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Subject:	COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Estonia and delivering a Council opinion on the 2023 Stability Programme of Estonia

Delegations will find attached the above-mentioned draft Council Recommendation, as discussed by the Council and European Council, based on the Commission Recommendation COM(2023) 606 final.

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COUNCIL RECOMMENDATION

of …

on the 2023 National Reform Programme of Estonia and delivering a Council opinion on the 2023 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 Article 121(2) and Article 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 policies[1], and in particular Article 5(2) thereof,

Having regard to 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[2], and in particular Article 6(1) 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,

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

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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:

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(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester, the Facility contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular reforms and investments to promote the green and digital transitions and to make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

[3] 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).

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(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey, marking the start of the 2023 European Semester for economic policy coordination. On 23 March 2023, the European Council endorsed the priorities of the 2023 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it identified Estonia as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on Estonia's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2023 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[4] ('2023 Recommendation on the euro area') on 16 May 2023 and the Joint Employment Report on 13 March 2023.

(3) While the Union's economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the Union stands firmly with Ukraine, the Union's economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and firms in the short term, and on keeping up efforts to deliver on the green and digital transitions, support sustainable and inclusive growth, safeguard macroeconomic stability, and increase resilience in the medium term. It also focuses heavily on increasing the Union's competitiveness and productivity.

[4] Council Recommendation of 16 May 2023 on the economic policy of the euro area (OJ C 180, 23.5.2023, p. 1).

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(4) On 1 February 2023, the Commission issued a communication entitled 'A Green Deal Industrial Plan for the Net-Zero Age' ('the Green Deal Industrial Plan'). The aim of the Green Deal Industrial Plan is to boost the competitiveness of the Union's net-zero industry and support the fast transition to climate neutrality. It complements ongoing efforts under the European Green Deal and REPowerEU. It also aims to provide a more supportive environment for scaling up the Union's manufacturing capacity for the net-zero technologies and products required to meet the Union's ambitious climate targets, and to ensure access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The Green Deal Industrial Plan is based on four pillars: a predictable and simplified regulatory environment, faster access to finance, the enhancement of skills, and open trade for resilient supply chains. On 16 March 2023, the Commission also issued a further communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', structured along nine mutually reinforcing drivers with the objective of working towards a growth-enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well-focused investment and regulatory measures for the long-term competitiveness of the Union and its Member States. The recommendations below help address those priorities.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

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(6) Regulation (EU) 2023/435 of the European Parliament and of the Council[5] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to rapidly phase out the Union's dependence on Russian fossil-fuel imports. This will contribute to energy security and the diversification of the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The REPowerEU Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. Those reforms and investments will also help boost the competitiveness of the Union's net-zero industry as outlined in the Green Deal Industrial Plan and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States in order to finance new energy-related reforms and investments under their recovery and resilience plans.

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[5] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

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(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024 ('the communication of 8 March 2023'). It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023–2024 that ensure medium-term debt sustainability and raise potential growth in a sustainable manner and invited Member States to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the Treaty reference value of 3 % of gross domestic prodcut (GDP) is adhered to and ensure plausible and continuous debt reduction, or for debt to be kept at prudent levels, in the medium term. The Commission also invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should better target such measures at vulnerable households and firms. The Commission stated that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its communication of 9 November 2022 on orientations for a reform of the EU economic governance framework, the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States continue to protect nationally financed investment and ensure the effective use of the Facility and other Union funds, in particular in light of the green and digital transitions and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive-deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

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(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the Union's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims to improve national ownership, simplify the framework and move towards a greater medium-term focus, in combination with effective and more coherent enforcement. According to the Council conclusions of 14 March 2023 on orientations for a reform of the EU economic governance framework, the objective is to conclude the legislative work in 2023.

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(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 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 set out in Annex V to that Regulation. On 29 October 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Estonia[6]. The release of instalments is conditional on the adoption of a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, stating 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. On 9 March 2023, Estonia submitted a revised national recovery and resilience plan, including a REPowerEU chapter, to the Commission, in accordance with Article 21c of Regulation (EU) 2021/241. The revised recovery and resilience plan also takes into account the updated maximum financial contribution in accordance with Article 18(2) of that Regulation and includes a reasoned request to the Commission to amend the Council Implementing Decision of 3 November 2021 in accordance with Article 21(1) of Regulation (EU) 2021/241, considering the recovery and resilience plan to be partially no longer achievable due to objective circumstances. On 12 May 2023, the Commission adopted its proposal for a Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for Estonia. On 16 June 2023, the Council adopted its Implementing Decision amending the Council Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Estonia[7].

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6 ST 12532/2021 INIT; ST 12532/2021 ADD 1; ST 12532/2021 ADD 1 COR 1; ST 12532/2021 ADD 1 COR 1 REV 1.

7 ST 9367/2023 INIT; ST 9367/2023 ADD 1; ST 9367/2023 ADD 1 REV 1.

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(10) On 11 May 2023, Estonia submitted its 2023 National Reform Programme and, on 28 April 2023, Estonia submitted its 2023 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together.

(11) On 24 May 2023, the Commission published the 2023 country report for Estonia. It assessed Estonia's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Estonia's implementation of the recovery and resilience plan. On the basis of thatanalysis, the country report identified gaps with regard to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Estonia's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Estonia and published its results on 24 May 2023. The Commission concluded that Estonia is not experiencing macroeconomic imbalances. In particular, vulnerabilities relating to competitiveness and house price developments have recently increased but overall seem to be contained at present. Wages and especially prices grew strongly in 2022, but the competitiveness losses seem limited, while the current account has recorded only a small deficit and is forecast to come close to balance in 2023 and 2024. Nonetheless, inflation and wage pressures, if persistent, risk impairing Estonia's competitiveness, particularly as core inflation is well above the euro area average. House prices have grown strongly since the COVID-19 pandemic, but do not show strong signs of overvaluation. House prices are likely to moderate, given the interest rate rises and the recent economic recession. Moreover, household debt and borrowing are relatively moderate and the financial sector is sound. The policy setting is overall favourable, although some additional efforts could help to address the risks from the identified vulnerabilities. Continued counter-cyclical fiscal and macroprudential policies, reinforced when needed, would be important in that respect. Fostering competition in the domestic market could help to manage price pressures.

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(13) According to data validated by Eurostat, Estonia's general government deficit decreased from 2,4 % of GDP in 2021 to 0,9 % in 2022, while general government debt rose from 17,6 % of GDP at the end of 2021 to 18,4 % at the end of 2022. On 24 May 2023, the Commission issued a report under Article 126(3) of the Treaty. That report discussed the budgetary situation of Estonia, as its general government deficit is planned to exceed 3 %-of-GDP Treaty reference value in 2023. The report concluded that the deficit criterion was not fulfilled. In line with the communication of 8 March 2023, the Commission did not propose to open new excessive deficit procedures in spring 2023. The Commission subsequently stated that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023. Estonia should take account of this in the execution of its 2023 budget and in preparing its draft budgetary plan for 2024.

(14) The general government balance has been impacted by the fiscal policy measures taken to mitigate the economic and social impact of the increase in energy prices. In 2022, such fiscal policy revenue-decreasing measures included lower excise for agricultural fuel; while such fiscal policy expenditure-increasing measures included a partial compensation of energy bills for households earning less than the median income, reduced network charges for electricity and gas for households and corporates, electricity and gas price caps for households, and a one-time 50-euro social transfer to pensioners and families with children. The Commission estimates the net budgetary cost of those measures at 0,8 % of GDP in 2022. The general government balance has also been impacted by the budgetary cost of offering temporary protection to displaced persons from Ukraine, which is estimated at 0,6 % of GDP in 2022. At the same time, the estimated cost of temporary emergency measures related to the COVID-19 crisis dropped to 0 % of GDP in 2022, from 2,3 % in 2021.

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(15) On 18 June 2021, the Council recommended that in 2022 Estonia[8] maintain a supportive fiscal stance, including from the impulse provided by the Facility, and preserve nationally financed investment.

(16) According to the Commission estimates, the fiscal stance[9] in 2022 was contractionary, at 1,3 % of GDP, which was appropriate in a context of high inflation. As recommended by the Council, Estonia continued to support the recovery with investments financed by the Facility. Expenditure financed by grants under the Facility and other Union funds amounted to 1,4 % of GDP in 2022 (1,6 % of GDP in 2021). The decrease in expenditures financed by grants under the Facility and other Union funds in 2022 was due to the rapid and unforeseen rise in construction prices . Nationally financed investment provided a contractionary contribution of 0,6 percentage points to the fiscal stance[10]. Estonia therefore did not preserve nationally financed investment, which is not in line with the Council Recommendation of 18 June 2021. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a contractionary contribution of 0,8 percentage points to the fiscal stance. Estonia therefore sufficiently limited the growth in nationally financed current expenditure.

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[8] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Estonia (OJ C 304, 29.07.2021 p. 23).

[9] The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding temporary emergency measures related to the COVID-19 crisis but including expenditure financed by non-repayable support (grants) from the Facility and other Union funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

[10] The decline in investments reflects the delays in the completion of some projects caused by the sharp rise in construction costs, which is linked to supply-chain disruptions due to the war in Ukraine. At the same time, other nationally financed capital expenditure provided an expansionary contribution of 0,4 percentage points of GDP, reflecting the acquisition of gas and fuel reserves.

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(17) The macroeconomic scenario underpinning the budgetary projections in the 2023 Stability Programme is cautious in 2023 and in line with that of the Commission's 2023 spring forecast thereafter. The government projects real GDP to decrease by 1,5 % in 2023 and to grow by 3,0 % in 2024. By comparison, the Commission's 2023 spring forecast projects a lower real GDP contraction of 0,1 % in 2023 and a similar growth of 3,0 % in 2024. The difference in 2023 is mainly due to the Commission expecting more favourable private consumption developments, together with a slightly lower inflation (measured by the harmonised index of consumer prices (HICP)) and higher wage growth projections.

(18) In its 2023 Stability Programme, the government expects that the general government deficit will increase to 4,3 % of GDP in 2023. The increase in 2023 mainly reflects discretionary measures, such as additional spending on family benefits, pensions, defence and education, and the adjustment of tax brackets in order to reduce income tax, as well as an assumed rise in expenditure by local governments. According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to increase from 18,4 % at the end of 2022 to 20,2 % at the end of 2023. The Commission's 2023 spring forecast projects a government deficit of 3,1 % of GDP for 2023. This is lower than the deficit projected in the 2023 Stability Programme, mainly due to the denominator effect from higher nominal GDP projection and higher estimated growth of tax bases, tax revenues and non-tax revenues.

(19) The general government balance in 2023 is expected to continue to be impacted by the measures taken to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022, in particular the reimbursement of a share of all households' heating, electricity and gas bills. The net budgetary cost of the support measures is projected in the Commission's 2023 spring forecast at 0,3 % of GDP in 2023[11]. The measures in 2023 do not appear to be targeted at the most vulnerable households or firms, and they do not fully preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the Council Recommendation of 12 July 2022[12], is estimated in the Commission's 2023 spring forecast at 0 % of GDP in 2023 (compared to 0,1 % of GDP in 2022). The budgetary cost of offering temporary protection to displaced persons from Ukraine is projected to increase by 0,1 percentage point of GDP compared to 2022.

(20) In its Recommendation of 12 July 2022, the Council recommended that Estonia take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[13], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Estonia should stand ready to adjust current spending to the evolving situation. Estonia was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Facility and other Union funds.

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11 The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as — where relevant — capital expenditure measures.

12 Council Recommendation of 12 July 2022 on the National Reform Programme of Estonia and delivering a Council opinion on the 2022 Stability Programme of Estonia (OJ C 334, 1.9.2022, p. 44).

13 Based on the Commission spring 2023 forecast, potential output growth of Estonia, which is used to measure the fiscal stance, in the medium-term (10-year average), is estimated at 13.3 % in nominal terms.

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(21) In 2023, the fiscal stance is projected in the Commission's 2023 spring forecast to be expansionary (-0,8 % of GDP), in a context of high inflation. This follows a contractionary fiscal stance in 2022 (+1,3 % of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 1,2 % of GDP to the fiscal stance. This includes the reduced cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0,1 % of GDP. This also includes higher cost of offering temporary protection to displaced persons from Ukraine (by 0,1 % of GDP). The expansionary contribution of nationally financed net primary current expenditure is therefore not due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) is mainly driven by social spending, public wages, education and defence expenditure. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council Recommendation of 12 July 2022. Expenditure financed by Facility and other Union funds is projected to amount to 1,8 % of GDP in 2023, while nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0,3 percentage points. Therefore, Estonia plans to finance additional investment through the Facility and other Union funds, and it is not projected to preserve nationally financed investment[14]. It plans to finance public investment for the green and digital transitions, and for energy security, such as energy efficiency of housing, strengthening the electricity transmission networks to allow more green energy production, internet broadband, digital services, upskilling and retraining modules for skills for the green transition.

[14] Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,3 percentage points of GDP, reflecting the base effect from 2022 when large gas reserves were acquired.

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(22) According to the 2023 Stability Programme the general government deficit is expected to decline marginally to 4.2 % of GDP in 2024. The decrease in 2024 mainly reflects a decrease in expenditure as a share of GDP. According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to increase to 23.6 % at the end of 2024. However, as stated in the Programme, those projections do not yet include the planned fiscal consolidation measures of the new government that took office on 17 April 2023, because the measures are not yet specified in legal acts. The new government is planning to raise the value added tax, environmental taxes, excise duties on alcohol and tobacco and to institute a car tax. On the expenditure side, the government is planning to cut certain child benefits. Overall, the 2023 Stability Programme estimates that those measures would improve the budget balance by 1.3 % of GDP in 2024. Based on policy measures known with sufficient detail at the cut-off date of the forecast (i.e. without the planned fiscal consolidation measures of the new government), the Commission's 2023 spring forecast projects a government deficit for 2024 of 2.7 % of GDP. This is lower than the deficit projected in the 2023 Stability Programme, mainly due to the lower deficit base projected for 2023 and a more favourable GDP and tax revenue outlook for 2024 in the Commission's 2023 spring forecast. The Commission's 2023 spring forecast likewise projects a lower general government debt-to-GDP ratio of 21,3 % at the end of 2024.

(23) The 2023 Stability Programme envisages the phasing-out of all of the energy support measures in 2024. The Commission also assumes full phasing-out of energy support measures in 2024. This is based on the assumption of no renewed energy price increases.

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(24) Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term budgetary objective, with 0,5 % of GDP as a benchmark[15]. Taking into account fiscal sustainability considerations, and the need to reduce the deficit to below the 3 %-of-GDP Treaty reference value, an improvement in the structural balance of at least 0,3 % of GDP for 2024 would be appropriate, according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally financed primary expenditure[16] in 2024 should not exceed 4,9 %, as reflected in this Recommendation. This will also contribute to reducing core inflation, which is well above the euro area average, and which could lead to competitiveness losses if persistent. At the same time, the remaining energy support measures (currently estimated by the Commission at 0,3 % of GDP in 2023) should be phased out, if energy-market developments so permit and starting with the least targeted measures, and the related savings should be used to reduce the government deficit. However, according to the Commission's 2023 spring forecast, the growth in net nationally financed primary current expenditure in 2023 is not in line with the Council Recommendation of 12 July 2022. If this is confirmed, lower growth in net primary expenditure in 2024 would be appropriate.

(25) Assuming unchanged policies, the Commission's 2023 spring forecast projects net nationally financed primary expenditure to grow at 4,5 % in 2024, which is below the recommended rate.

(26) According to the 2023 Stability Programme, government investment is expected to remain at 5,3 % of GDP in 2024 compared to an average of 5,3 % of GDP in 2018-2023. In terms of funding sources, nationally financed investment is projected to decline and investment financed by the Union to increase, namely through the Facility.

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15 Article 5 of Regulation (EC) No 1466/97 also requires an adjustment of more than 0,5 % of GDP for Member States with a government debt exceeding 60 % of GDP, or with more pronounced debt sustainability risks.

16 Net primary expenditure is defined as nationally financed expenditure net of discretionary revenue measures and excluding interest expenditure and cyclical unemployment expenditure.

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(27) The 2023 Stability Programme outlines a medium-term fiscal path until 2027. According to the 2023 Stability Programme, the general government deficit is expected to amount to 4,0 % of GDP in 2025, 4,5 % at 2026 and 4,2 % by 2027. Therefore, the general government deficit is not planned to return to below 3 % of GDP over the Programme horizon. According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to increase from 23,6 % at the end of 2024 to 33 % by the end of 2027. However, as noted above, these projections do not yet include the planned fiscal consolidation measures of the new government.

(28) Estonia submitted a revision of its recovery and resilience plan together with a REPowerEU chapter on 9 March 2023. On 12 May 2023, the Commission proposed its positive assessment and it is subject to the Council approval. Due to high inflation and disruptions in supply chains caused by the war in Ukraine, a few investments have been delayed or discontinued, which resulted in the revision of the initial recovery and resilience plan. Estonia is the first Member State to have included a REPowerEU chapter in the revision of the plan and intends to submit the first and second payment requests as soon as the revised plan has been approved by the Council.

(29) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Estonia's strategic objectives in the field of energy and green transition. The systematic and effective involvement of local and regional authorities, 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 that plan, in order to ensure broad ownership of the overall policy agenda.

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(30) The Commission approved all Estonia's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience, and achieving balanced territorial development in Estonia.

(31) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Estonia faces a number of additional challenges related to the adequacy of the social safety net, in particular for the unemployed and older people, to long-term care and healthcare and to energy and the green transition.

(32) The adequacy of the social safety net has been improved, but the risk of poverty or social exclusion remains high among some groups, in particular older people (41,6 % in Estonia against 19,5 % in the Union in 2021) and persons with disabilities (with 40,4 % in Estonia against 28,9 % in the Union in 2021). For older people (65+) the risks of poverty or social exclusion are high largely due to the average pensionbeing low. In addition, a gender gap in poverty among older people persists (the at-risk-of-poverty rate for older women is 47,9 %, almost 21 percentage points higher than for men). Restrictive criteria for receiving unemployment benefits, in particular the high thresholds for employment and income before unemployment, continue to expose unemployed people to the risk of falling into poverty. People in work for short spells and in non-standard forms of work are not eligible for unemployment benefits when they become unemployed. In 2022, only 29 % of the newly registered unemployed received unemployment insurance benefits and 39 % received the fixed unemployment allowance. Extending the coverage of unemployment benefits and relaxing the minimum criteria to access them, in particular for those in work for short spells and in non-standard forms of work, and increasing the adequacy of pensions could help strengthen social protection.

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(33) Estonia has taken steps to improve the accessibility and affordability of long-term care, but challenges remain. Public expenditure on healthcare and long-term care are low compared to the Union average, hampering timely and equal access to health and long-term care. A high proportion of the population aged 65 and over and in need of long-term care has no help with personal care or household activities. The need for home care services is one of the highest in the Union. Furthermore, while the population is ageing and life expectancy in Estonia is one of the lowest in the Union, the rate of self-reported unmet needs for medical care is high, although it has fallen compared with previous years (13 % in 2020 and 8,1 % in 2021, compared to a Union average of 2 %). This high rate is in particular linked to waiting lists and a shortage and uneven distribution of health workers in the country. Although out-of-pocket payments have fallen slightly, they are high both for healthcare and long-term care and far above the Union average. Ensuring sustainable funding of healthcare and long-term care could help address the challenges in these areas.

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(34) Following Russia's invasion of Ukraine, Estonia has successfully abandoned imports of gas from Russia by redirecting energy imports through the liquified natural gas (LNG) terminal in Klaipėda, Lithuania and the LNG terminal in Inkoo, Finland. Estonia's consumption of natural gas dropped by 36 % in the period between August 2022 and March 2023, compared to the average gas consumption over the same period in the preceding five years, beyond the 15 % reduction target. Estonia could keep pursuing efforts to temporarily reduce gas demand until 31 March 2024 in accordance with Council Regulation (EU) 2022/1369[17]. While Estonia is making progress in the deployment of renewable energy, the share of oil shale in its energy mix remains significant. The share of renewable energy in gross final energy consumption grew from 30,1 % in 2020 to 37,6 % in 2021. The share of oil shale accounted for 58 % of the energy mix in 2021, which is a decrease of 5 percentage points since 2018, but an increase of 2 percentage points since 2020. In the REPowerEU chapter of the recently revised recovery and resilience plan, Estonia has committed to reform the permitting process and improve the capacity building of local permitting authorities. These reforms are expected to enable further progress towards the use of renewable energy. Insufficient grid capacity to accommodate more renewables continues to hamper further progress. Estonia also needs to continue its efforts to synchronise its electricity network with that of the rest of the Union in order to phase out its dependency on the BRELL (Belarus, Russia, Estonia, Lithuania and Latvia) power grid. Progress is being made, but the transition still needs to be completed. To that end, cooperation with Latvia and Lithuania is necessary. Energy efficiency is key to Estonia's green transition. Increasing the energy efficiency of the economy, including of the building stock, will require more ambitious energy efficiency targets and an increase in the renovation capacity of smaller municipalities by better targeting support measures. Estonia has focused on increasing the sustainability of its transport sector by adopting the 2021–2035 Transport and Mobility Development Plan, but more appropriate measures should be taken to accelarate the shift to a less polluting transport sector.

[17] Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated demand-reduction measures for gas (OJ L 206, 8.8.2022, p. 1).

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Although Estonia invests in the electrification of the rail network, its implementation has not yet been assessed. A shift to sustainable transport also needs to happen in the area of private vehicles, where wider use of zero- and low-emission vehicles is needed. Relevant incentives such as environmental taxes, including an emission-based annual road vehicle tax, could help accelerate the shift towards less polluting transport options.

(35) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, those measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. In 2022, labour shortages were reported in Estonia for 68 occupations that require specific skills or knowledge for the green transition, including refuse sorters, civil engineering technicians and civil engineers. Furthermore, labour shortages were reported as a factor that limits production in industry and construction.

(36) In the light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[18] is reflected in recommendation (1).

[18] Under Article 5(2) of Regulation (EC) No 1466/97.

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(37) 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, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain a high level of public investment and promote private investment to support the green and digital transition; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour-market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary and targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macro-financial stability and monitor risks while continuing to work on completing the banking union. For Estonia, recommendations (1), (2), (3) and (4) contribute to the implementation of the first, second and third recommendations set out in the 2023 Recommendation on the euro area,

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HEREBY RECOMMENDS that Estonia take action in 2023 and 2024 to:

1. Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable and preserve incentives for energy savings.

   Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 4,9 %[19].

   Preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions.

   For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, in order to achieve a prudent medium-term fiscal position.

2. Proceed with the steady implementation of its recovery and resilience plan including its REPowerEU chapter. Proceed with the swift implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Strengthen social protection by extending the coverage of unemployment benefits, in particular for those in work for short spells and in non-standard forms of work, in order to address, inter alia, old-age poverty. Improve access to and the affordability of healthcare and long-term care, in particular by ensuring their sustainable funding.

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[19] Which is estimated to correspond to an annual improvement in the structural budget balance of at least 0,3 % of GDP for 2024, as described in recital 24.

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4. Reduce overall reliance on fossil fuels, accelerate the deployment of renewable energy sources, including by strengthening the domestic electricity grid capacity. Ensure sufficient capacity of electricity interconnections to increase the security of supply and continue the synchronisation with the Union electricity grid. Strengthen energy efficiency through new financing and support measures to meet the targets of the long-term renovation strategy. Continue efforts to increase the share of sustainable transport by electrifying the rail network and through taxation that incentivises the gradual renewal of the vehicle stock towards zero- or low-emission vehicles. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council
The President