This chapter presents the latest assessment of transition challenges in the EBRD regions, tracking progress in the area of structural reform. It focuses on six key qualities of a sustainable market economy, looking at whether economies are competitive, well governed, green, inclusive, resilient and integrated. Since 2016, reform scores have converged in most areas, notably as regards competitiveness, resilience and economic integration. This contrasts sharply with the divergence seen in the area of green reform. To some extent, patterns in terms of reforms are aligned with citizens' preferences in corresponding policy areas. This chapter also surveys the wide range of measures that have been adopted across the EBRD regions in response to high and rising food and energy prices.

Introduction

This chapter presents the latest assessment of transition challenges in the EBRD regions, tracking progress in the area of structural reform. It focuses on six key qualities of a sustainable market economy, looking at whether economies are competitive, well governed, green, inclusive, resilient and integrated. Building on seven years of data, this chapter also looks back at the progress made in those six areas since 2016, highlighting a number of important trends.

Reform scores have converged in most areas since 2016, notably as regards competitiveness, resilience and economic integration. This contrasts sharply with developments in the area of green reform, with growing divergence between greener and less green economies. That divergence in the area of green reform could, in part, reflect cross-country differences in the tolerance of pollution and climate-related risks, whereas convergence appears to occur in areas where the relevant objectives are universally shared.

5 STRUCTURAL REFORM

Almost all of that convergence occurred before the Covid-19 pandemic, on progress having slowed in the last couple of years. That slowdown has been particularly stark in economies with lower initial reform scores, causing convergence to stall.

To some extent, progress on reforms is aligned with citizens' preferences in the respective policy areas. Such alignment is strongest in the area of inclusion and weakest as regards the green economy. Citizens' preferences themselves also vary considerably across economies. On average, survey data suggest that people in the EBRD regions have a greater desire for economic integration than their peers in advanced comparator economies, whereas support for the green economy is stronger in comparator countries.

The relationship between preferences and reforms is also affected by media freedom. Overall, policy preferences as reported in representative household surveys are more closely aligned with progress in the relevant areas of structural reform where economies have free media, while this relationship is not statistically significant in economies with censored media.

The last section of this chapter looks specifically at the various measures that have been implemented across the EBRD regions in response to high and rising prices of food staples and energy. Policymakers have used a wide range of measures to mitigate the impact that rising energy and food prices have on households and firms, with most countries taking action of some kind. The varied nature of countries' responses reflects the multitude of policy objectives being pursued, such as the desire to reach out to those in need, ensure cost-effectiveness, avoid negative externalities (such as excessive consumption of energy or food) and achieve a broad consensus on such measures within society.

Energy subsidies (per unit consumed), means-tested support for individuals, subsidies for firms and price controls are all common across the EBRD regions. However, the policy responses of EBRD economies are, on average, estimated to be less effective overall than those of advanced comparator economies, partly reflecting inferior administrative capacity. Differences between the policies adopted by individual economies are, to some extent, aligned with differences in their "assessment of transition qualities" (ATQ) scores, particularly in the area of inclusion. This partly reflects the fact that at least a third of all policy responses have involved modifying and expanding existing schemes and initiatives (such as means-tested support programmes or subsidies).

ATQ scores for 2022

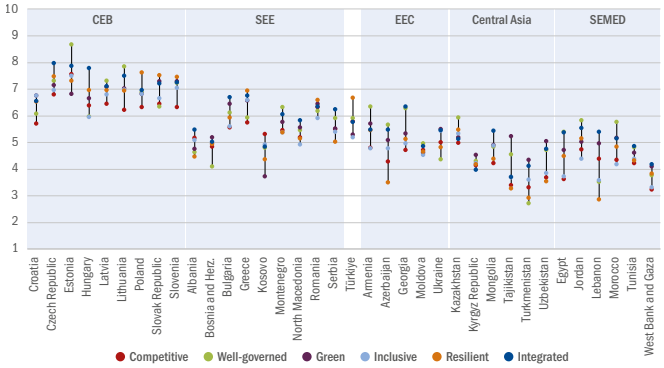
Since 2016, the EBRD has assessed progress in the field of structural reform on the basis of six key qualities of a sustainable market economy, looking at whether economies are competitive, well governed, green, inclusive, resilient and integrated. Progress in each area is scored on a scale of 1 to 10, where 1 corresponds to the worst possible performance and 10 corresponds to the standards of a sustainable market economy. Those ATQ scores are based on a wide range of external and internal data sources and are calculated in accordance with a detailed methodology.[1]

Across those six qualities, increases in scores in 2022 have been concentrated mainly in central Europe and the Baltic states (CEB) and south-eastern Europe (SEE), while declines have been observed primarily in the southern and eastern Mediterranean (SEMED). Improvements have been seen mainly in the areas of competitiveness, the green economy and inclusion, while declines have tended to be concentrated in scores for governance (see Chart 5.1 and Table 5.1).

Competitive

Most EBRD economies have seen modest increases in their competitiveness scores over the last year, thanks to improvements in labour productivity and increases in the percentage of total service exports that is accounted for by advanced business services (such as information, telecommunication and financial services). However, minor deteriorations have been recorded in Jordan, Lebanon, Montenegro, North Macedonia and Türkiye, driven mainly by declines in labour productivity and exports of advanced business services.

CHART 5.1. ATQ scores for six key qualities of a sustainable market economy, 2022



SOURCE: EBRD.
NOTE: Scores range from 1 to 10, where 10 represents a synthetic frontier corresponding to the standards of a sustainable market economy.

[1] See https://2022.tr-ebrd.com/reform for a detailed description of that methodology.

TABLE 5.1. ATQ scores for six key qualities of a sustainable market economy

	Competitive			Well-governed			Green			Inclusive			Resilient			Integrated		
	2022	2021	2016	**2022**	2021	2016	**2022**	2021	2016	**2022**	2021	2016	**2022**	2021	2016	**2022**	2021	2016
Central Europe and the Baltic states																		
Croatia	5.71	5.69	5.82	6.08	6.08	6.22	6.76	6.52	5.92	6.76	6.82	6.42	6.54	6.54	6.08	6.55	6.39	6.10
Czech Republic	6.79	6.77	6.64	7.32	7.30	6.98	7.14	6.90	6.56	6.97	6.87	6.67	7.48	7.48	7.53	7.98	8.11	7.88
Estonia	7.56	7.52	7.39	8.67	8.68	8.50	6.82	6.57	6.23	7.50	7.40	7.19	7.31	7.29	7.09	7.88	7.74	7.43
Hungary	6.39	6.38	6.17	5.97	6.04	5.77	6.65	6.41	6.08	5.95	5.88	5.83	6.97	6.88	6.53	7.79	7.73	7.48
Latvia	6.45	6.39	6.20	7.31	7.31	6.83	7.10	6.86	6.24	6.81	6.72	6.44	6.97	6.98	6.80	7.10	6.97	7.36
Lithuania	6.22	6.19	6.44	7.86	7.82	7.26	7.03	6.79	6.42	7.00	6.96	6.93	6.94	6.94	6.57	7.49	7.51	6.98
Poland	6.33	6.32	6.52	6.88	6.92	7.34	6.82	6.58	6.45	6.81	6.89	6.62	7.62	7.62	7.37	6.96	6.94	6.66
Slovak Republic	6.44	6.43	6.27	6.35	6.35	6.22	7.29	7.05	6.76	6.65	6.54	6.42	7.51	7.50	7.22	7.22	7.28	7.35
Slovenia	6.32	6.29	6.42	7.24	7.31	7.18	7.29	7.05	6.92	7.06	6.97	6.77	7.46	7.44	7.11	7.25	7.23	6.94
South-eastern Europe																		
Albania	5.16	5.16	4.82	4.62	4.71	5.26	4.76	4.76	4.76	5.08	5.07	4.63	4.46	4.45	4.25	5.47	5.45	5.12
Bosnia and Herzegovina	4.83	4.82	4.97	4.10	4.16	4.66	5.20	4.98	4.76	4.96	4.86	4.83	4.94	4.94	4.86	5.03	5.01	4.66
Bulgaria	5.57	5.55	5.29	6.12	6.17	5.83	6.46	6.22	5.59	5.61	5.59	5.45	5.94	5.94	5.70	6.71	6.74	6.65
Greece	5.75	5.73	6.03	5.93	6.02	5.69	6.58	6.34	6.15	6.58	6.39	6.49	6.95	6.89	6.63	6.76	6.71	5.83
Kosovo	5.32	5.27	4.96	4.81	4.80	4.91	3.72	3.74	3.62	4.92	4.97	5.05	4.37	4.36	4.01	4.83	4.76	4.39
Montenegro	5.46	5.54	5.16	6.32	6.31	5.92	5.77	5.53	5.10	5.37	5.35	4.97	5.38	5.43	5.06	6.06	6.12	5.47
North Macedonia	5.19	5.22	5.33	5.47	5.43	5.78	5.56	5.15	4.79	4.92	4.90	4.81	5.15	5.13	4.76	5.83	5.84	5.31
Romania	6.33	6.27	6.14	6.18	6.20	5.97	6.44	6.20	5.87	5.92	5.95	5.85	6.59	6.59	6.24	6.34	6.35	6.01
Serbia	5.49	5.47	5.44	5.90	5.94	5.72	5.51	5.38	5.14	5.39	5.36	5.09	5.03	5.03	4.91	6.24	6.13	5.69
Türkiye	5.79	5.80	5.75	5.92	5.98	5.97	5.29	5.25	4.98	5.20	5.24	4.89	6.69	6.63	6.62	5.78	5.76	5.85
Eastern Europe and the Caucasus																		
Armenia	4.81	4.80	4.33	6.35	6.34	5.81	5.70	5.70	5.32	4.78	4.79	4.52	5.45	5.45	5.05	5.48	5.42	5.08
Azerbaijan	4.29	4.29	4.18	5.66	5.68	5.18	5.08	5.08	4.85	4.77	4.74	4.67	3.51	3.51	3.31	5.49	5.72	5.52
Georgia	4.71	4.71	4.38	6.29	6.39	6.47	5.33	5.33	4.98	4.97	4.92	4.73	5.13	5.04	4.42	6.34	6.46	6.10
Moldova	4.71	4.70	4.56	4.96	4.90	4.52	4.61	4.52	4.25	4.52	4.59	4.54	4.66	4.60	4.28	4.87	4.83	4.78
Ukraine	5.00	4.97	5.04	4.36	4.44	4.10	5.50	5.44	5.05	5.44	5.34	5.23	4.81	4.89	4.10	5.46	5.49	5.13
Central Asia																		
Kazakhstan	4.98	4.97	4.93	5.93	5.92	5.61	5.20	5.20	4.76	5.33	5.31	5.02	5.48	5.48	5.12	5.12	5.23	4.99
Kyrgyz Republic	4.13	4.13	3.86	4.30	4.36	4.24	4.54	4.54	4.16	4.23	4.21	4.18	4.18	4.25	4.20	3.97	4.18	4.31
Mongolia	4.23	4.22	4.16	4.84	4.89	5.31	4.89	4.89	4.80	4.89	4.78	4.61	4.39	4.39	4.31	5.45	5.04	4.95
Tajikistan	3.40	3.40	3.41	4.56	4.58	4.09	5.22	5.22	5.00	3.68	3.76	3.55	3.28	3.18	2.88	3.70	3.68	3.29
Turkmenistan	3.31	3.30	3.30	2.71	2.63	2.65	4.35	4.35	4.31	3.60	3.66	3.43	2.92	2.92	2.87	4.13	4.14	4.17
Uzbekistan	3.69	3.68	3.38	4.71	4.70	4.59	5.04	5.04	4.38	3.84	3.80	3.71	3.54	3.62	3.13	4.75	4.67	4.00
Southern and eastern Mediterranean																		
Egypt	3.62	3.62	3.71	5.39	5.48	4.72	4.71	4.71	4.50	3.72	3.75	3.72	4.50	4.50	4.05	5.38	5.40	4.76
Jordan	4.73	4.74	4.56	5.83	5.85	5.93	5.02	5.02	5.26	4.39	4.44	4.01	5.15	5.15	4.79	5.55	5.60	5.85
Lebanon	4.38	4.41	4.51	3.52	3.65	3.90	4.95	4.96	4.89	3.57	3.76	3.93	2.86	2.86	3.94	5.41	5.27	5.18
Morocco	4.33	4.33	4.04	5.77	5.83	5.43	5.16	5.18	5.39	4.18	4.23	3.96	4.83	4.83	4.69	5.15	5.15	5.00
Tunisia	4.22	4.21	4.25	4.82	4.87	5.05	4.62	4.62	4.43	4.38	4.45	4.29	4.33	4.33	3.97	4.85	4.85	4.58
West Bank and Gaza	3.23	3.22	3.30	3.76	3.89	3.75	4.10	4.10	4.18	3.32	3.31	3.50	3.82	3.80	3.57	4.17	4.19	4.03

SOURCE: EBRD.
NOTE: Scores range from 1 to 10, where 10 represents a synthetic frontier corresponding to the standards of a sustainable market economy. Scores for years prior to 2022 have been updated following methodological changes, so they may differ from those published in the *Transition Report 2021-22*. Owing to lags in the availability of underlying data, ATQ scores for 2022 and 2021 may not fully correspond to that calendar year.

The last year has seen reforms in several countries aimed at improving the business climate and boosting investment. In May 2022, for example, Jordan launched a Support for Industry Development Fund Project, which aims to incentivise modernisation by providing direct support to 500 export-oriented companies. In Morocco, a new investment charter is focused on high value-added activities and making the country more attractive to foreign investors. In Tunisia, the National Programme of Reforms 2023-25, which was launched in June 2022, contains plans to (i) remove the need to apply for investment permits, (ii) incentivise investment in strategic sectors and (iii) establish a special legal framework for start-ups. In Uzbekistan, a new investment programme for the period 2022-26 provides for the establishment of a central project management office to oversee strategic investments. The Uzbek authorities have also announced further measures aimed at simplifying the procedures governing investment in special economic zones. In the Kyrgyz Republic and Tajikistan, amendments have been made to the tax code with the aim of reducing informality and levelling the playing field for companies operating in the formal sector. And in a similar vein, Egypt has introduced an automated tax management system, which is due to be rolled out across the country in the course of 2022.

At the same time, many EBRD economies in the EU have launched initiatives financed through the European Union's Resilience and Recovery Facility in order to support companies affected by the Covid-19 pandemic and the war in Ukraine. In Bulgaria, for instance, the government launched a €130 million state-aid scheme to help SMEs with investment in new technology. In the Baltic states, similar packages are being used to drive investment in innovation and boost exports.

Many countries have also announced reforms supporting the improvement of governance frameworks for state-owned enterprises, as well as the privatisation of state assets. In Egypt, for example, a draft state ownership policy published in May 2022 aims to encourage privatisation in key sectors (including textiles, mining, chemicals and food processing), targeting US$ 40 billion in investment over the next four years. In Georgia, as part of the country's SOE reform strategy for 2021-24, the authorities have launched a series of pilot projects aimed at enhancing the transparency and corporate governance of SOEs such as United Airports of Georgia and the Georgian Railway Company. In Greece, the country's privatisation programme remains on-track, with a number of privatisations being completed in 2022 – including, most notably, that of the Public Gas Corporation (DEPA). In Uzbekistan, meanwhile, a presidential decree on "additional measures to further reduce state participation in the economy and accelerate privatisation" has set out a timeline for the privatisation of some SOEs (including Uzbekistan Airways and the country's national oil and gas company), as well as initial public offerings (IPOs) for state-owned banks.

Bosnia and Herzegovina has taken incremental steps to improve the management of SOEs by establishing central oversight units. And in Serbia, a consolidated list of SOEs has been drawn up as a first step towards implementing the SOE reform action plan that was adopted a year ago.

In Kosovo, the government has dismissed the board of the Privatization Agency of Kosovo (PAK) and is in the process of closing the agency. According to a concept paper approved in June 2022, the government plans to replace the agency with a sovereign fund managing state-owned assets. In Montenegro, further setbacks have been seen in the area of SOE reform, with the country's SOE management company, Montenegro Works, being liquidated after only a year in operation on account of its ineffectiveness. And in Hungary, the government has announced its intention to participate in the buyout of Telecom Vodafone Hungary in 2022, in line with its objective of increasing state participation in strategic sectors.

Over the period 2016-22, marked improvements have been observed in eastern Europe and the Caucasus (EEC) and the SEE region, driven mainly by increased credit to the private sector, improved logistical services, greater access to finance for SMEs, higher labour productivity and the increased sophistication of service exports. Deteriorations have been seen in a number of countries (Greece, Lithuania and Poland) on account of reductions in the quality of logistical and transport services, and declines in credit to the private sector. In Bosnia and Herzegovina, there has been an increase in tariff rates and a decline in the level of participation in global value chains. In North Macedonia, deteriorations stem from an increase in government spending on subsidies, a fall in the quality of transport infrastructure and a decline in the entry of new firms into the market. In Lebanon, meanwhile, declining scores reflect reductions in both labour productivity and the sophistication of the country's exports (as measured by the Index of Economic Complexity).

EGYPT'S STATE OWNERSHIP POLICY IS TARGETING
US$ 40 BILLION
IN INVESTMENT OVER THE NEXT FOUR YEARS

Well-governed

Over the last year, governance scores have deteriorated in many economies in the EBRD regions, driven mainly by the perceived worsening of corruption and a reduction in the freedom of the press. Some modest improvements have been observed in the CEB region (the Czech Republic and Lithuania), the SEE region (Kosovo, Montenegro and North Macedonia) and the EEC region (Armenia and Moldova) as a result of greater compliance with standards aimed at tackling money laundering and the financing of terrorism (AML/CFT standards) and more favourable perceptions regarding corruption.

A number of countries have recently introduced reforms aimed at improving governance in the public sector and tackling corruption. In Armenia, for example, a new public administration reform strategy announced in May 2022 aims to create more effective governance structures, ensure the independence of the civil service and introduce new digital systems for public administration by 2030. In Georgia, a new public service development strategy for 2022-25 sets clear guidelines for improving the design and delivery of public services. In Azerbaijan, the government has launched a National Action Plan to Combat Corruption spanning the period 2022-26, which introduces measures aimed at increasing transparency, improving public services and strengthening public oversight of government agencies. In Moldova, meanwhile, steps have been taken to increase the independence and accountability of the country's anti-corruption body, which was created in 2021. Further legislation on the selection of specialist prosecution bodies was adopted earlier this year, which resulted in the election of an Anti-Corruption Prosecutor in June 2022.

In Ukraine, despite delays caused by the Russian invasion, the government has continued to make progress with tackling corruption. In June 2022, the Ukrainian parliament adopted a new anti-corruption strategy for the period 2021-25, outlining plans to tackle corruption across a number of sectors with a view to meeting the EU accession criterion of accountable government.

Meanwhile, several countries have implemented judicial reforms. In the Czech Republic, for instance, the country's new Law on Courts and Judges, which was adopted at the end of 2021 following recommendations by the Group of States against Corruption (GRECO), reduces the influence of the Ministry of Justice on the selection of judges and officials, narrows the mandate of court chairs and requires that the decisions of lower courts be published online. In Kosovo, a new law establishing a commercial court was passed in January 2022, paving the way for the creation of a special court handling corporate disputes. That court is expected to be operational by the end of 2022. In Albania, meanwhile, judicial reform – a key condition for starting the EU accession process – has progressed at a slow pace. Further constitutional amendments are required to extend the timeline for vetting judges, while the country's high rate of judicial resignations has resulted in growing backlogs of court cases.

IN BULGARIA, UP TO
€297 MILLION
HAS BEEN EARMARKED FOR INVESTMENT IN THE DIGITALISATION OF PUBLIC SERVICES

Many countries have continued to digitalise public services. In Mongolia, for example, the government signed a memorandum of understanding with Estonia's E-governance Academy in April 2022. That partnership is expected to facilitate the introduction of digital identities and signatures, enhance digital skills training for the civil service and help to further develop the e-service platform that was launched in response to the Covid-19 pandemic. In Armenia, meanwhile, the State Revenue Committee has launched a one-stop digital system for permits and customs clearance. For a number of EBRD economies in the EU, digital transformation is a major component of the country's recovery and resilience plan. In Bulgaria, for instance, a sum of up to €297 million has been earmarked for investment in the digitalisation of public services (including judicial services, healthcare, postal services and social services). Similarly, Romania adopted new government cloud legislation in June 2022 – a first step towards the establishment of secure government cloud infrastructure – and has plans to digitalise the country's healthcare system and introduce electronic identity cards. In August 2022, meanwhile, Tunisia launched a pilot project to introduce electronic identity cards. It has also expanded its range of e-government services.

Over the period 2016-22, notable improvements in governance scores have been observed in countries such as Armenia, Azerbaijan, Egypt, Latvia and Lithuania. In Armenia, the increase in the country's score reflects improvements as regards participation in e-government, the provision of public services online, perceptions of corruption, the framework for challenging regulations, judicial independence and the protection of property rights. In Azerbaijan, improvements reflect enhanced protection of intellectual property rights, a new framework for challenging regulations and increases in judicial independence. In Egypt, steady improvements have been seen in perceived political stability, corruption and the effectiveness of the courts. And in Latvia and Lithuania, improved scores reflect the strengthening of corporate governance in the areas of internal control, transparency and disclosure, and board structures. At the same time, governance scores have deteriorated significantly in a number of economies over the last six years, primarily reflecting increases in perceived informality and corruption (as seen, for instance, in Albania and Bosnia and Herzegovina) and declines in the perceived effectiveness of courts (as observed, for instance, in Poland). Several economies have also seen deteriorations in judicial independence, budgetary transparency and the enforcement of contracts.

Green

Green scores have increased considerably over the last year, especially in the SEE and CEB regions. Significant improvements have been observed, for example, in Bulgaria, Montenegro, North Macedonia and Romania, primarily on account of increases in nationally determined contributions (NDCs) in the context of the Paris Agreement. Meanwhile, small declines have been observed in Kosovo, Lebanon and Morocco, partly driven by reductions in the size of conservation areas.

Over the last year, many economies in the EBRD regions have announced measures aimed at increasing the uptake of renewable energy and improving energy efficiency in residential buildings and energy-intensive sectors. For example, Albania's National Energy and Climate Plan, which was adopted in December 2021, is focused on reducing the country's reliance on fossil-fuel imports and decarbonising emission-intensive sectors. In a similar vein, Croatia has adopted a new €133 million programme aimed at raising the energy efficiency of public buildings and apartment blocks, as well as a strategy to decarbonise the energy sector. Egypt, meanwhile, has earmarked US$ 324 billion for its National Climate Change Strategy, which was launched in May 2022. That strategy focuses on five key areas: improved governance frameworks, mitigation of and adaptation to climate change, a system for monitoring, reporting and verifying emissions, financing mechanisms for climate-related activities and incentives for green innovation.

In Türkiye, the country's Capital Markets Board has developed guidelines on green and sustainable debt instruments, paving the way for new green financial instruments, while in Latvia the first sustainability-linked bond was issued in December 2021, raising €600 million.

Several countries have also announced measures to improve waste management and the treatment of water and wastewater. Croatia and Slovenia, for instance, have recently introduced new regulations in this area and announced significant investment in the modernisation of wastewater treatment and waste management facilities as part of their recovery and resilience plans. Jordan, meanwhile, signed a water-for-energy swap deal with Israel in November 2021, which will cover around 12 per cent of Jordan's annual water needs and alleviate water scarcity.

LATVIA'S FIRST SUSTAINABILITY-LINKED BOND WAS ISSUED IN DECEMBER 2021, RAISING

€600 MILLION

At the same time, despite efforts to improve legislative frameworks for renewable energy in Bosnia and Herzegovina, the government of the Federation of Bosnia and Herzegovina has announced its intention to extend the operation of two large coal-fired thermal power plants in Tuzla and Kakanj, thereby failing to live up to its commitments as a member of the Energy Community.

Over the period 2016-22, green scores have improved in most economies in the EBRD regions. These improvements have been driven mainly by reduced GHG emissions from agriculture and the heating of buildings (notably in Bulgaria and North Macedonia), greater uptake of renewable energy, and increases in NDCs and intended NDCs. The most significant improvements have been observed in Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Montenegro, North Macedonia and Uzbekistan, driven by enhanced commitments in their intended NDCs, the inclusion of adaptation considerations in their NDCs, and progress in the area of "just transition". Montenegro, for example, has improved its carbon-pricing mechanism, while vehicle emission standards have been tightened in Uzbekistan. At the same time, scores have declined in Jordan (on account of a failure to comply with the latest guidance on best practices for carbon-pricing mechanisms, as well as reductions in the size of maritime conservation areas) and Morocco (on account of reductions in the size of protected areas, deteriorating air quality and increases in fossil-fuel subsidies).

THE WATER-FOR-ENERGY SWAP DEAL BETWEEN JORDAN AND ISRAEL WILL COVER AROUND

12%

OF JORDAN'S ANNUAL WATER NEEDS

Inclusive

Over the last year, inclusion scores have improved in many countries, including Bosnia and Herzegovina, the Czech Republic, Estonia, Greece, Mongolia and the Slovak Republic. In Bosnia and Herzegovina, that improvement mainly reflects greater financial inclusion, a decline in the percentage of young people who are not in education, employment or training, and an increase in the female labour-force participation rate. In contrast, significant deteriorations have been recorded in Lebanon, Tajikistan and Tunisia, and in Poland (which had a much higher initial score), driven primarily by a worsening of national frameworks for ensuring equal treatment and preventing discrimination (as well as a decline in financial inclusion in the case of Tajikistan).

A number of economies in the EBRD regions have implemented reforms with the aim of improving employment conditions, supporting the development of human capital and increasing access to services and finance. Georgia, for instance, has announced further investment in technical vocational education and training in order to reduce the mismatch between supply and demand when it comes to skills. Türkiye has adopted a new law on the provision of financial incentives for vocational training with a view to increasing cooperation between the country's vocational training system and local chambers of commerce. And Slovenia has adopted a resolution on a national adult education programme for the period 2022-30, focusing on the development of opportunities for lifelong learning and adult education.

Many EBRD economies have announced measures supporting the integration of Ukrainian refugees into their labour markets and education systems. In Bulgaria, for instance, specific amendments have been made to the country's Employment Promotion Act. And all EU member states have implemented measures granting Ukrainian refugees access to healthcare, education and work, in line with the rights enjoyed by other residents. In Poland, around two-thirds of all working-age refugees had been successfully absorbed into the labour market by August 2022.

Several economies have introduced reforms aimed at increasing the economic inclusion of women. For instance, in June 2022 Egypt launched a new five-year programme targeting economic and social empowerment for women, which seeks to increase women's employment opportunities and reduce gender-based violence across seven governorates. Meanwhile, the parliaments of Moldova and Ukraine have both ratified the Istanbul Convention on violence against women and domestic violence.

Over the period 2016-22, the most significant improvements in the area of inclusion have been seen in Albania, Jordan, Latvia and Montenegro. In Albania and Montenegro, increases in inclusion scores have been driven primarily by greater access to internet services and digital skills. In Latvia, they stem from improved access to training through employment and increases in financial inclusion. And in Jordan, they are due to new legislation aimed at improving opportunities for women and greater access to sanitation and the internet.

The most significant deteriorations over the period 2016-22 have been recorded in Kosovo, Lebanon, and the West Bank and Gaza. In Kosovo, this is mainly due to poor access to formal training opportunities at work and the high percentage of adults who are not in education, employment or training. In Lebanon, it reflects a decline in financial inclusion against the backdrop of the country's deep economic and financial crisis. And in the West Bank and Gaza, it reflects new legislation allowing gender-based discrimination, as well as reductions in access to vital services.

Resilient

ATQ scores for resilience cover issues pertaining to (i) energy security and (ii) financial stability. The discussion below considers each of these in turn.

Energy resilience scores have only changed very modestly over the last year, as many reforms in key sectors have been halted. The exception here is Ukraine, where a decline in the country's score reflects the impact that the war has had on the operations of the state-owned gas company.

In light of the energy crisis faced by many economies in the EBRD regions, recent reform efforts have focused on improving energy security, while progress in other areas has slowed. In Armenia, the country's Public Services Regulatory Commission set up an electronic trading platform for electricity in February 2022 with a view to facilitating free and open trade, while full liberalisation of the electricity market is planned for 2023. In Lebanon, the government approved a plan in March 2022 to restructure the electricity sector and address decade-long inefficiencies in the system. That plan includes the establishment of a regulatory authority for the electricity sector, increases in electricity prices and US$ 3.5 billion of investment in the sector. Parliamentary approval of that plan is currently pending.

In Montenegro, the government passed new legislation in January 2022 giving the national energy regulator greater powers to monitor the country's electricity and gas markets and investigate potential abuse. In Ukraine, given the significant loss of energy production capacity on account of the war, the country's authorities have accelerated the integration of their grid into the EU's single electricity network (ENTSO-E) in order to gain independence from Russia and Belarus in terms of the supply of electricity.

In Poland, meanwhile, plans to liberalise household gas tariffs have been pushed back three years to 2027, as the government has introduced €4.4 billion in heating subsidies for the period from October 2022 to April 2023, in response to increases in energy prices. Similarly, the Lithuanian government has postponed its plans to liberalise the electricity market for customers consuming less than 1,000 kWh per year (which had been due to take place this year). In Hungary, meanwhile, the government has given a green light to the expansion of the Paks nuclear power plant, restarted the coal-fuelled power plant in Matra and banned exports of energy sources (including firewood).

Significant improvements in financial resilience have been observed in Georgia, Greece, Hungary and Tajikistan, driven mainly by increases in capital adequacy ratios (Georgia, Hungary and Tajikistan) and a reduction in NPLs (Greece and Tajikistan). At the same time, the Kyrgyz Republic and Ukraine have seen marked deteriorations in their financial resilience scores on account of rising NPLs, contractions in credit and falling capital adequacy ratios.

Many countries have continued to implement reforms in the banking sector, taking steps to support the development of capital markets and digital payments. In Montenegro, for example, new laws were introduced in early 2022 aligning the country's regulatory and supervisory requirements with Basel III standards and the EU's regulatory framework. Those new regulations introduce higher capital requirements for banks, mandatory board supervision and stricter classification criteria for NPLs. Further efforts have also been made to modernise the country's payment systems. In Serbia, a new Law on Capital Markets was adopted in December 2021, aligning the country's legal framework with EU legislation. And in Estonia, new legislation was adopted in March 2022 with a view to tightening up the licensing rules for virtual asset providers, increasing capital requirements and aligning other customer information requirements with those applicable to traditional payment service providers. Those tighter regulations are aimed at reducing the risk of financial crime and improving customer protection.

In Azerbaijan, measures to stimulate the development of capital markets were introduced in May 2022, scrapping income tax on dividends and interest income from publicly traded shares and bonds. Meanwhile, the country's central bank has developed new guidelines for QR code payments in an effort to improve the affordability of payment services. Similarly, the National Bank of Kazakhstan introduced an instant payment system in June 2022, which enables interbank transfers to be made at any time using mobile phones or QR codes.

In Mongolia, however, implementation of the banking sector reform that was launched in 2021 (which requires systemically important commercial banks to become publicly traded) has been slower than anticipated. In February 2022, the country's largest bank, Golomt Bank, was given the go-ahead to become an open joint-stock company by the Bank of Mongolia. However, in light of the difficult economic environment, IPOs of commercial banks are currently on hold until asset quality reviews have been completed.

In Lebanon, losses in the country's financial sector are estimated to have exceeded US$ 70 billion against the backdrop of a widespread economic crisis. The government's proposal to fill that large gap by bailing in shareholders of commercial banks continues to face opposition from the national banking association, which is calling on the government to foot the bill. Amendments to the country's Bank Secrecy Law, which were passed in July 2022 with a view to facilitating the investigation of financial crimes, have been deemed to be insufficient, while depositors continue to find it difficult to access their hard-currency savings.

Over the period 2016-22, marked improvements in energy resilience have been observed in Croatia, Estonia, Ukraine and Uzbekistan. In Croatia, higher scores reflect the diversification of gas supplies, while Ukraine has undertaken various reforms in the gas sector, including the unbundling of the state-owned gas company, Naftogaz. In Uzbekistan, those increased scores reflect continued efforts to improve the regulatory environment, as well as the unbundling of the power sector in 2019. At the same time, deteriorations have been observed in Bosnia and Herzegovina, the Kyrgyz Republic and Moldova, where necessary reforms in the energy sector have been delayed.

Significant increases in financial resilience scores over the period 2016-22 have been observed in Croatia, Egypt, Georgia, Hungary and Ukraine. Those improvements mainly reflect the upgrading of capital market infrastructure, increases in capital adequacy ratios, declines in foreign currency-denominated loans, marked reductions in NPLs, increased activity by non-bank financial institutions, and improvements to the legal and regulatory frameworks governing the banking sector. In Lebanon, however, financial resilience has weakened on account of lower levels of liquidity in the financial system, greater market concentration, a sharp increase in NPLs, and the reversal of earlier reforms to regulatory frameworks and banking supervision.

Integrated

Over the last year, marked improvements have been observed in Croatia, Estonia and Mongolia in the area of economic integration, driven mainly by increases in FDI and portfolio inflows (and, in Croatia, by the increased affordability of mobile broadband). Significant deteriorations have occurred in Azerbaijan and the Kyrgyz Republic on account of fluctuations in FDI inflows. Meanwhile, the use of non-tariff barriers to trade has increased across the EBRD regions.

Several countries have sought to improve their transport infrastructure. Bulgaria, for example, has adopted a strategic plan to develop its transport infrastructure by 2030. That plan includes the establishment of intermodal links in Sofia and northern Bulgaria, a feasibility study for a port terminal in Vidin on the Danube river, and further modernisation of railway links with ports. Similarly, the Czech Republic has scaled up public investment in its railway network, with plans to modernise 35 railway stations and 120 km of railway track by the end of 2022, further electrifying the network and improving safety.

In June 2022, Albania and Kosovo announced the construction of a railway link between Pristina and Durres. This comes in the context of increased cooperation between the two economies, with other measures (such as the development of joint action plans for streamlining business procedures) having been announced in late 2021. In Serbia, a high-speed railway line linking Belgrade to Novi Sad was opened in March 2022. This railway link, which was supported by China's Belt and Road Initiative, is the first stretch of a new railway line connecting Belgrade to Budapest. In Montenegro, the first section of the new Bar-Boljare highway, which will run from the coast to the Serbian border, was completed in July 2022.

In November 2021, Turkmenistan formally applied for membership of the World Trade Organization; it is also set to join the International North-South Transport Corridor, which links India, Iran, Azerbaijan, Russia, Central Asia and Europe.

UZBEKISTAN HAS ANNOUNCED AROUND **US$ 2.5 BILLION** OF INVESTMENT IN DIGITAL INFRASTRUCTURE AS PART OF THE DIGITAL UZBEKISTAN 2030 STRATEGY

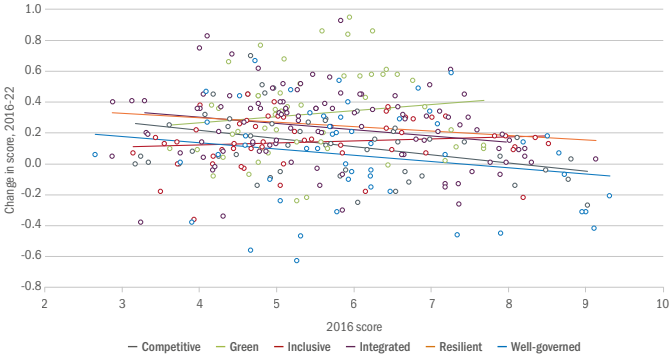
Several countries have also made improvements to their digital infrastructure. Uzbekistan, for example, has announced around US$ 2.5 billion of investment in digital infrastructure projects as part of the Digital Uzbekistan 2030 strategy, which was launched in 2020. Similarly, Georgia is planning to roll out fibre broadband to 1,000 rural settlements, benefiting more than 13 per cent of the country's population. In June 2022, the Georgian government also authorised the launch of satellite internet services, which are set to increase internet penetration in other hard-to-reach areas.

Over the period 2016-22, the largest increases in integration scores have been seen in Egypt, Greece, Montenegro and Uzbekistan, driven by improvements in mobile and fixed broadband coverage and increases in trade volumes (as well as improvements to logistical services in the case of Montenegro and Uzbekistan). Greece's higher score also reflects a rise in non-FDI capital inflows and new regional trade agreements. The most significant deteriorations have been observed in Jordan, the Kyrgyz Republic and Latvia. In Jordan, conditions for international trade and direct investment have worsened, as have logistical services. In the Kyrgyz Republic, FDI inflows and trade volumes have both declined. And in Latvia, the timeliness and traceability of shipping have deteriorated, while losses associated with shipping have increased.

Progress in the area of structural reform, 2016-22

This section takes a closer look at changes to scores over the period 2016-22 for each of the six key qualities of a sustainable market economy, looking not only at economies in the EBRD regions, but also at a number of advanced and emerging-market comparators around the world. Econometric analysis relates changes in scores for each country and quality to the initial level observed in 2016. The analysis also controls for the level of economic development (using the logarithm of GDP per capita at market exchange rates), as well as a set of dummy variables for each quality, in order to capture the average level of progress across all economies in a given area. A number of trends emerge.

CHART 5.2. Convergence has been seen in most areas, but there has been divergence in the area of green reform



SOURCE: EBRD and authors' calculations.
NOTE: Each dot represents a score for a particular country in respect of a particular quality. Thus, each country is represented by six dots. Data cover EBRD economies and a number of advanced and emerging-market comparators

Divergence on the green economy, with convergence in other areas

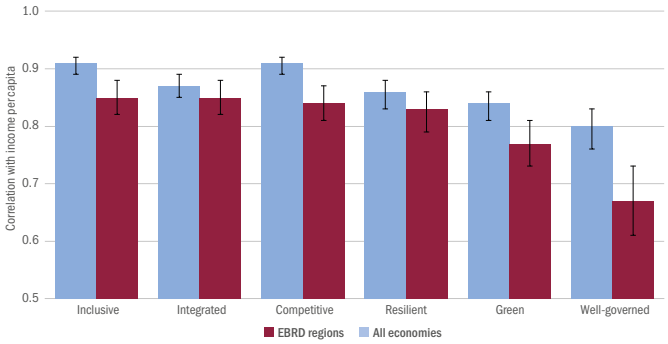
First, progress has been faster in economies that had greater challenges (and, hence, lower ATQ scores) in 2016. This is down to the fact that countries which were initially lagging behind have made efforts to catch up with the policy frontier.[2] This relationship is not statistically significant in the overall sample as a result of differences in the degree of convergence across qualities. Neither is there a statistically significant relationship between progress on reforms and the level of economic development. For competitiveness and economic integration, however, this "catching-up effect" is both sizeable and statistically significant.

In contrast, the opposite can be observed for the green economy and, to a lesser extent, inclusion. In these areas, economies that were lagging behind in 2016 have made less progress on average, resulting in greater divergence – especially between greener and less green economies (see Chart 5.2).

Differences in the degree of convergence can, in part, be explained by differences in the strength of citizens' desire for the relevant reforms. While the desire for greater competitiveness, integration and economic resilience appears to be universal, views differ when it comes to the green economy and inclusion, with tolerance of pollution, risks stemming from climate change and inequality of opportunity varying greatly across societies. This point is explored in more detail in a later section, which looks at views expressed in representative surveys of households around the world.

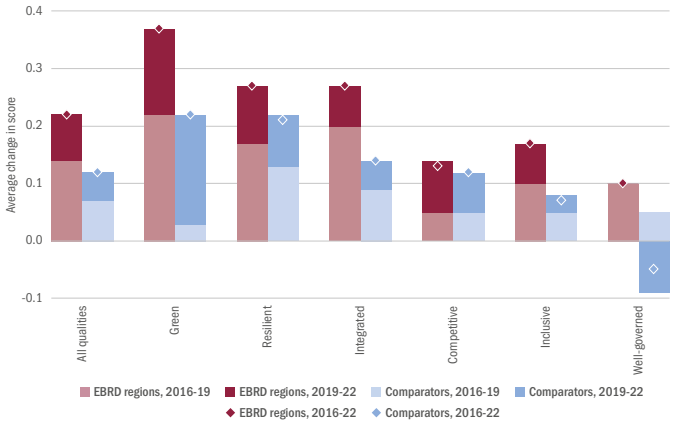
[2] See Da Silva et al. (2018), which documents a similar pattern in structural reform across OECD economies.

CHART 5.3. Inclusion is most strongly correlated with income per capita



SOURCE: EBRD, IMF and authors' calculations.
NOTE: This chart shows bivariate correlations between scores for individual qualities and the logarithm of GDP per capita at market exchange rates in 2021. 90 per cent confidence intervals are shown.

CHART 5.4. Green reforms have, on average, made the most progress across the EBRD regions, while governance reforms have seen the slowest progress



SOURCE: EBRD and authors' calculations.
NOTE: Data represent simple averages of changes in ATQ scores across economies.

Inclusion most strongly correlated with income per capita

Scores in all six areas of reform are strongly correlated with income per capita. However, this correlation is far from perfect and is weaker as regards the green economy and good governance (particularly in the EBRD regions; see Chart 5.3). Inclusion scores exhibit the strongest relationship with income per capita.

PROGRESS HAS SLOWED SINCE THE START OF THE PANDEMIC, ESPECIALLY IN ECONOMIES WITH LOWER ATQ SCORES

Most progress in the area of green reform, while governance reforms have progressed slowly

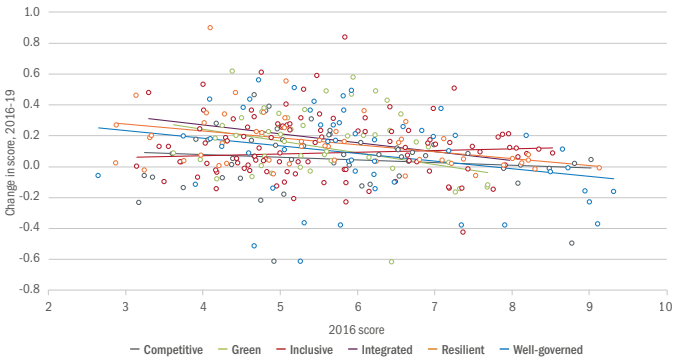
Green reforms have, on average, seen the most progress across the EBRD regions (see Chart 5.4). In contrast, governance reforms have seen the slowest progress. Similar patterns can be observed for the full sample, which includes advanced and emerging market comparators, as well as in a regression framework that accounts for countries' levels of economic development and initial ATQ scores.

Convergence has stalled since the onset of the Covid-19 pandemic

Most of the gains in terms of ATQ scores were made during the pre-pandemic period (2016-19). Average increases in ATQ scores since 2019 have been lower than in previous years, with governance weakening on average since the onset of the pandemic (see Chart 5.4). Consequently, the convergence that was documented in Chart 5.2 mostly reflects changes to scores during the pre-pandemic period (see Chart 5.5).

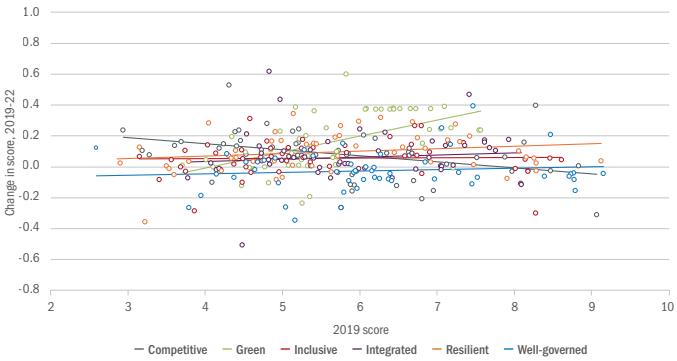
Since the start of the pandemic, convergence has largely stalled in all areas (see Chart 5.6). Scores have stopped increasing faster in economies with lower initial scores, as structural changes in those economies have been more strongly impacted by the Covid-19 crisis. The last couple of years have also seen considerable divergence in the area of green reform, with less-green economies falling further behind peers with more environmentally friendly policies.

CHART 5.5. Convergence in ATQ scores was concentrated in the pre-pandemic period



SOURCE: EBRD, IMF and authors' calculations.
NOTE: Each dot represents a score for a particular country in respect of a particular quality. Thus, each country is represented by six dots. Data cover EBRD economies and a number of advanced and emerging-market comparators.

CHART 5.6. Progress has slowed since the start of the pandemic, especially in economies with lower ATQ scores

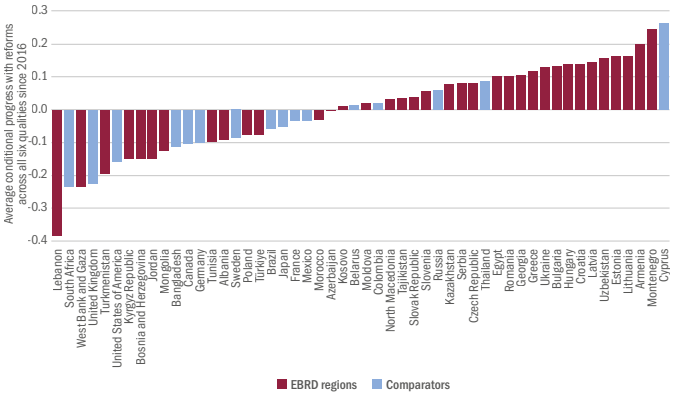


SOURCE: EBRD, IMF and authors' calculations.
NOTE: Each dot represents a score for a particular country in respect of a particular quality. Thus, each country is represented by six dots. Data cover EBRD economies and a number of advanced and emerging-market comparators.

On average, the EBRD regions have made more progress than their comparators

Economies in the EBRD regions have, on average, seen more progress with reforms than advanced and emerging-market comparators (see Chart 5.7). In the EBRD regions, progress across all six areas has been fastest in Montenegro, Armenia, Lithuania, Estonia and Uzbekistan, and slowest in Lebanon, the West Bank and Gaza, Turkmenistan, the Kyrgyz Republic, Bosnia and Herzegovina, and Jordan. This analysis takes account of each economy's level of economic development, initial ATQ scores and average progress in each area. Thus, every economy is compared with its peers – economies that were similar in terms of initial conditions in 2016.

CHART 5.7. On average, economies in the EBRD regions have made more progress than comparators



SOURCE: EBRD, IMF and authors' calculations.
NOTE: This chart shows the residuals that are derived from regressing changes in ATQ scores over the period 2016-22 on quality dummies, initial scores and the logarithm of GDP per capita at market exchange rates in 2016. For each economy, those residuals are averaged across the six qualities of a sustainable market economy.

Citizens' preferences and the qualities of a sustainable market economy

This section investigates the extent to which differences in the speed of reforms are linked to differences between the attitudes of individuals residing in different economies.[3] Such attitudes have been gauged using the latest round of the World Values Survey, which was conducted in countries around the world in the period 2017-20.[4]

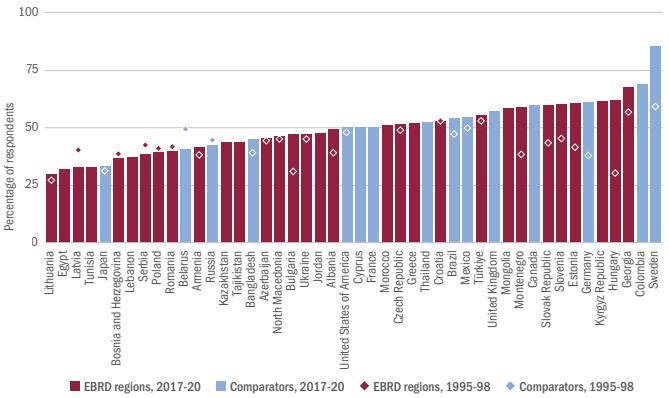
Where possible, preferences are inferred from questions that involve some form of trade-off between different desirable features of economic development. For example, in order to assess the strength of citizens' environmental preferences, respondents are asked to choose between the following two statements: "Protecting the environment should be given priority, even if it causes slower economic growth and some loss of jobs" and "Economic growth and creating jobs should be the top priority, even if the environment suffers to some extent". This kind of formulation, which involves a potential trade-off between the environment and job creation, divides opinions more strongly than a simple question on whether, for instance, more should be done to tackle climate change.

For each key quality of a sustainable market economy, the strength of citizens' preferences is measured using an index constructed from World Values Survey questions. Each index is on a scale of 0 to 1, where 0 and 1 are, respectively, the lowest and highest levels globally.

The index for competitiveness measures the extent to which individuals favour increased private ownership of business and industry (as opposed to state ownership) and prioritise rapid economic growth over other aims. Preferences in terms of integration are assessed using questions about how connected individuals feel to their country and the wider world in comparison with their immediate locality (their village or district). To assess preferences regarding resilience, the analysis uses questions that assess the extent to which economic stability is prioritised over other objectives (such as fighting crime and the promotion of a more humane society). Preferences in terms of inclusion are measured using questions that assess individuals' desire for greater income inequality (as opposed to the incentivisation of personal effort) and attitudes towards gender equality. Preferences as regards governance are measured as the inverse of the extent to which individuals desire a strong leader who can bypass parliament and elections. For further details, see Box 5.2.

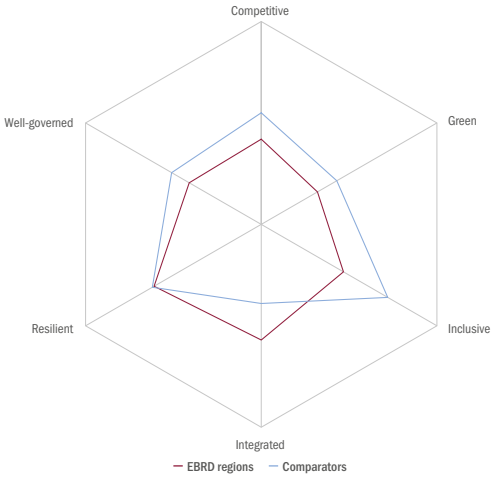
When it comes to reducing pollution at the expense of economic growth, preferences vary considerably across economies. At a global level, support for such environmental action has risen over time, with around 56 per cent of respondents now in favour. At the same time, this remains a minority opinion in a number of

CHART 5.8. Support for protecting the environment at the expense of economic growth varies greatly across economies



SOURCE: World Values Survey and authors' calculations.
NOTE: This chart indicates the percentage of respondents who agree with the statement "Protecting the environment should be given priority, even if it causes slower economic growth and some loss of jobs". Data are based on the most recent survey round available for each economy (in most cases, the 2017-20 survey round).

CHART 5.9. Average support for economic integration is higher in the EBRD regions than in comparator economies



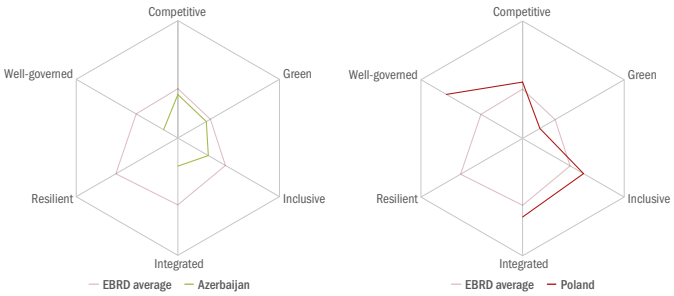
SOURCE: World Values Survey and authors' calculations.
NOTE: Data are based on the most recent survey round available for each economy (in most cases, the 2017-20 survey round).

economies, including Japan (34 per cent according to the latest survey), Egypt (37 per cent) and Poland (47 per cent), with support for environmental action declining over time in some cases (see Chart 5.8). In Sweden, in contrast, more than 80 per cent of respondents are in favour of protecting the environment at the expense of economic growth.[5]

While citizens typically express support for all six key qualities of a sustainable market economy, the extent of this support varies considerably across economies and qualities (see Chart 5.9). For example, average support for integration is higher in the EBRD regions than in advanced or emerging-market

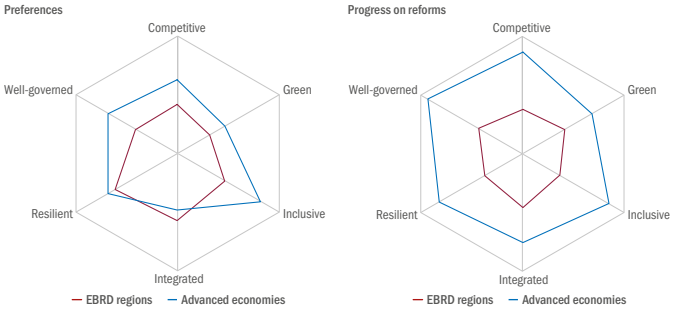
[3] This analysis is based on Carruthers and Plekhanov (2022).
[4] See Inglehart et al. (2014). Where countries were not covered by that most recent round, data from earlier rounds of the survey have been used.
[5] See Gamtkitsulashvili and Plekhanov (2022).

CHART 5.10. Profiles in terms of citizens' preferences vary across economies in the EBRD regions



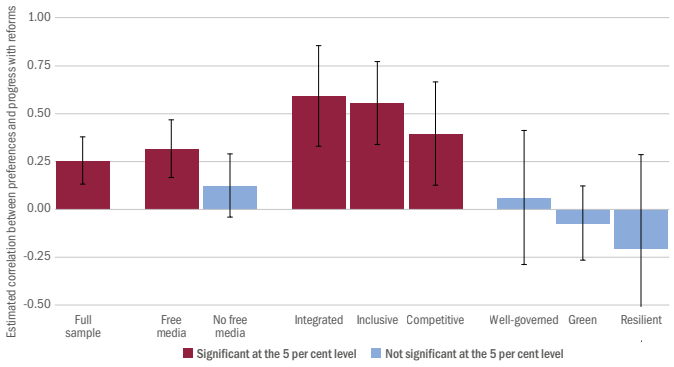
SOURCE: World Values Survey and authors' calculations.
NOTE: Data are based on the most recent survey round available for each economy (in most cases, the 2017-20 survey round).

CHART 5.11. Differences in citizens' preferences are aligned – albeit imperfectly – with differences in reform progress



SOURCE: World Values Survey, EBRD and authors' calculations.
NOTE: Data are based on the most recent survey round available for each economy (in most cases, the 2017-20 survey round). The advanced-economy comparators are Canada, Cyprus, France, Germany, Japan, Sweden, the United Kingdom and the United States of America.

CHART 5.12. The relationship between citizens' stated preferences and structural reforms is stronger in economies with free media



SOURCE: EBRD and authors' calculations.
NOTE: Coefficients have been derived by regressing ATQ scores on citizens' preferences (taking account of the logarithm of GDP per capita and quality-year fixed effects) using a linear model. The 95 per cent confidence intervals shown are based on standard errors clustered at country-year level. Darker bars indicate values that are statistically significant at the 5 per cent level.

GLOBALLY, AROUND
56%
OF SURVEY RESPONDENTS PRIORITISE PROTECTING THE ENVIRONMENT OVER ECONOMIC GROWTH, COMPARED WITH
47%
IN POLAND

comparators. Indeed, accession to the EU has been a strong anchor for economic reforms in emerging Europe, as discussed in the *Transition Report 2013*,[6] while trade integration and FDI have been at the heart of emerging Europe's economic convergence model.[7] In contrast, support for green reforms is considerably weaker in the EBRD regions than in advanced-economy comparators.

Substantial variation in the strength of preferences can also be observed within the EBRD regions. In Poland, for instance, support for good governance is particularly strong, while desire for green reforms is relatively weak (see Chart 5.10). In contrast, desire for good governance is relatively weak in Azerbaijan. To some extent, these differences in preferences reflect and reinforce differences between the "social contracts" in individual economies.

Link between citizens' preferences and progress on reforms

While it is far from perfect, there is considerable alignment between differences in citizens' preferences and differences in the progress made on reforms in each area (see Chart 5.11). In order to assess these links more systematically, regression analysis can be used to look at the significance of the relationship between ATQ scores and preference indices for each quality. That regression includes quality-year fixed effects and the logarithm of GDP per capita, in order to capture average progress on reforms in each area in a given year and the level of economic development, respectively. Additional specifications include interaction terms consisting of the relevant preference index plus (i) dummy variables for each quality of a sustainable market economy and (ii) a dummy variable indicating whether the economy has free media.

This analysis suggests that the relationship between progress on reforms and citizens' stated preferences is strongest in the areas of economic integration and inclusion, with a significant association also being observed for competitiveness (see Chart 5.12). The link between preferences and reforms is weakest when it comes to the green economy and resilience.

[6] See EBRD (2013).
[7] See, for instance, Georgiev et al. (2017).

However, there is no meaningful alignment between changes in ATQ scores since 2016 and average stated preferences, except in the area of resilience: in economies where survey respondents place greater emphasis on economic stability, resilience-oriented reforms have progressed faster.

The causal link between preferences and reforms could plausibly run in both directions simultaneously. Successful reforms could, for example, strengthen people's support for economic integration or inclusion. And at the same time, the strength of citizens' preferences could encourage policymakers to undertake reforms in the relevant areas.

However, a threat to the independence of the judiciary may prompt people to express stronger support for good governance, creating a negative relationship between reforms and preferences. There are many other reasons why the relationship between citizens' preferences and progress on reforms might be somewhat weak – from imperfections in the measurement of preferences using household surveys to the short-term nature of political cycles and the presence of special interests that distort the incentives faced by elected officials.[8]

Stronger links between people's preferences and progress on reforms where media are free

The extent to which economic decision-making is aligned with the stated preferences of citizens may be dependent on the degree of media freedom, as free media are likely to facilitate stronger links between people's preferences and political processes.[9] Media narratives, for instance, have been shown to play an important role in shaping attitudes towards the green economy.[10]

To analyse this, a dummy variable indicating the existence of free media has been calculated, using annual data on countries' media freedom and internet censorship taken from the V-Dem Institute at the University of Gothenburg. On the basis of those data, the sample of countries has been split into two groups: those where the internet and the media are largely free from censorship; and those where the media and/or the internet lack freedom.[11] Preferences in respect of various qualities of a sustainable market economy have then been interacted with that indicator variable, in order to see how media freedom affects the relationship between preferences and reforms.

The relationship between citizens' average preferences and progress on reforms is more than twice as strong where economies have free media (see Chart 5.12), and that difference is statistically significant. ATQ scores and citizens' preferences are also aligned with the ways in which the various countries have responded to rising food and energy prices in 2022 – which is the focus of the next section of this chapter.

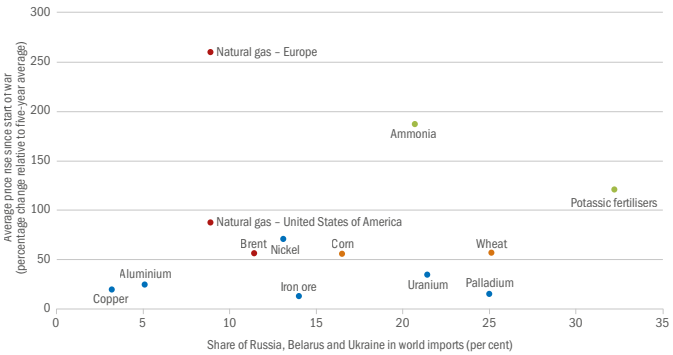
Policy responses to high food and energy prices

Sharp increases in food and energy prices

Commodity and food prices have increased significantly in 2022. This began with a strengthening of demand as Covid-related social distancing was phased out, before being exacerbated by Russia's invasion of Ukraine on 24 February 2022, with markets expecting a major decline in exports from Russia, Ukraine and Belarus, which are all important exporters of commodities (see Chart 5.13). Some buyers stopped purchasing oil from Russia, so Russian oil started being traded at prices significantly below the Brent benchmark (a global benchmark based on North Sea oil). The prices of some commodities (including oil) have been high by the standards of recent years, but have remained below their historical peaks in inflation-adjusted terms. However, the prices of others – notably that of gas in Europe – have reached record levels. (In the first half of 2022, the price of natural gas in Europe was, on average, four times the level seen in the United States of America.)[12]

Many EBRD economies are highly dependent on gas, which accounts for an average of around 30 per cent of total energy consumption in the EBRD regions (and more than half of all energy consumption in Egypt and a number of other economies). What is more, many economies source most of their gas from Russia (with Russia accounting for more than 90 per cent of total gas imports in Serbia and the Slovak Republic in 2021).

CHART 5.13. The prices of many commodities have increased sharply, as Russia and Ukraine are major exporters of commodities



SOURCE: UN Comtrade, World Bank, IMF, Bloomberg and authors' calculations.
NOTE: Average price rises are based on prices between 24 February and end-July 2022 and are expressed as a percentage of average prices over the period 2016-20.

[8] See, for instance, Milesi-Ferretti and Spolaore (1994).
[9] See Leeson (2008), for example.
[10] See Harring et al. (2011).
[11] See, for instance, Guriev et al. (2021) on the role that internet freedom plays in shaping attitudes towards governments.
[12] See EBRD (2022a, 2022b) for more detailed analysis.

IN THE FIRST HALF OF 2022, THE AVERAGE PRICE OF NATURAL GAS IN EUROPE WAS **FOUR TIMES** THAT SEEN IN THE UNITED STATES OF AMERICA

ON AVERAGE, GAS ACCOUNTS FOR AROUND

30%

OF TOTAL ENERGY CONSUMPTION IN THE EBRD REGIONS

Ukraine and Russia are also major exporters of agricultural commodities. In 2019, for example, they accounted for a combined total of almost 70 per cent of global exports of sunflower oil and almost 30 per cent of global wheat exports. In addition, Belarus and Russia are key exporters of fertilisers (as well as fertiliser ingredients such as ammonia and potash), and the highly gas-intensive nature of fertiliser production means that there is a strong pass-through from gas prices to fertiliser prices. As a result, the prices of wheat, corn, soybeans and other agricultural commodities have risen sharply. However, they remain below the historical peaks of 2008 and the 1970s in inflation-adjusted terms.

Some economies in the EBRD regions are highly dependent on wheat imports from Russia and Ukraine. For instance, Armenia and Georgia import over 70 per cent of the wheat that they consume, and Russia and Ukraine account for more than 80 per cent of their total wheat imports. Economies in the SEMED region also tend to be major importers of wheat, as the scarcity of water limits the scope for expanding local production.

Policy responses pursue various objectives

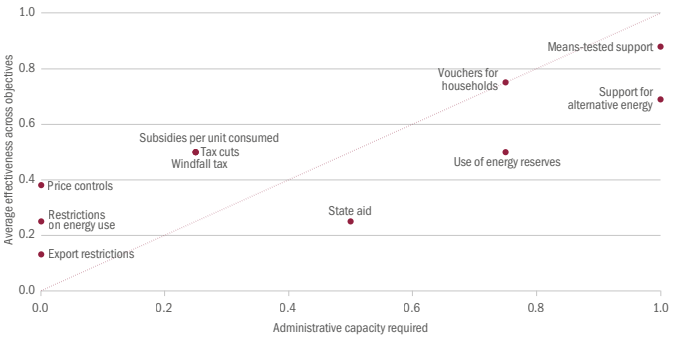
Policymakers have used a wide range of measures to mitigate the impact that those higher energy and food prices have on households and firms, with most countries taking action of some kind. Those measures seek to protect people's purchasing power and minimise the risk of disruptive social unrest, which has often followed episodes of rising fuel and energy prices (see Box 5.1).

The varied nature of those policy responses reflects the multitude of objectives that such policy measures seek to pursue (as summarised in Table 5.2), with those objectives spanning four different qualities of a sustainable market economy: green, inclusive, resilient and well-governed.

First and foremost, policy measures seek to help the people who are most in need – typically low-income households (thereby making them inclusive). The overall fiscal cost of such measures is partly a reflection of how well they are targeted, with economies that face more binding fiscal constraints potentially choosing to prioritise a reduced fiscal cost in order to ensure resilience. Policymakers may also seek to limit any externalities that are caused by fuel and food subsidies (such as increases in energy consumption and associated GHG emissions), in line with green-economy objectives. Measures also differ in terms of both the ease with which they can be communicated to the wider population and their likely reception by voters (which is a question of good governance). The importance of measures' political appeal may also vary from economy to economy. Lastly, some measures are easier to implement, while others require greater administrative capacity.

As a result of that multiplicity of goals and aims, there are complex trade-offs between different policy objectives. In addition, higher levels of administrative capacity tend to be required in order to implement more effective policies (see Chart 5.14). These various trade-offs are discussed in greater detail above.

CHART 5.14. Policymakers face trade-offs between effectiveness and ease of implementation



SOURCE: EBRD and authors' calculations.
NOTE: See the notes on Table 5.2 for details of the calculation of values. Administrative capacity required is calculated as one minus the ease of implementation score.

Subsidies per unit of consumption and price controls are often used in the EBRD regions

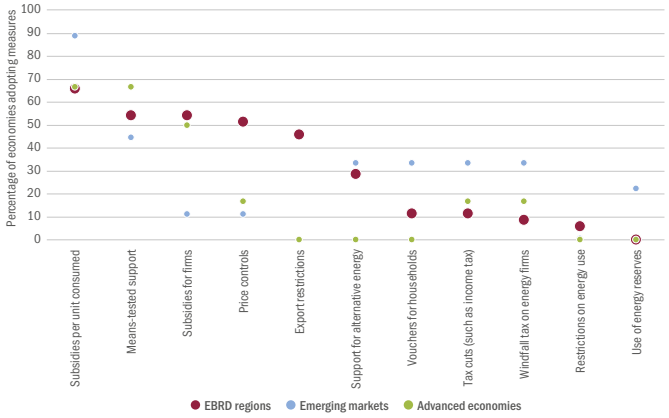
The most common measures are fuel subsidies per unit consumed (per litre of diesel or per kWh of electricity, for instance; see Chart 5.15). By late July 2022, these had been introduced in 64 per cent of all economies in the EBRD regions and the majority of advanced comparator economies, as well as selected emerging-market comparators. For example, in February 2022 value-added tax (VAT) on district heating in Poland was reduced from 23 to 5 per cent, while in the Czech Republic the excise tax on petrol and diesel was reduced by CZK 1.5 (€0.06) per litre from June 2022. For the purposes of this analysis, reductions in *ad valorem* taxes on specific goods,

TABLE 5.2. Policy responses to higher energy and food prices vary in terms of their effectiveness

	Quality-related objectives				Capacity
	Inclusive Helps low-income households	**Resilient** Well-targeted, minimising overall cost	**Green** Avoids externalities (extra consumption)	**Well-governed** Regarded as support by population	Ease of implementation
Means-tested support	1	1	0.75	0.75	0
Energy vouchers for households	1	0	1	1	0.25
Support for alternative energy	0.5	1	1	0.25	0
Fuel subsidies per unit consumed	1	0	0	1	0.75
Tax cuts (such as income tax)	1	0	1	0	0.75
Windfall tax on energy firms	0	1	0.5	0.5	0.75
Use of energy reserves	1	0	0.5	0.5	0.25
Price controls	0.5	0	0	1	1
State aid (subsidies for firms)	0	0.5	0	0.5	0.5
Restrictions on energy use	0	0	1	0	1
Export restrictions	0	0	0	0.5	1

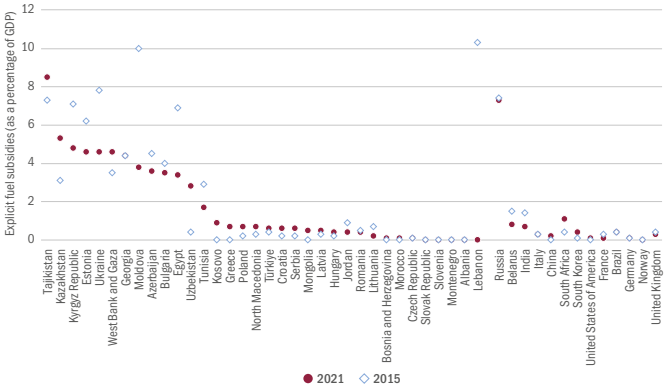
SOURCE: EBRD and authors' calculations.
NOTE: Each score is on a scale of 0 to 1. Measures are ranked on the basis of their overall effectiveness, which is calculated by averaging the four scores for quality-related objectives.

CHART 5.15. A wide range of measures has been introduced in response to high energy and food prices



SOURCE: EBRD and authors' calculations.
NOTE: The advanced-economy comparators are Canada, Cyprus, France, Germany, Italy, Japan, Sweden, the United Kingdom and the United States of America. Emerging-market comparators are Bangladesh, Brazil, Colombia, Mexico, South Africa and Thailand.

CHART 5.16. Explicit fuel subsidies have fallen, but they remain substantial in many economies in the EBRD regions



SOURCE: IMF fuel subsidies template and authors' calculations.
NOTE: Selected comparator economies with significant subsidies are shown.

such as excise duty on fuel or VAT on bread (as opposed to broad changes to tax rates), are considered to be subsidies per unit of consumption.

Such subsidies are usually justified by the fact that lower-income households spend larger percentages of their income on food and energy. These measures are relatively easy to implement and communicate (and typically well received by countries' populations). Consequently, the inclusion and governance columns in Table 5.2 show high scores (1). In contrast, subsidising energy prices encourages overconsumption, making per-unit subsidies environmentally unfriendly (so the corresponding score in the externalities column in Table 5.2 is 0). Moreover, while the poor do benefit, pay-outs accrue primarily to better-off customers who consume more energy and food, making subsidies poorly targeted and fiscally costly. In other words, such measures may score highly in terms of inclusion and governance, but poorly in terms of their green credentials or resilience.

In fact, energy subsidies were common even before this latest increase in commodity prices, although they have fallen over time in many economies (see Chart 5.16). In 2021, explicit subsidies (when prices do not cover production costs) were estimated to exceed 4 per cent of GDP in many economies in Central Asia and the EEC region. Estimates of implicit subsidies, which take into account underpricing of environmental damage, stand at 20 to 25 per cent of GDP. Thus, the fiscal cost of energy subsidies can be substantial, particularly in the context of high energy prices.[13]

Price controls on food and/or energy are also fairly common in the EBRD regions (but much less so in advanced economies). For instance, Slovenia capped fuel prices for a month as of 15 March 2022, while Hungary has capped the prices of various food staples, as well as fuel prices. Price controls are easy to communicate and implement, but they encourage higher energy usage and food waste. They often result in shortages – partly as a result of incentives to buy more and store the goods, and partly as a result of lack of interest on the part of sellers. Whether they help low-income households depends on whether low-income households are able to get hold of price-capped goods in the first place.

Some countries have scaled up means-tested support programmes targeting low-income households. In Poland, for instance, a special allowance for households is expected to provide a maximum of €106 per person per year, depending on income levels, the type of heating and the number of people in the household. The Kyrgyz Republic, meanwhile, has announced handouts of flour and a 50 per cent discount on electricity bills (subject to a cap) for low-income households.

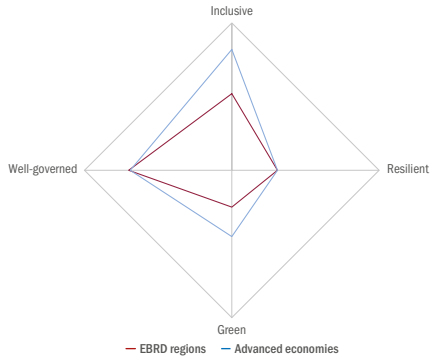
Such means-tested measures are relatively well targeted, which lowers the overall fiscal cost of support programmes. They may also avoid excessive energy usage, depending on their design. For instance, giving a household a voucher (rather than a discount on the price per unit) does not alter the price that the consumer has to pay for an additional unit of electricity or heating. However, reaching out to those households most in need requires a relatively high level of administrative capacity. Strong communication may also be required to ensure that the narrower targeting of benefits does not undermine their political appeal.

Support for alternative energy sources, if well designed, can be highly effective as a longer-term measure complementing policies that have an immediate impact. For instance, several economies in the EBRD regions, including Estonia, have increased their emphasis on nuclear energy. It is worth noting that alternative energy sources are not necessarily green, with several economies (including Bosnia and Herzegovina and Greece) considering postponing shifts away from coal.

Several countries have supported firms directly through state aid or preferential loans. Azerbaijan, for instance, has given subsidised loans to large grain importers, Georgia has issued subsidised loans to farmers, and Kazakhstan has introduced fertiliser and pesticide subsidies for agricultural producers. Meanwhile, temporary

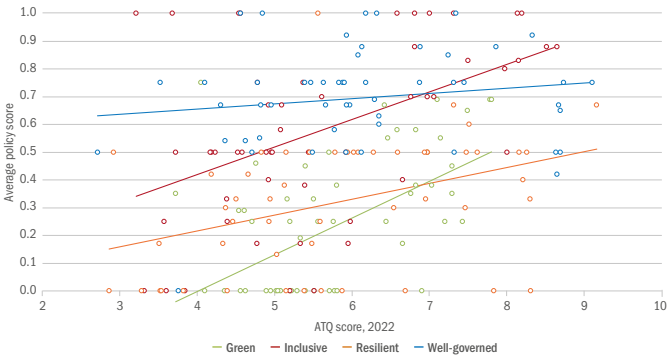
[13] See IMF (2022).

CHART 5.17. The policies of EBRD economies are less effective, on average, than those of advanced comparator economies



SOURCE: World Values Survey, EBRD and authors' calculations.
NOTE: For each economy, policies are scored on four different objectives and average scores are calculated across all policies in place. The advanced-economy comparators are Canada, Cyprus, France, Germany, Italy, Japan, Sweden, the United Kingdom and the United States of America.

CHART 5.18. The quality of policy responses is somewhat aligned with the relevant ATQ scores



SOURCE: EBRD and authors' calculations.
NOTE: For each economy, policies are scored on four different objectives and average scores are calculated across all policies in place. These scores are then related to the corresponding ATQ scores.

restrictions have, at various points in time, been placed on food exports in Hungary, Kazakhstan, the Kyrgyz Republic and a number of other economies. Such restrictions have a tendency to multiply, with a negative effect on food security as economies become vulnerable to idiosyncratic shocks (for instance, if a particular crop has a poor harvest). They have been more prevalent in the EBRD regions than in comparator economies.

Policies in the EBRD regions are less effective, on average

On average, the policy responses of economies in the EBRD regions are less effective (across all four of the qualities in Table 5.2) than those of advanced comparator economies, with the largest differentials being observed in the areas of inclusion and the green economy (see Chart 5.17). In this analysis, policy scores for each of the four objectives (inclusion, resilience, the green economy and governance) are averaged across all of the policies that are in place in a given economy. In Chart 5.17 they are also averaged across the four objectives and across groups of economies.

The quality of policy responses is somewhat aligned with ATQ scores

Analysis of average policy scores for each economy also suggests that cross-country differences in policies are somewhat aligned with differences in ATQ scores. In particular, the analysis in this section relates each economy's policy scores to its ATQ scores. (For instance, a country's green policy score is related to its ATQ score, with the same being done for resilience, governance and inclusion.)

The relationship between the quality of policy responses and ATQ scores is strongest in the area of inclusion (see Chart 5.18), but there is a degree of alignment in the other areas as well. The fact that the characteristics of policy measures are aligned with ATQ scores is, in part, a reflection of the fact that at least a third of policy responses have involved modifying and expanding existing schemes and initiatives (such as means-tested support programmes or subsidies).

Conclusion

This overview of progress across six areas of structural reform since 2016 has revealed convergence in most areas – notably as regards competitiveness, resilience and economic integration. This contrasts sharply with the developments seen in the area of green reform, with growing divergence between greener and less green economies. This could, in part, reflect differences in the tolerance of pollution and climate-related risks across economies, whereas the desire for greater competitiveness, integration and economic resilience appears to be universal.

Indeed, the chapter has documented substantial differences across the various areas in terms of citizens' preferences, and those preferences are, in turn, somewhat aligned with the progress of structural reforms in the respective areas. This alignment, however, is only statistically and economically significant in economies where media and the internet are relatively free from government censorship.

Most countries have introduced food or fuel subsidies, price controls or other measures in response to the high energy and food prices seen in 2022. These measures have varied widely, reflecting differences in governments' ability to afford subsidies and implement measures requiring high levels of administrative capacity, as well as differences in policy priorities when it comes to environmental externalities and variation in the ease of communicating measures to the public. Overall, price controls and export restrictions are far more common in the EBRD regions than in advanced economies.

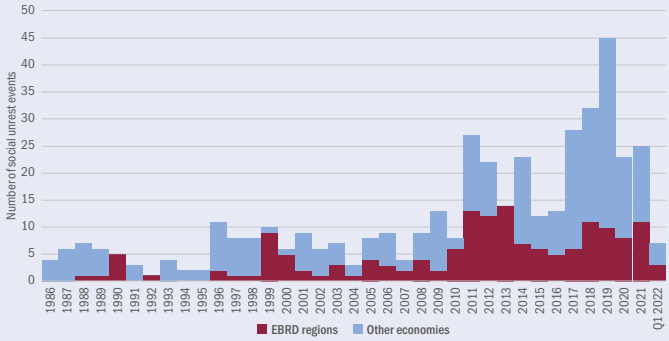
BOX 5.1.

Social unrest

As this chapter has shown, policymakers have used a wide range of measures to mitigate the impact that rising energy and food prices have on households and firms. These measures seek to protect people's purchasing power and minimise the risk of unrest.

In the past, episodes of rising fuel and energy prices have often been followed by disruptive social unrest. Indeed, past food price shocks were one of the factors that contributed to the Arab Spring, while recent protests in Kazakhstan were triggered by a sharp increase in liquefied gas prices following the lifting of a government-enforced price cap. More generally, food and fuel price inflation is an important predictor of mass protests, riots and political violence, even after taking into account demographics and growth – particularly in poorer economies, where food and fuel account for a larger share of total household spending and where governments may have less fiscal space to dampen price shocks.[14]

CHART 5.1.1. Protests have become more common in the last decade or so



SOURCE: Barrett et al. (2022) and authors' calculations.
NOTE: Data for 2022 relate only to the first quarter of the year.

Historically, political – rather than economic – factors have tended to account for the bulk of social unrest, but unrest that is triggered by economic factors is generally costlier. According to the Mass Mobilization database, almost three-quarters of all social unrest is motivated by political factors (such as demands to improve political processes or remove a politician from public office). However, the economic impact of social unrest tends to be more severe when it is caused by socio-economic factors (such as inflation), rather than political factors.[15]

Moreover, social unrest often occurs repeatedly in the same economies over time and it can be contagious. The risk of a country experiencing social unrest quadruples if it has already experienced such an episode in the previous six months. Moreover, it doubles if a neighbouring country has experienced social unrest.[16] Past turmoil – both domestically and in neighbouring countries – is by far the most important predictor of future unrest, proving to be about 10 times more informative than economic or social factors such as inflation, GDP growth or access to basic services.[17]

Social unrest has become more common in the last decade or so – prior to the Covid-19 pandemic, at least. In late 2019, widespread unrest in South America and the Middle East drove the number of social unrest events to its highest level in three decades, according to the Reported Social Unrest Index, a monthly measure of social unrest based on press coverage in 130 economies (see Chart 5.1.1).[18] Numbers of protests remained high thereafter, despite restrictions on mass gatherings on account of the pandemic.

[14] See The Economist (2022a, 2022b).
[15] See Hadzi-Vaskov et al. (2021).
[16] See Barrett et al. (2022).
[17] See Hlatshwayo and Redl (2022).
[18] See Barrett et al. (2022).

BOX 5.2.

Measuring citizens' preferences

In order to analyse the strength of people's preferences in different policy areas, indices for each quality of a sustainable market economy are constructed using questions from the 2017-20 round of the World Values Survey.[19]

Details of the questions that are used for each quality are provided below. For each question, responses are aggregated to form an overall index using the following methodology:

1) A weighted average of the responses to each question is scaled by the response rate, resulting in a question-specific index with a value between 0 and 1. Each question is scaled using a min-max transformation.
2) For each quality, index scores are averaged across questions to produce a composite index for the policy area in question.
3) That composite index is then rescaled using a second min-max transformation, producing an overall index for each quality with a value between 0 and 1.

Competitive

Preferences in terms of competitiveness are captured by the percentage of respondents who state that "a high level of economic growth" should be a country's first or second priority (where the other possible options are "making sure this country has strong defence forces", ensuring "that people have more say about how things are done in their jobs and in their communities" and "trying to make our cities and countryside more beautiful"). A weighting of 1 is given to responses where economic growth is a respondent's first choice, and a weighting of 0.5 is given to those where growth is the second priority. The index also includes participants' views on whether private ownership of business and industry should be increased (as opposed to increasing state ownership).

Green

Preferences as regards the green economy are measured as the percentage of respondents who agree that "protecting the environment should be given priority, even if it causes slower economic growth and some loss of jobs", as opposed to "economic growth and creating jobs should be the top priority, even if the environment suffers to some extent".

Integration

Respondents were asked how close they feel to their village, their district, their country, their continent and the world on a four-point scale ranging from "very close" to "not close at all". It is assumed that both (i) greater identification with the world relative to the country and (ii) greater identification with the country relative to the local community (the village or district) indicate a greater preference for economic integration.

Inclusion

Preferences in terms of income equality are based on the extent to which respondents agree that "incomes should be made more equal" (as opposed to believing that "there should be greater incentives for individual effort"). Preferences as regards gender equality are based on the extent to which respondents disagree with the following statements: "Men make better political leaders than women" and "When jobs are scarce, men should have more right to a job than women".

Resilience

Preferences in terms of resilience are measured as the percentage of respondents who state that their country's primary or secondary aim should be "a stable economy" (where the other possible options are "progress towards a less impersonal and more humane society", "progress towards a society in which ideas count more than money" and "the fight against crime"). Answers favouring a stable economy are given a weighting of 1 or 0.5, depending on whether they are the respondent's first or second choice.

Well-governed

Preferences as regards governance are based on the extent to which respondents believe that "having a strong leader who does not have to bother with parliament and elections" is either a "fairly bad" or a "very bad" way of governing (with four possible answers to this question: "very good", "fairly good", "fairly bad" and "very bad").

[19] For more details, see Carruthers and Plekhanov (2022), where an identical methodology is employed.

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