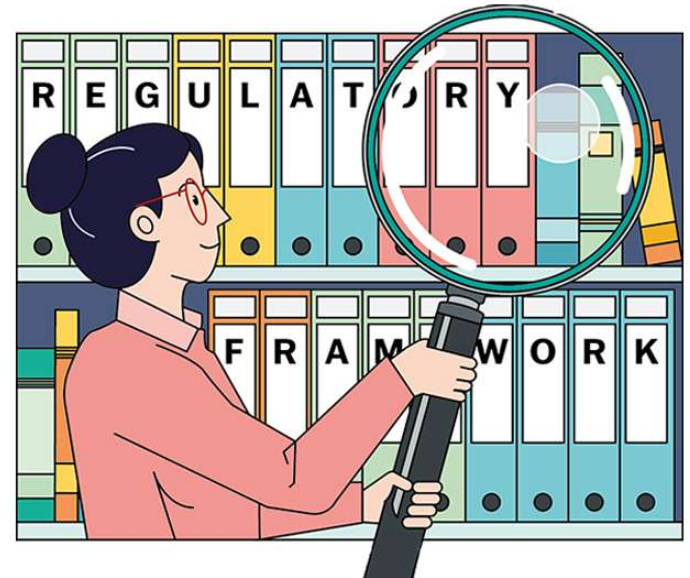
Access to 4G mobile networks enables access to finance for businesses



Conclusions

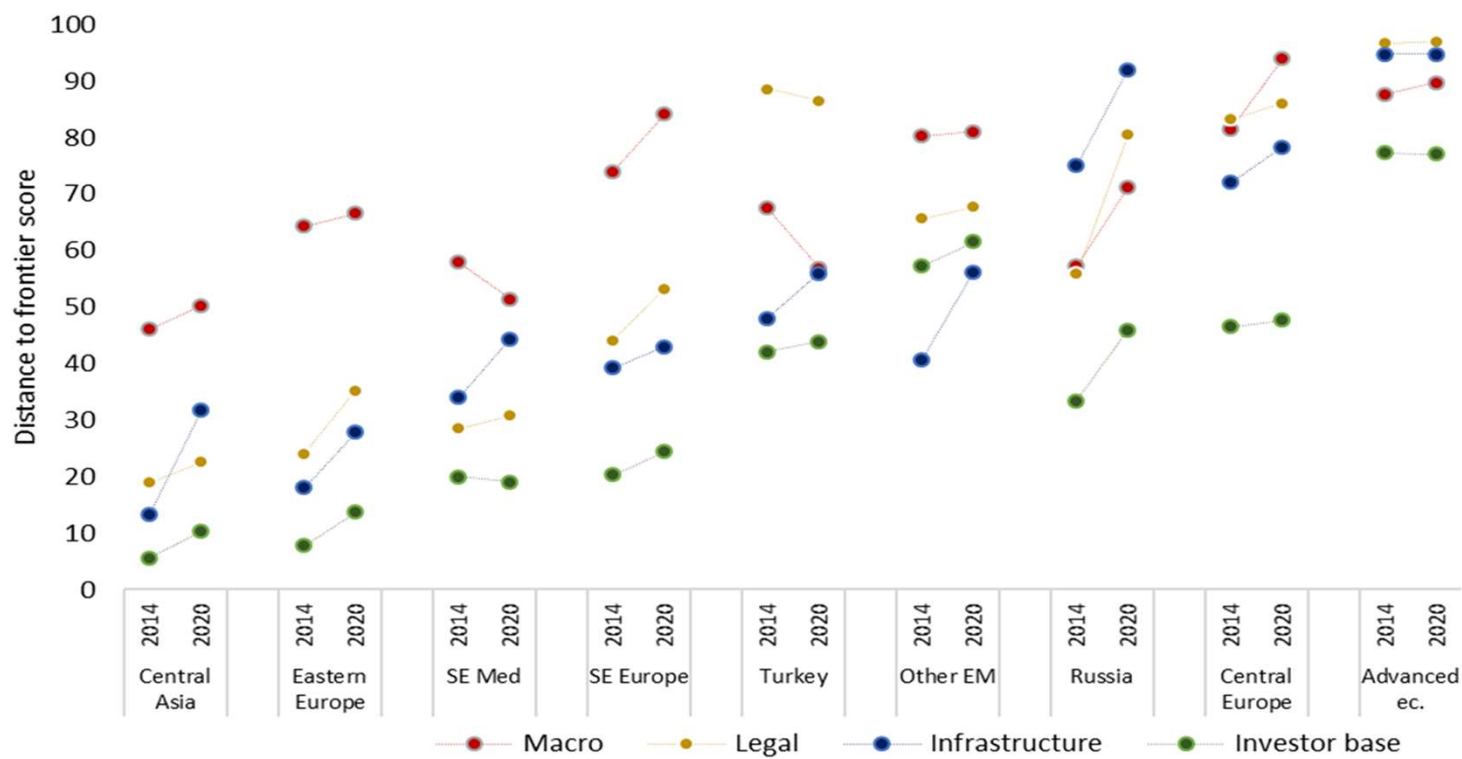
- Large **differences across and within countries** in both digital **infrastructure** and digital **skills**
- Significant **digital brain drain** from the EBRD regions
- Digitalisation has already brought about some **structural changes** in the EBRD regions and **lowered costs** of obtaining information **for SMEs**
- More changes to come, including significant **exposure to potential AI automation**
- **Fintech sector** has grown in economies **with highly developed as well as underdeveloped financial markets** . . . but it is **biased towards debt** (at the expense of equity)

THE FINANCIAL MARKET DEVELOPMENT INDEX

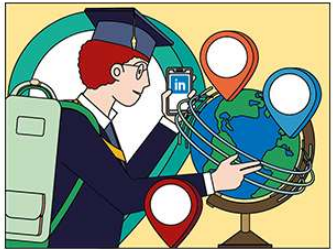


Improved conditions for capital market development in EBRD regions compared with 2014, but major challenges remain

Distance to frontier across various conditions for financial market development

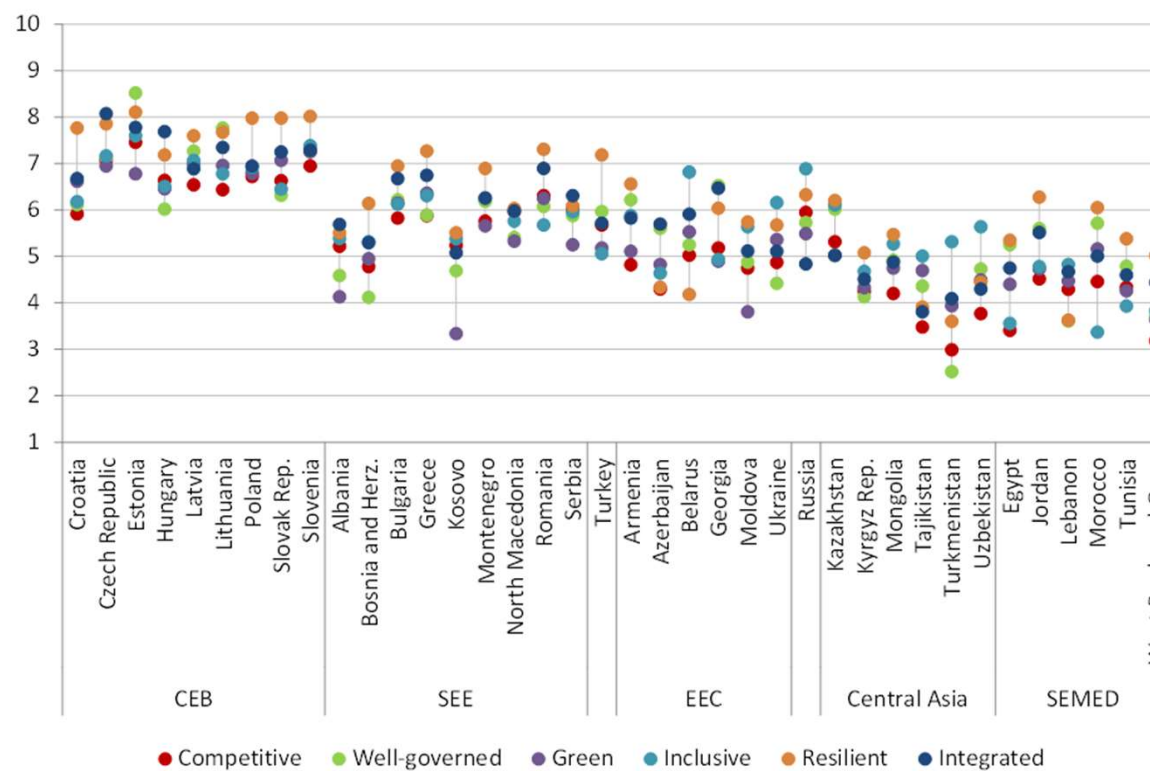


STRUCTURAL REFORM



Continued reform efforts notwithstanding the Covid-19 crisis

ATQ scores for six qualities of a sustainable market economy, 2021



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