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Recommendation for a

COUNCIL RECOMMENDATION

**on the 2022 National Reform Programme of Estonia and delivering a Council opinion on
the 2022 Stability Programme of Estonia**

{SWD(2022) 608 final} - {SWD(2022) 640 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Estonia and delivering a Council opinion on the 2022 Stability Programme of Estonia

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹, and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) Regulation (EU) 2021/241 of the European Parliament and of the Council², which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transition, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility [was] updated on [XX] June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.
- (2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the reaffirmed joint commitment of the Porto Social Summit of May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual

¹ OJ L 209, 2.8.1997, p. 1.

² Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it did not identify Estonia as one of the Member States for which an in-depth review³ would be needed. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which was adopted on 5 April 2022 by the Council, as well as the proposal for the 2022 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which was adopted by the Council on 14 March 2022.

- (3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt for example through higher energy and food prices and weaker growth prospects. The higher energy prices weigh particularly on the most vulnerable households experiencing or at risk of energy poverty. The EU is also seeing an unprecedented inflow of people fleeing Ukraine. In this context, on 4 March 2022, the Temporary Protection Directive was triggered⁴ for the first time, granting displaced persons from Ukraine the right to legally stay in the EU, as well as access to education and training, labour market, healthcare, housing and social welfare. Exceptional support is made available to Estonia under the Cohesion's Action for Refugees in Europe (CARE) initiative and through additional pre-financing under the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) programme to urgently address reception and integration needs for those fleeing Ukraine.
- (4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any country-specific recommendations issued up to the date of submission of the modified plan.
- (5) The General Escape Clause has been active since March 2020⁵. In its Communication of 3 March 2021⁶, the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative

³ Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306, 23.11.2011, p. 25.

⁴ Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection, OJ L 71, 4.3.2022, p. 1.

⁵ Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

⁶ Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

- (6) Following the approach in the Council opinion of 18 June 2021 on the 2021 Stability Programme, the fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures), excluding COVID-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth⁷. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally-financed⁸ primary current expenditure (net of discretionary revenue measures and excluding COVID-19 crisis-related temporary emergency measures) and investment.
- (7) On 2 March 2022, the Commission adopted a Communication providing broad guidance for fiscal policy in 2023, aiming at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination⁹. The Commission noted that, based on the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020-2022 to a broadly neutral aggregate fiscal stance would appear appropriate in 2023, while standing ready to react to the evolving economic situation. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate across Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest its Semester spring package of late May 2022.
- (8) With respect to the fiscal guidance provided on 2 March 2022, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the Winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transition and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second round effects via targeted and temporary measures; fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, and be differentiated across countries depending on their fiscal and economic situation, including as regards the exposure to the crisis and the inflow of displaced persons from Ukraine.
- (9) On 18 June 2021, Estonia submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant

⁷ The estimates on the fiscal stance and its components in this recommendation are Commission estimates based on the assumptions underlying the Commission 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and can boost potential growth.

⁸ Not financed by grants from the Recovery and Resilience Facility and other EU funds.

⁹ Communication from the Commission to the Council: Fiscal policy guidance for 2023, Brussels, 2.3.2022, COM(2022) 85 final.

to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 29 October 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Estonia¹⁰. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Estonia has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

- (10) On 29 April 2022, Estonia submitted its 2022 National Reform Programme and its 2022 Stability Programme, in line with the deadline established in Article 4 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Estonia's bi-annual reporting on the progress made in achieving of its recovery and resilience plan.
- (11) The Commission published the 2022 country report for Estonia¹¹ on 23 May 2022. It assessed Estonia's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Estonia's implementation of the recovery and resilience plan, building on the Recovery and Resilience Scoreboard. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. It also assessed Estonia's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.
- (12) On 23 May 2022, the Commission issued a report under Article 126(3) TFEU. This report discussed the budgetary situation of Estonia, as its general government deficit in 2022 is planned to exceed the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In line with the Communication of 2 March 2022, the Commission did not propose to open new excessive deficit procedures in spring 2022 and it will reassess the relevance of proposing to open excessive deficit procedures in autumn 2022.
- (13) On 20 July 2020, the Council recommended Estonia to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Estonia to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, based on data validated by Eurostat, Estonia's general government deficit fell from 5.6% of GDP in 2020 to 2.4% in 2021. The fiscal policy response by Estonia supported the economic recovery in 2021, while temporary emergency support measures increased from 2.3% of GDP in

¹⁰ Council Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Estonia (ST 12532/21; ST 12532/21 ADD 1; ST 12532/21 ADD 1 COR 1 REV 1)

¹¹ SWD(2022) 608 final.

2020 to 2.7% in 2021. The measures taken by Estonia in 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. At the same time, some of the discretionary measures adopted by the government over the period 2020 to 2021 were not temporary or matched by offsetting measures, mainly consisting of increases to pensions, targeted salary increases (teachers, medical, cultural and police staff) and expenditure programmes for healthcare, R&D, the military and ICT. Based on data validated by Eurostat, general government debt stood at 18.1% of GDP in 2021.

- (14) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is cautious. The government projects real GDP to decline by 1.0% in 2022 and grow by 1.2% in 2023. By comparison, the Commission's 2022 spring forecast projects real GDP growth of 1.0% in 2022 and 2.4% in 2023. The Commission forecasts stronger private consumption growth backed by a high level of accumulated savings and by robust expected wage dynamics. In its 2022 Stability Programme, the government expects that the headline deficit will increase to 5.3% of GDP in 2022 and decrease to 4.8% in 2023. The increase in 2022 mainly reflects the new expenditure measures to mitigate energy prices and additional social and security related spending as well as the costs to offer temporary protection to displaced persons from Ukraine. According to the Programme, the general government debt-to-GDP ratio is expected to increase to 20.7% in 2022, and thereafter to rise to 24.1% in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission 2022 spring forecast projects a government deficit for 2022 and 2023 of 4.4% of GDP and 3.7% respectively. This is lower than the deficit projected in the 2022 Stability Programme, mainly due to the stronger GDP forecast underlying the Commission's projections and more moderate growth of investment expenditure projected by the Commission. The Commission 2022 spring forecast projects a general government debt-to-GDP ratio of 20.9% in 2022 and 23.5% in 2023, similar to the Programme's projections.

Based on the Commission spring 2022 forecast, the medium-term (10-year average) potential output growth is estimated at 3.1%. However, this estimate does not include the impact of the reforms that are part of the Recovery and Resilience Plan and can boost Estonia's potential growth.

- (15) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency support measures are projected to decline from 2.7% of GDP in 2021 to 0.8% in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission spring 2022 forecast are estimated at 0.7% of GDP in 2022 and are expected to be phased out in 2023.¹² These measures mainly consist of social transfers to poorer households, price caps on electricity and heating prices and lowering electricity and gas network charges for consumers. These measures have been announced as temporary. However, in case energy prices remain elevated also in 2023, some of these measures could be maintained. Some of these measures are not targeted, notably the general price cap on energy prices for households, lowering network charges and across the board cuts in excise duties (effective from 2020). The government deficit is also impacted by the costs to offer

¹² The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast are projected at 0.4% of GDP in 2022 and 0.6% in 2023¹³, as well as the increased cost of defence expenditure by 0.6 % of GDP in 2023.

- (16) On 18 June 2021, the Council recommended that in 2022 Estonia¹⁴ maintains a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserves nationally-financed investment. It also recommended Estonia to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential.
- (17) In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Estonia's 2022 Stability Programme, the fiscal stance is projected to be supportive, at -2.4% of GDP, as recommended by the Council.¹⁵ Estonia plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.1 percentage point compared to 2021. Nationally-financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.6 percentage points in 2022.¹⁶ Therefore, Estonia plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.4 percentage points to the overall fiscal stance. This significant expansionary contribution includes, amongst others, increases in wages and social transfers as well as the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.5% of GDP) and of the costs to offer temporary protection to displaced persons from Ukraine (0.4% of GDP).
- (18) In 2023, the fiscal stance is projected in the Commission 2022 spring forecast at 0.2% of GDP on a no-policy change assumption.¹⁷ Estonia is projected to continue using the grants from the Recovery and Resilience Facility in 2023 to finance additional

¹³ The total number of displaced persons from Ukraine to the EU is assumed to gradually reach 6 million by the end of 2022, and their geographical distribution is estimated based on the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the EU as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

¹⁴ Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Estonia, OJ C 304, 29.7.2021, p. 23.

¹⁵ A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

¹⁶ Other nationally-financed capital expenditure is projected to provide a expansionary contribution of 0.4 percentage points of GDP. This reflects the planned increase of gas and liquid fuels reserves by the government.

¹⁷ A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.4 percentage points of GDP compared to 2022. Nationally-financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.3 percentage points in 2023.¹⁸ At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 0.4 percentage points to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0.7% of GDP) and additional costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP).

- (19) In the 2022 Stability Programme, the general government deficit is expected to gradually decline to 3.8% of GDP in 2024 and to 2.9% by 2025. Therefore, the general government deficit is planned to go below 3% of GDP by 2025. These projections assume some additional fiscal consolidation measures that are not yet specified. According to the Programme, the general government debt-to-GDP ratio is expected to increase by 2025, specifically with an increase to 27.7% in 2024, and arise to 29.2% in 2025. Based on the Commission's analysis, debt sustainability risks appear low over the medium term.
- (20) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2, to Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Estonia by the Council in the European Semester in 2019 and 2020, in addition any country-specific recommendations issued up to the date of adoption of a plan. In particular, the plan focuses on the green and digital transition, with measures to improve energy efficiency and develop renewable energy; increase the sustainability of transport and mobility; support companies in the twin transition, in particular start-ups and small and medium-sized enterprises; further digitalise public services; and increase the labour market relevance of the education and training system, notably on green and digital skills. The plan also contains measures to improve the accessibility and resilience of the health system and envisages some improvements to the social safety net and access to social services.
- (21) The implementation of the recovery and resilience plan of Estonia is expected to contribute to making further progress on the green and digital transition. Measures supporting the climate objectives in Estonia account for 41.5% of the plan's total allocation, while measures supporting digital objectives account for 21.5% of the plan's total allocation. The fully-fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Estonia swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

¹⁸ Other nationally-financed capital expenditure is projected to provide a contractionary contribution of 0.5 percentage points of GDP. This reflects the base effect from the government purchases of gas and liquid fuel reserves in 2022.

- (22) Estonia submitted the Partnership Agreement on 18 April 2022 but the other cohesion policy programming documents¹⁹ have not yet been submitted. In line with Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, Estonia shall take into account the relevant country-specific recommendations in the programming of the 2021-2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting the coordination, complementarity and coherence between these funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transition and balanced territorial development.
- (23) Beyond the economic and social challenges addressed by the recovery and resilience plan, Estonia faces a number of additional challenges related to long-term care and the adequacy of the social safety net, particularly for the unemployed.
- (24) The adequacy of the social safety net has improved in Estonia but the at risk of poverty and social exclusion rate remains high for older persons, people with disabilities and unemployed people. Unemployed people are less protected from falling into poverty due to the restrictive criteria for receiving unemployment benefits, notably the thresholds for employment and income before unemployment. As a result, in 2021 only around 50% of all registered unemployed people received unemployment benefits, 37% of newly registered unemployed received unemployment insurance benefits and only 26% received the fixed unemployment allowance. Extending the unemployment benefits coverage and relaxing the minimum criteria to access unemployment benefits can be effective to increase social protection, in particular of those with short work spells and in non-standard forms of work.
- (25) The Estonian population is ageing but the provision of long-term care is inadequate to meet demand due to deficiencies in the organisation and financing of long-term care. Fragmentation in the organisation and financing of long-term care between the social and healthcare sector and the state and local governments leads to an uneven provision of home and community services. Furthermore, the share of expenditure paid by those who need care ('out of pocket payments'), was the second highest in the EU in 2019. Public expenditure on long-term care was only 0.4% of GDP in 2019 (compared to the EU average of 1.7%). A lack of common standards for long-term care and a shortage of care workers undermine the quality of service provision. Reforming long-term care by focusing on efficient and sustainable funding, access to integrated health and social services, setting quality standards, and ensuring a sufficiently large and skilled care workforce would increase the quality of life of those in need for care and reduce the high care burden on family members.
- (26) In response to the mandate by the EU Heads of State or Government, set out in the Versailles Declaration, the REPowerEU plan aims to phase out the European Union's dependence on fossil fuel imports from Russia as soon as possible. For this purpose the most suitable projects, investments and reforms, at national, regional and EU level,

¹⁹ Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. OJ L 231, 30.6.2021, p. 159.

are being identified in dialogue with the Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil fuel imports away from Russia.

- (27) Estonia currently imports a limited share of its energy supply for electricity and heat production, but remains largely dependent on imports from Russia for the small share of gas (8%) and for refined oil products in its energy mix.²⁰ Alongside the continued phase out of the use of oil shale as an energy source, Estonia would benefit from increasing energy efficiency, upgrading its energy infrastructure (including the electricity grid), and ensuring energy interconnections with sufficient capacity, including cross-border ones with neighbouring Member States. New infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to facilitate their long-term sustainability, through future repurposing for sustainable fuels. Completing the ongoing synchronisation with the EU continental power grid, ensuring sufficient capacity for the interconnections with neighbouring Member States and joint renewable energy projects should remain a policy priority. Further diversification of energy sources – including in transport – and acceleration of renewable energy production could be achieved through lifting non-financial barriers to the planning and permitting of renewable energy installations, increasing the capacity of sustainable biomethane production and accelerating the deployment of renewable hydrogen-based solutions while ensuring sustainable valorisation of biomass. Electrification of the main railway lines, supported by EU funds, is already ongoing or planned, but electrifying the whole network would contribute to faster decarbonisation of transport. The already high greenhouse gas emissions from road transport have continued to rise in recent years, due to the intensive use of mainly fuel-inefficient vehicles. Estonia is one of the few Member States that do not levy annual taxes on road vehicles such as passenger cars and light trucks. Increasing incentives to encourage the renewal of the stock of vehicles towards less polluting ones would help the transition to greener transport modes. Where needed, appropriate safeguards could mitigate the impact on low-income car owners. Energy consumption could be reduced by efficient building renovations with an integrated approach, including renewable energy installations and combined heating and power systems. A further increase in ambition for reducing greenhouse gas emissions and increasing renewable energy and energy efficiency will be needed to achieve the ‘Fit for 55’ objectives.
- (28) While the acceleration of the transition toward climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Estonia can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socio-economic impact of the transition in the most affected regions. In addition, Estonia can make use of the European Social Fund Plus to improve employment opportunities and strengthen social cohesion.
- (29) In the light of the Commission’s assessment, the Council has examined the 2022 Stability Programme and its opinion²¹ is reflected in recommendation (1) below.
- (30) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that the euro area Member States take action,

²⁰ Eurostat (2020), share of Russian imports over total imports of natural gas and refined oil products respectively. Estonia has an indirect dependency on Russian imports of natural gas through intra-EU trade; accounting for this would lead to the estimation that Estonia is almost exclusively dependent on Russia for its natural gas imports.

²¹ Under Article 9(2) of Council Regulation (EC) No 1466/97.

including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Estonia, this is reflected in particular in recommendations (1), (2) and (3) below.

HEREBY RECOMMENDS that Estonia take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.
2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 29 October 2021. Submit the 2021-2027 cohesion policy programming documents with a view to finalising their negotiations with the Commission and subsequently starting their implementation.
3. Strengthen social protection, including by extending the coverage of unemployment benefits, in particular to those with short work spells and in non-standard forms of work. Improve the affordability and quality of long-term care, in particular by ensuring its sustainable funding and integrating health and social services.
4. Reduce overall reliance on fossil fuels and diversify imports of fossil fuels by accelerating the deployment of renewables, including through further streamlining of permitting procedures, ensuring sufficient capacity of interconnections and strengthening the domestic electricity grid. Increase energy efficiency, including of buildings, to reduce energy consumption. Intensify efforts to improve the sustainability of the transport system, including through electrification of the rail network and by increasing incentives to encourage sustainable and less polluting transport, including the renewal of the road vehicle stock.

Done at Brussels,

*For the Council
The President*