



Structural reform overview

The past year – encompassing the final quarter of 2022 and the first three quarters of 2023 – has been a challenging time for reformers across the EBRD regions. Implementing reform is always difficult – despite stronger incentives to do so – when the economy is facing headwinds. Policymakers in most countries have had to cope with a slowdown in growth (and outright recession in a few cases), combined with inflation rates (especially for essentials such as food and energy) that far exceed the typical levels of the past two decades. Russia's war on Ukraine continues to inflict massive suffering on the Ukrainian people and has reverberations for many other economies across the EBRD regions.

Notwithstanding these problems, there has been encouraging progress on reforms in a number of areas over the past 12 months, with only a limited number of reversals. Chapter 5 of the *Transition Report 2023-24* updates the EBRD's assessment of transition qualities (ATQs) – numerical scores on a scale of 1 to 10 for six desirable qualities of a well-functioning market economy: competitive, well governed, green, inclusive, resilient and integrated. The chapter shows a general increase in scores for most qualities over the past year, on average, with the exception of well governed. As explained in Chapter 5, the ATQs are data driven and, because of lags in data collection (or missing data), may reflect reforms and outcomes that happened some time ago. The individual country pages of this *Transition Report*, published online, complement the ATQ analysis by describing some of the key structural reform developments of the past year, along with a description of the main macroeconomic developments.¹ Each country page also includes a chart comparing the country's ATQ scores with the regional and EBRD averages, and a table of macroeconomic indicators that draws on a variety of sources, including national statistical offices, central banks and international organisations.

The structural reform sections of the country pages cover a wide variety of topics, all of which are related to one or more of the transition qualities listed above. This brief overview highlights some common themes that apply to various countries within a region, and sometimes across regions, drawing on selected examples by way of illustration.

¹ A comprehensive overview of macroeconomic developments globally and across the EBRD regions, including short-term GDP growth forecasts for economies where the EBRD invests, is available in the EBRD's regular publication, *Regional Economic Prospects*. Available at: <https://www.ebrd.com/what-we-do/economic-research-and-data/rep.html> (last accessed on 25 October 2023).

Digitalisation is advancing rapidly, with beneficial effects for different qualities

Most countries in the EBRD regions have embraced the digital agenda, a process given added impetus by the Covid-19 pandemic and the rapid move to digital options for working and doing business. A number of countries are looking to use new technology to make doing business easier. In Serbia, for example, registering companies with the Serbian Business Registers Agency has been fully electronic since May 2023, streamlining the process and aligning it with international best practices, while in Croatia, a digital platform for firms to pay business fees online is now operational. Moldova is among those countries that launched a digital transformation strategy in 2023, while Mongolia has made further progress on its Vision 2050 strategy by investing in its information and communications technology (ICT) infrastructure and developing e-government services. Jordan has passed a new investment law and investment promotion strategy, accompanied by a new export strategy identifying key sectors, including the ICT sector.

Digitalisation is also increasingly seen as a tool to promote financial inclusion, particularly of previously excluded groups. In the southern and eastern Mediterranean (SEMED) region, both Egypt and Tunisia have taken measures recently to make it easier to transfer funds between bank accounts without additional fees, through new digital platforms launched by their central banks. In Central Asia, the digitalisation of the financial sector is progressing well in the Kyrgyz Republic, while in Kazakhstan, the authorities have launched a pilot programme to enhance ICT in rural regions, with the ambitious target of increasing the proportion of internet users in rural areas to 97 per cent by 2027. Meanwhile, in Georgia, a major upskilling programme launched in July 2023 with support from the European Union (EU) has a particular emphasis on boosting women's participation in the ICT industry.

There has been progress on restructuring and privatising state-owned enterprises

The share of state-owned enterprises (SOEs) in the total economy is significant in many EBRD economies, and improving their performance remains high on the agenda for policymakers. In the Western Balkans, public enterprise oversight units have been established in both entities of Bosnia and Herzegovina over the past year, an important step towards increasing the transparency of SOE operations. In Serbia, in September 2023, the authorities adopted a new law on the management of SOEs. Given the importance of SOEs to Serbia's overall fiscal position, this was a key structural benchmark of the country's International Monetary Fund programme, which was approved in December 2022. In Uzbekistan, the regulation of state-owned natural monopolies is being enhanced by a presidential decree, adopted in the middle of 2023, which will see the appointment of independent regulators responsible for setting tariffs in specific sectors by 2025. In Moldova, the authorities have strengthened SOE corporate governance and are finalising an SOE ownership plan.

Among EU member states, the Romanian authorities listed almost 20 per cent of the country's largest energy SOE, Hidroelectrica, on the Bucharest Stock Exchange, in a move that was the biggest listing in the history of its capital market. In Greece, an active privatisation programme is still under way, including the September 2023 announcement of a decision on the preferred bidder for a 25-year concession on a major motorway.

In North Africa, Egypt embarked on a comprehensive programme to reduce the state's footprint in the economy, including publishing a state-ownership policy to privatise SOEs, amending the competition law, issuing a new competitive neutrality strategy and enacting several regulatory reforms to promote a level playing field. Morocco likewise continued with reforms, building on the establishment of a national agency for the strategic management of state holdings and recently passing a state ownership policy.

Efforts are being made to tackle corruption

Several countries in eastern Europe and the Caucasus have taken steps to fight corruption and improve transparency over the past year. The efforts of the Ukrainian authorities are particularly notable in this regard, despite the extraordinarily difficult circumstances brought about by Russia's continued invasion. In the past year, new heads have been appointed to Ukraine's High Anti-Corruption Court and National Anti-Corruption Bureau, and the country's progress on anti-corruption has been acknowledged by the Council of Europe Group of States against Corruption (GRECO). In Armenia, the authorities are incorporating artificial intelligence and machine learning into a new asset declaration system for public servants, making it easier to detect and prevent corruption. The picture is somewhat mixed in Moldova, where moves to strengthen anti-corruption processes have met parliamentary pushback on the scope of the measures, and in Georgia, where a law to establish an anti-corruption bureau has been passed, but without investigative powers. Steps to tackle money laundering have advanced in Albania and Bulgaria, with important legislative changes that facilitate oversight of financial transactions.

Short-term fixes are being used to mitigate the impact of the food and energy crisis

The authorities in a number of EU countries have resorted to subsidies and windfall taxes to help households and businesses cope with sharply rising prices for energy and other essentials. For example, in Hungary, where inflation has remained high by EU standards, the authorities introduced in the middle of 2023 an initiative that requires supermarkets to offer a price discount each week on certain food products, while the competition authority launched a new price monitoring system. State-owned banks in Hungary have also launched subsidised loan programmes targeted mainly at small and medium-sized enterprises. In Poland, the authorities responded to inflationary pressures with a zero value-added-tax (VAT) rate on most food products, a measure that has been extended to the end of 2023. Price caps are also in place for household energy consumption, and the cost of these subsidies will be partly covered by temporary levies imposed on firms engaged in the production and distribution of electricity and gas, and partly by a new windfall tax on coal producers, requiring them to pay a 33 per cent tax rate on profits that are more than 20 per cent higher than average profits in the 2018-21 period. In the Slovak Republic, the windfall tax on refineries has been increased from 55 per cent to 70 per cent until the end of 2023, along with a 90 per cent tax on power producers' excess revenues up to the end of 2024. The Czech Republic has also financed energy price ceilings with windfall taxes on the banking, energy and petrochemical sectors.

Elsewhere across the EBRD regions, most Central Asian countries are beginning to implement long-overdue tariff reforms, having experienced major energy shortages during the cold winter of 2022-23, while setting more ambitious targets for investment in renewables. For example, Uzbekistan's 2030 Strategy, adopted in early September 2023, aims to increase the share of renewable energy to 40 per cent of total consumption (from the previous 25 per cent target). In the SEMED region, the authorities in Egypt raised bread subsidies, pensions and the minimum wage in 2022-23. In Morocco, the government extended a range of subsidies to stabilise the price of basic commodities from 2022 and said it would maintain subsidised electricity prices and remove the VAT on agricultural inputs in 2023. In Tunisia, in 2022, the authorities almost doubled subsidies on electricity and basic commodities and raised the minimum wage.

Renewable energy is making great strides

There has been encouraging progress in many countries over the past year on both legislative changes to promote renewables and phase out fossil fuels and the construction of renewable capacity. A new law adopted in Albania in April 2023, for example, sets out the rules on financial support for renewable energy producers and the use of renewable energy in heating, cooling and transport. In the Federation of Bosnia and Herzegovina (one of the country's two entities), the incentives system for renewable energy has been reformed to enable feed-in tariffs for small plants and feed-in premiums for large plants to be determined through auctions. In North Macedonia, the number of new licences issued for renewable power plants in the first half of 2023 exceeded the total of 2022. Renewable energy auctions are increasingly being used throughout the Western Balkans, with significant success in terms of improving renewable capacities and the framework for further technological development. In the SEMED region, Egypt's hosting of the COP27 climate conference in November 2022 was accompanied by the announcement of an ambitious target of 42 per cent of Egypt's energy needs being met by renewables by 2030, along with plans to phase out fossil fuels and develop renewable sources, including green hydrogen, through a just transition. In Morocco, amendments passed in February 2023 to existing laws on renewable energy and the regulation of the electricity sector allow independent power producers to produce, sell and export renewable energy by connecting to the national grid, thus promoting private investment in the sector.

Many countries are investing in new renewable capacity, with EU members benefiting from the Recovery and Resilience Facility. The authorities in Lithuania, for example, have opened a tender for an offshore wind park which, once completed and operational, could provide up to one-quarter of the country's electricity needs. In Estonia, the largest green tender to date was launched in March 2023. Having traditionally been focused on large hydropower projects, such as Tajikistan's Roghun hydropower plant, Central Asian countries are rapidly embracing wind and solar energy thanks to their low cost and relatively quick rollout. Kazakhstan and Uzbekistan are planning massive investment in renewables, with electricity exports and green hydrogen production being actively considered as viable options.

Countries are formulating plans to tackle long-term climate change

As an example, the authorities in Türkiye are working to develop strategies and action plans to achieve long-term climate targets, including the development of a new climate law, which is expected to incorporate announced climate targets and policies and establish a national emissions trading scheme, with a pilot phase scheduled to start in 2024. Water scarcity and food insecurity are increasingly in the focus of the authorities in Morocco and Tunisia, and new funds have been allocated for investments in the water and agriculture sectors, along with other measures to build resilience against climate risk.

Female empowerment is gaining increasing attention

Several countries have made progress over the past year on addressing the fundamental rights of women. In Azerbaijan, the authorities have repealed restrictions on women working in around 700 occupations in various sectors and have enhanced occupational health and safety standards in those jobs. Similarly, in Jordan, changes to the law in March 2023 include greater protection against sexual harassment and violence in the workplace, as well as the lifting of restrictions on women's employment in certain sectors. In Uzbekistan, women and children have gained new protections under an amendment that enhanced their legal rights and increased the severity of penalties for domestic violence. Meanwhile, in Montenegro, in July 2023, the authorities adopted an action plan to put into practice a strategy for developing women's entrepreneurship. The plan has three strategic priorities: enhancing the environment for women in business, supporting the competitiveness of female-owned businesses and improving the position of women in business.

Cross-border energy projects are strengthening energy resilience

The energy crisis stemming from Russia's war on Ukraine has prompted countries across the EBRD regions to focus on how to protect energy resilience, as well as other natural resources, such as water. Developing new sources of energy, particularly in the renewable sphere, is one way. However, the past year has also seen enhanced cooperation across borders on energy supply. Central Asia is a good example of countries cooperating for the greater good. In January 2023 three countries – Kazakhstan, the Kyrgyz Republic and Uzbekistan – endorsed a roadmap for implementing a major hydropower plant in the Kyrgyz Republic. The project is designed not only to enhance energy security upstream in the Kyrgyz Republic, but also to stabilise water supply downstream in Uzbekistan and Kazakhstan. Meanwhile, the leaders of Turkmenistan, Tajikistan and Uzbekistan have expressed a strong commitment to furthering cooperation on energy, water and transportation, including on the construction of a new gas pipeline connecting the three countries and China.

Further west, the three Baltic states, Estonia, Latvia and Lithuania, are focused on disconnecting from the BRELL (Belarus, Russia, Estonia, Latvia and Lithuania) electricity system and connecting instead to the continental European power grid by early 2025.

In the SEMED region, with support from several international partners, momentum picked up in 2023 on the Tunisia-Italy interconnector (ELMED), which will link the two countries' electricity systems to expand opportunities for the exchange of renewable energy between Africa and Europe.

EU accession is still an important driver of reform

The prospect of EU membership has long been an anchor for reform, notably in recent years in the Western Balkans, where all countries are either candidates or potential candidates, and in the past year in Georgia, Moldova and Ukraine. In November 2023 the European Commission (EC) noted in its annual enlargement report the important progress in both Moldova and Ukraine on the priorities (nine in Moldova and seven in Ukraine) identified in the EC's opinions on the two countries' applications for membership of the EU. In both cases, the EC recommended to the European Council that accession negotiations be opened once all priorities have been completed. In the case of Georgia, the EC also noted the progress on the 12 priorities set out in its opinion on Georgia's application for membership, and it recommended that the European Council grant Georgia candidate status once these priorities are fully addressed.