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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Estonia

{SWD(2024) 600 final} - {SWD(2024) 606 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies 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 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) 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 Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and 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 EU and support the continued implementation of the European Pillar of Social Rights.

1 OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj

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, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

(2) The REPowerEU Regulation[3], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy security and diversify the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Estonia added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[4], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[5]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[6], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report, in which it did not identify 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 the 2024 draft budgetary plan of Estonia. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[7]. The objectives of the

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3 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, ELI: http://data.europa.eu/eli/reg/2023/435/oj).

4 COM(2023) 168 final.

5 COM(2024) 77 final

6 COM(2023) 901 final.

7 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of

new framework are public debt sustainability and sustainable and inclusive growth gradual fiscal consolidation as well as through reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[8] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) No 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) No 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) No 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 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.

(7) 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 of Annex V to that Regulation. On 29 October 2021, the Council adopted its Decision on the approval of the assessment of

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29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

8 Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

the recovery and resilience plan for Estonia[9], which was amended on 16 June 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[10]. 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.

(8) On 25 April 2024, Estonia submitted its 2024 National Reform Programme and, on 30 April 2024, its 2024 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects Estonia's biannual reporting on the progress made in achieving its recovery and resilience plan.

(9) The Commission published the 2024 country report for Estonia[11]on 19 June 2024. It assessed Estonia's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Estonia's implementation of the recovery and resilience plan. 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. 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.

(10) Based on data validated by Eurostat, Estonia's general government deficit increased from a deficit of 1.0% of GDP in 2022 to a deficit of 3.4% in 2023, while the general government debt rose from 18.5% of GDP at the end of 2022 to 19.6% at the end of 2023. As announced in the fiscal policy guidance for 2024[12], the Commission is taking the first step for the opening of deficit-based excessive deficit procedures on the basis of the outturn data for 2023, in line with existing legal provisions. On 19 June 2024, the Commission adopted a report under Article 126(3) of the TFEU[13]. That report assessed the budgetary situation of Estonia, as its general government deficit in 2023 exceeded the reference value of 3% of GDP. The report concluded that in the light of this assessment, and after considering the opinion of the Economic and Financial Committee as established under article 126(4) TFEU, the Commission will not propose in July to open an excessive deficit procedure for Estonia.

(11) On 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, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people

[9] Council Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Estonia (0319/2021).
[10] Council Implementing Decision of 16 June 2023 amending the Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Estonia (9367/2023).
[11] SWD(2024) 606 final.
[12] Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 19.6.2024, COM(2024) 598 final.
[13] Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 19.6.2024, COM(2024) 598 final.

fleeing Ukraine. Estonia was recommended to 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 Recovery and Resilience Facility and other Union funds. In 2023, according to the Commission estimates, the fiscal stance was expansionary by 1.6% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided an expansionary contribution to the fiscal stance of 1.0% of GDP. This includes the reduced cost of the targeted emergency support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. This also includes higher costs to offer temporary protection to displaced persons from Ukraine (by 0.2% of GDP). The expansionary contribution of nationally financed net primary current expenditure in 2023 was therefore only partly due to the support to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) was driven by higher public wage spending and pensions coupled with further new permanent spending programmes for defence, education and child benefits, not matched by proportional increases on the revenue side. In sum, the growth of nationally financed primary current expenditure in 2023 was not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.4% of GDP in 2023. Nationally financed investment amounted to 5.8% of GDP in 2023, with an annual increase of 1.4 percentage points from 2022. Estonia financed additional investment through the Recovery and Resilience Facility and other EU funds. Estonia financed public investment for the green and digital transitions, and for energy security, such as the development of event services and digital gateway for entrepreneurs, capitalisation of the Green Fund (which makes investments in venture capital funds and equity investments in enterprises) and strengthening of the electricity grid to increase renewable energy production capacity and adapt to climate change, which are funded by the Recovery and Resilience Facility.

(12) The key projections in the 2024 Stability Programme can be summarised as follows. The macroeconomic scenario underpinning the budgetary projections foresees real GDP to grow by 0.0% in 2024 and 2.0% in 2025, while it projects HICP inflation at 3.6% in 2024 and 2.7% in 2025. The general government deficit is expected to increase to 3.5% of GDP in 2024[14] and 3.0% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 22.6% by the end of 2024 and 24.9% by the end of 2025. After 2025, the general government deficit is projected to decrease gradually to 2.2% of GDP in 2026, 1.4% in 2027, and 0.8% in 2028. Therefore, the general government balance is planned to not exceed the 3.0% of GDP deficit reference value from 2025. In turn, after 2025, the general government debt ratio is projected to increase to 26.2% in 2026 and then decrease gradually to 26.0% in 2027, and 25.0% in 2028.

[14] The Estonian authorities informed the Commission that the government agreed to, and sent to the Parliament on 5 June 2024, a supplementary budget for 2024 (State 2024 Additional Budget Act 456 SE), which passed the first reading in Parliament on 10 June, the second on 14 June and is expected to pass the third reading on 19 June. This supplementary budget is expected to reduce the nominal deficit by 0.4% of GDP (of which, most are permanent expenditure cuts, but also includes revenue-increasing measures).

(13) The Commission Spring 2024 Forecast projects real GDP to contract by 0.5% in 2024 and to grow by 3.1% in 2025, and HICP inflation to stand at 3.4% in 2024 and 2.1% in 2025.

(14) The Commission Spring 2024 Forecast projects a government deficit of 3.4% of GDP in 2024, while the general government debt-to-GDP ratio is set to increase to 21.4% by the end of 2024. The increase of the debt-to-GDP ratio in 2024 mainly reflects the impact of the government deficit. Based on the Commission's estimates, the fiscal stance is projected to be broadly neutral at 0.1% of GDP in 2024.

(15) Expenditure amounting to 0.9% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.3% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Estonia.

(16) On 14 July 2023, the Council recommended that Estonia ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure in 2024 to not more than 4.9%. When executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, Estonia's structural balance is projected at -0.7% of GDP in 2024 (from -1.3% in 2023), thereby at the country's medium-term budgetary objective (MTO) of a structural balance of -0.75% of GDP. Estonia is therefore assessed as being in line with what was recommended by the Council.

(17) Moreover, the Council recommended that Estonia take action to 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. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Estonia should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost of emergency energy support measures is estimated at 0.2% of GDP in 2023 and projected at 0.0% in 2024 and 2025. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with the Council recommendation.

(18) In addition, the Council also recommended that Estonia preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 6.3% of GDP in 2024 from 5.8% of GDP in 2023. This is in line with what was recommended by the Council.

(19) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 4.3% of GDP in 2025. The increase of the deficit in 2025 mainly reflects the net impact of a reform to personal income tax that is expected to reduce government revenues. The general government debt-to-GDP ratio is set to increase to 24.6% by the

end of 2025. The increase of the debt-to-GDP ratio in 2025 mainly reflects the impact of the government deficit.

(20) Estonia's tax revenue as a share of GDP increased in 2023 but is significantly below the EU's average, limiting the funding available for public expenditure on healthcare, long-term care and social protection. In 2022, revenues from property taxes, which are among the taxes least detrimental to growth, amounted to only 0.3% of GDP, around seven times lower than the EU average. Estonia collected less than a third of the EU's average from capital taxes (2.7% of GDP), had some of the lowest transport taxes in the EU, and is one of the few Member States without an annual car tax. Furthermore, the tax burden is unevenly distributed, and forthcoming tax reforms are set to further increase inequality. More specifically, in 2025, an increase in the income tax rate from 20% to 22%, and an increase in the basic tax exemption and widening of its scope to cover all income taxpayers are set to be regressive. Also, Estonia's labour income tax, even if close to the EU average at 17.2% of GDP, is regressive, taxing higher income levels at a lower effective rate. Public spending on social protection decreased in 2022 and is still significantly below the EU's average. This translates into relatively low levels and limited coverage of social benefits, with old-age pensions among the lowest in the EU. Expenditure on general public services is, at 3.7% of GDP, almost two thirds lower than the EU average.

(21) Estonia adopted several reforms to improve the accessibility and affordability of long-term care and healthcare. While the reforms are going in the right direction, sustainable funding for healthcare and long-term care is not yet ensured. As a result, out of pocket payments remain high and the unmet need for medical care has increased. The access to care is uneven across the country not least because of the lack of capacity and resources across municipalities to provide enough services to meet the demand. While the demand is not fully met, public spending on long-term care and healthcare is still amongst the lowest in the EU. This is coupled with workforce shortages in these sectors. Due to demographic changes, demand is expected to increase for access to healthcare and long-term care, therefore, ensuring adequate funding for both is warranted.

(22) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of 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 are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan including the REPowerEU chapter is essential to boost Estonia's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Estonia to continue the implementation of reforms and investments. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(23) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, Estonia is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. Estonia has made progress in implementing

cohesion policy and the European Pillar of Social Rights, but challenges remain and disparities persist between the capital and the rest of Estonia. Accelerating the implementation of the cohesion policy programme is crucial. The priorities agreed in the programme continue to be relevant. It is particularly important to increase the competitiveness of companies, especially outside the capital area, and boost their capacity to innovate. Improving the energy efficiency of private and public buildings as well as of businesses is a high priority. Access to employment through active and preventive labour market measures and promoting a healthy work environment continues to be important. Priority should also be given to improving the quality, effectiveness and labour market relevance of education and training; promoting lifelong learning, especially flexible upskilling and reskilling as well as active inclusion; and increasing the accessibility, effectiveness and resilience of long-term care services. As part of the mid-term review of cohesion policy programmes, the needs related to the accessibility and quality of long-term care, while prioritising independent living, merit further attention. Estonia could also leverage the Strategic Technologies for Europe Platform initiative specifically in relation to investment in net-zero technologies manufacturing and supporting the transformation of the industry, for instance, in the areas of deep tech innovation, green and digital technologies, and biomedicine. Estonia could also increase its capacity to process rare earth metals and to engage in research and development supporting it.

(24) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Estonia faces several additional challenges related to social protection, resource efficiency and skills.

(25) The social protection for supporting older people, persons with disabilities and people in non-standard forms of work and with short work spells remains weak. As a result, the share of persons with disabilities at risk of poverty and social exclusion not only increased in 2022 but it was the second highest in the EU. Old-age poverty has been rising, and it was one of the highest in the EU in 2022, not least because pensions are still low relative to work incomes. The low adequacy of the social safety net results in high, and increasing, income inequality, despite a few improvements in previous years. The low coverage of unemployment benefits, especially for those in non-standard forms of work and with short work spells, exacerbates income inequality and poverty. Although the duration of unemployment benefits has been adjusted under the Estonian recovery and resilience plan, the extension of the coverage has yet to be implemented. Rising inequality is linked to the significant increase in prices and cost of living, which has not been accompanied by a corresponding increase in social benefits and minimum wages. The situation for low-income households has worsened due to high and persistent inflation in the past and is set to deteriorate further as a result of the tax reforms in 2024-2025. Ensuring adequate mitigation measures, including for pensions, as well as increasing the adequacy of the social protection system could reduce poverty and inequalities. All these measures would also contribute to supporting upward social convergence, in line with the Commission services' second-stage country analysis based on the features of the Social Convergence Framework[15].

(26) The share of oil shale in Estonia's energy mix remains significant and is hindering the green transition. Further deployment of renewable energy production is needed to help

[15] SWD(2024)132 final.

gradually phase out oil shale while at the same time keeping a high degree of energy independence. In addition to causing environmental damage, the oil shale industry accounts for 90% of Estonia's hazardous waste. Estonia has one of the lowest resource productivity rates among EU Member States, which can be partially due to the country's resource-intensive oil shale industry, but also to the overall resource-intensive industrial system. Resource productivity barely increased from 1 EUR/kg of resources used to 1.1 EUR/kg, remaining at less than half the EU average in 2022. The sector of land use, land use change and forestry has become a CO_2 emitter instead of an absorber. The forestry sector is characterised by high felling volumes, as well as by low resource valorisation. Estonia would benefit from increasing the efficiency of sustainable forest management, transitioning further to a circular economy, and improving waste management. Furthermore, resource productivity is one of Estonia's weaknesses when it comes to the country's innovation capacity. Estonia ranked 13th on the 2022 Eco-Innovation Scoreboard (115.5 versus an EU average of 121.5, 2013 = 100). Boosting eco-innovation and bio-based innovation for sustainable use of natural resources will help to improve Estonia's resource productivity and competitiveness.

(27) Skills shortages and mismatches exist in many sectors and reduce Estonia's competitiveness. Businesses have identified the lack of skilled staff as a barrier to investment and to their export potential. Shortages of skilled labour and large skills mismatches coincide with rapid wage growth and increased unit labour cost. Both the green and digital transitions have increased demand for workers with specialised skills, while shortages in healthcare and education remain acute and are augmented by the ageing of the workforce. At the same time, relatively high rates of both early school leaving and drop out in higher education result in an insufficient number of skilled graduates. This problem has a particular regional dimension, as rural and remote areas face more difficulties in attracting qualified professionals. Skills mismatches could be limited through further improving the labour market relevance of the education and training system, investing in career guidance, addressing the gender pay gap, increasing opportunities for reskilling and upskilling, and better anticipating skills needs. Given the need for the economy to diversify into activities with high value added, better ways to retain and attract talent would also help.

(28) In view of the close interlinkages between the economies of euro area Member States and of their collective contribution to the functioning of the Economic and Monetary Union, in 2024 the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Estonia, recommendations (1), (2), (3) and (4) help implement the first, second, third, and fourth euro area recommendations.

HEREBY RECOMMENDS that Estonia take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[16] in 2025 to a rate consistent with reducing the general government deficit below the 3% of GDP Treaty reference value and keeping the general

[16] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

government debt at a prudent level over the medium term. Broaden the tax base and improve access to and financing of healthcare and long-term care.

2. Continue with the swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of the cohesion policy programme. In the context of the mid-term review, continue focusing on the agreed priorities, taking action to better address the needs in the long-term care sector, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Strengthen social protection, inter alia to address old-age poverty and by extending the coverage of unemployment benefits, in particular to those with short work spells and in non-standard forms of work.

4. Reduce the share of oil shale in the energy mix and raise resource productivity through bio-based innovation. Improve labour productivity and skills supply through reskilling and upskilling, and by better attracting and retaining talent.

Done at Brussels,

For the Council
The President