Executive summary

This report examines the ways in which the deep structural transformation of the global economy is impacting the lives, livelihoods and living conditions of people across the EBRD regions. It focuses on important "big transitions" such as the shift towards a sustainable economy, the reconfiguration of global supply chains, and the scramble for the raw materials required by the digital and green economies. The report uses unique data from the fourth round of the Life in Transition Survey, a household survey conducted in 2022 and 2023, to see how these macro-level trends translate into "small transitions": career moves, changes in physical and mental health, the refurbishment of housing and – ultimately – changes in people's satisfaction with life.

In terms of major transitions, the report emphasises that greening the economy will require a rapid and large-scale roll-out of clean technologies, the success of which will depend on access to critical raw materials and the availability of the necessary green skills in the labour market. China currently dominates the production and processing of many of those materials, so manufacturers are trying to diversify their supplier bases. This will take time and significant investment, but may ultimately benefit several economies in the EBRD regions.

Meanwhile, demand for workers with green skills is rising, with such workers now commanding a 4 per cent wage premium. Despite that increasing demand, workers' ability to move from brown to green jobs remains limited, partly reflecting the inelastic supply of newly required skills in the short term.

This profound economic transformation is happening against the backdrop of rising geopolitical tensions. The decoupling of trade and financial links between Russia and Western economies has intensified since the invasion of Ukraine in 2022, with trade patterns shifting as a result. Firms are giving greater consideration to reshoring and nearshoring as ways of shortening supply chains and guaranteeing stable access to scarce inputs.

Housing markets in EBRD economies are changing, too – though more slowly, as housing policies have long-lasting effects. While home ownership rates remain high, decent social housing is limited, with pronounced spatial segregation along income lines. Housing in the EBRD regions has a substantial environmental footprint, but there is scope to significantly reduce emissions by phasing out coal, improving the insulation of buildings and metering energy consumption, even taking the building stock as given.

How, then, are these "big transitions" affecting individual citizens across the EBRD regions? Overall, average satisfaction with life has risen since 2016, reflecting rising incomes, a shift towards more pleasant and higher-skill jobs, and better physical health. Survey results also reveal the importance of good mental health for satisfaction with life, with mental distress tending to be more prevalent in poorer countries and among individuals who are financially insecure. As regards the transition to a green economy, people tend to be aware of climate change and its consequences, but that does not necessarily translate into a willingness to pay more tax or forgo economic growth and job creation in order to prioritise environmental policies.

1. HAPPINESS, HEALTH AND GOOD JOBS

Preliminary data from the fourth round of the Life in Transition Survey indicate that average satisfaction with life has risen further relative to 2016 across the EBRD regions. Certain countries in Central Asia continue to score very highly, despite their relatively low levels of GDP per capita, while economies in south-eastern Europe, eastern Europe and the Caucasus have seen notable increases in life satisfaction. Importantly, that increase in satisfaction with life is broadly based, covering all age cohorts, both males and females, and people in both urban and rural areas.

That increase in life satisfaction probably reflects rising incomes, favourable developments in labour markets (including a shift towards more pleasant and higher-skilled jobs) and improvements in the health of the population. In particular, more men and women now have high-skilled jobs, with correspondingly fewer having medium and low-skilled occupations. Meanwhile, there have also been changes to working practices and a reduction in the average time spent commuting to work.

People's assessments of their own health have improved significantly over time. Those improvements are broadly based across all age groups, but the decline in health as people age is still steeper than it is in the G7 countries, particularly for older women. The prevalence of some specific health problems – particularly vision loss and anaemia – is also higher in the EBRD regions than in the G7.

Importantly, such self-assessments include not only physical aspects, but also mental health. Survey results show that mental distress is associated with lower satisfaction and tends to be more prevalent in poorer countries and among individuals who are financially insecure. It is also more common among women than men – a pattern that can be observed across all economies in the EBRD regions.

https://2023.tr-ebrd.com/happiness-health-and-good-jobs

2. GLOBAL SUPPLY CHAINS AND THE GREEN TRANSITION

Climate change, technological development and geopolitical tensions are all reshaping global supply chains in significant ways. Limiting global warming to 1.5°C will require a rapid roll-out of clean technologies in order to decarbonise the electricity supply, electrify the economy and scale up the use of low-carbon hydrogen. In parallel, digital technologies are becoming increasingly important in many areas of business.

Green and digital technologies both require various critical raw materials. Production of those inputs is heavily concentrated in certain countries at present, with few substitutes (if any) available. China dominates the mining and processing of many critical raw materials, from germanium to lithium, amplifying supply chain risks in the transition to a green economy.

Meanwhile, geopolitical tensions are on the rise. The decoupling of trade and financial links between Russia and Western economies has intensified since the invasion of Ukraine in 2022. Countries that are not politically aligned with the West have started making greater use of currencies other than the US dollar in cross-border transactions. Trade patterns have been shifting, with greater consideration being given to reshoring and nearshoring in order to shorten supply chains and minimise risks associated with the supply of scarce inputs.

More than 80 per cent of investment promotion agencies across the EBRD regions see this reshaping of global value chains as an opportunity for their country. Many are seeking to attract foreign investors that are looking to diversify their supply chains (particularly firms active in green transition sectors). Given their existing comparative advantages, many economies in the EBRD regions are well placed to produce products required by the solar energy and fuel cell sectors. In addition, several economies boast significant deposits of critical raw materials, although establishing new mines and refining facilities will require significant time and investment.

https://2023.tr-ebrd.com/global-supply-chains-and-the-green-transition

3. LABOUR MARKETS IN THE GREEN ECONOMY

People in the EBRD regions tend to be aware of climate change and its consequences. However, that does not necessarily translate into a willingness to pay higher taxes or forgo economic growth and job creation in order to prioritise environmental policies. Unwillingness to support green policies tends to be greater among the socio-economic groups that are most vulnerable to such changes, including those in the bottom half of the income distribution and the less educated.

Major economic transitions of the past, such as the roll-out of digital technologies, the globalisation of trade and investment, and the phasing-out of coal, were associated with significant reallocation of employment across sectors and changes to job requirements. They benefited workers, but also created risks, with their impact varying across geographical areas and demographic groups, sometimes exacerbating economic disparities. The current transition to a green economy can be expected to have a similar impact.

Indeed, demand for workers with green skills is already rising, with such workers commanding a 4 per cent wage premium in the EBRD regions; however, that premium accrues disproportionately to highly skilled workers, with lower-skilled workers tending to be more sceptical about the need for environmental policies. Despite that increasing demand for green skills, workers' ability to move from brown to green jobs remains limited, partly reflecting the inelastic supply of newly required skills in the short term.

Green policies will affect different localities and labour market segments in different ways, potentially upending local labour markets. With that in mind, policymakers need to combine localised short-term income support with sector-specific long-term workforce development to facilitate labour-market adjustments. Labour-market programmes that focus on retraining and upskilling can help to ensure that the transition to a green economy is fair and enjoys broad support, as can regional development initiatives.

https://2023.tr-ebrd.com/labour-markets-in-the-green-economy

4. HOUSES, HOMES AND HEATING

Higher-quality housing is closely associated with superior socio-economic outcomes. People whose homes are in a better condition tend to be healthier and less likely to experience mental distress, taking into account education, income and other individual characteristics.

The housing stock in the EBRD regions reflects the legacies of past policies. More than half of all people in those economies live in buildings constructed between the 1950s and the 1980s. In some economies, up to 40 per cent of households live in prefabricated housing blocks. As a result of widespread mass privatisation in the early 1990s (whereby social housing tenants were able to buy their home from the state for a nominal fee), home ownership rates tend to be unusually high, with lower-income households just as likely to be homeowners as high-income households. On the other hand, social housing is now limited.

At the same time, spatial segregation is pronounced, with poorer households more likely to live in buildings that are older and in a worse condition, having inferior access to public transport and green space. Meanwhile, rents have increased as a share of income and relative to average mortgage payments.

The residential sector has a large environmental footprint in the EBRD regions, accounting for 26 per cent of total emissions and 29 per cent of total energy use. Differences in countries' fuel mix (particularly their reliance on coal) explain around 40 per cent of all cross-country variation in residential emissions per capita. In addition to altering countries' energy mix, findings from the latest round of the Life in Transition Survey suggest that there is also scope for significant emission reductions through improvements in insulation and metering of energy consumption (for instance, through energy-efficient upgrades to prefabricated housing blocks), even taking the building stock as given.

https://2023.tr-ebrd.com/houses-homes-and-heating

5. STRUCTURAL REFORM

This final chapter of the report presents updated transition scores for economies in the EBRD regions, as well as conducting equivalent assessments for selected comparators. It focuses on six key qualities of a sustainable market economy, looking at whether economies are competitive, well governed, green, inclusive, resilient and integrated.

Over the last year, economies in the EBRD regions have made modest improvements in the area of competitiveness, as well as more substantial progress in the areas of inclusion and integration thanks to previous reforms. At the same time, scores for governance have declined over the past year. Across all six areas under consideration, improvements over the last year have been concentrated mainly in central Europe, the Baltic states and south-eastern Europe, while declines have mostly been observed in the southern and eastern Mediterranean, eastern Europe and the Caucasus.

During the period 2016-23, many economies have made progress in the area of competitiveness through improved access to finance for small and medium-sized enterprises, as well as improvements in labour productivity and the quality of logistics services. Developments in the area of governance have been mixed, however: scores for indicators assessing participation in e-government services and frameworks for challenging regulations have increased, whereas scores for indicators measuring the effectiveness of courts and informality have gradually declined.

Green scores have improved in most economies, driven by the strengthening of emission reduction commitments and increased production of renewable energy. Inclusion scores have also tended to increase on the back of greater financial inclusion, continued human capital development, and improvements in trade and transport infrastructure. Meanwhile, improvements in the area of financial resilience have been driven by declining non-performing loan ratios and progress with capital market infrastructure and regulatory frameworks for the banking sector.

https://2023.tr-ebrd.com/structural-reform