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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	9405/22 - COM(2022) 608 final
Subject:	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

Delegations will find attached the abovementioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2022) 608 final.

COUNCIL RECOMMENDATION

of…

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 policies[1], 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:

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1 OJ L 209, 2.8.1997, p. 1.

(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 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 transitions, 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 will be updated in June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

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

(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 Porto Social Commitment signed on 7 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 Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[3], 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 review would be needed. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro areaand a proposal for the 2022 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] ('2022 Recommendation on the euro area') on 5 April 2022 and the Joint Employment Report on 14 March 2022.

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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 Recommendation of 5 April 2022 on the economic policy of the euro area (OJ C 153, 7.4.2022, p.1).

(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 through, inter alia, higher prices for energy, food and raw materials, and weaker growth prospects. The higher energy prices weigh particularly heavily on the most vulnerable households experiencing or at risk of energy poverty as well as on firms most vulnerable to energy prices hikes. The Union is also seeing an unprecedented inflow of people fleeing Ukraine. The economic effects stemming from Russia's war of aggression have impacted Member States asymmetrically. In this context, on 4 March 2022, Council Directive 2001/55/EC[5] was triggered for the first time by Council Implementing Decion (EU) 2022/382[6], granting displaced persons from Ukraine the right to legally stay in the Union, as well as access to education and training, the 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.

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5 Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof (OJ L 212, 7.8.2001, p.12).

6 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).

(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 European Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for the 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 other country-specific recommendations issued up to the date of submission of such revised, updated or amended recovery and resilience plans.

(5) The general escape clause of the Stability and Growth Pact has been active since March 2020. In its communication of 3 March 2021 entitled "One year since the outbreak of COVID-19: fiscal policy response", 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 Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative 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 Recommendation of 18 June 2021[7] delivering a Council opinion on the 2021 Stability Programme of Estonia, the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth[8]. 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-financed[9] primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

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7 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).

8 The estimates on the fiscal stance and its components in this Recommendation are Commission estimates based on the assumptions underlying the Commission's 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 that can boost potential growth.

9 Not financed by grants under the Recovery and Resilience Facility or other Union funds.

(7) On 2 March 2022, the Commission adopted a communication providing broad guidance for fiscal policy in 2023 ('the fiscal guidance') aimed at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination. The Commission noted that, on the basis of 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, while standing ready to react to the evolving economic situation, would appear appropriate in 2023. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate between 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 European Semester spring package of late May 2022.

(8) With respect to the fiscal guidance, 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 Commission's 2022 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, including challenges that arise from Russia's war of aggression against Ukraine with regard to defence and security, and has to differentiate between Meber States according to their fiscal and economic situation, including as regards their 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 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[10]. The release of instalments is conditional on the adoption of a decision by the Commission, 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.

(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 biannual reporting on the progress made in implementing of its recovery and resilience plan.

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10 ST 12532/2021; ST 12532/2021 ADD 1; ST 12532/21 ADD 1 COR 1 REV 1.

(11) The Commission published the 2022 country report for Estonia 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. On the basis of that 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 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) On 23 May 2022, 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 in 2022 is planned to exceed the Treaty reference value of 3 % of gross domestic product (GDP). 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 will reassess whether it is necessary to propose the opening of such procedures in autumn 2022.

(13) In its Recommendation of 20 July 2020[11], the Council recommended Estonia to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the COVID-19 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, according to data validated by Eurostat, Estonia's general government deficit fell from 5,6 % of GDP in 2020 to 2,4 % . The fiscal policy response by Estonia supported the economic recovery in 2021, while temporary emergency measures increased from 2,3 % of GDP in 2020 to 2,7 % in 2021. The measures taken by Estonia in 2021 were 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, research and development (R&D), the military and information and communication technologies (ICT). According to data validated by Eurostat, general government debt fell from 19,0 % of GDP in 2020 to 18,1 % of GDP in 2021.

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11 Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Estonia and delivering a Council opinion on the 2020 Stability Programme of Estonia (OJ C 282, 26.8.2020, p.33).

(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 2022 Stability 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’s 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’s 2022 spring forecast projects a general government debt-to-GDP ratio of 20,9 % in 2022 and 23,5 % in 2023, similar to the 2022 Stability Programme’s projections. According to the Commission’s 2022 spring forecast, the medium-term (10-year average) potential output growth is estimated at 3,1 %. However, that 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 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's spring 2022 forecast are estimated at 0,7 % of GDP in 2022 and are expected to be phased out in 2023.[12] Those 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 the event that energy prices remain elevated in 2023, some of those measures could be maintained. Some of those measures are not targeted, in particular 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 cost of offering temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast is projected at 0,4 % of GDP in 2022 and 0,6 % in 2023[13], as well as the increased cost of defence expenditure by 0,6 % of GDP in 2023.

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.

13 It is assumed that the total number of persons displaced from Ukraine to the Union will gradually reach 6 million by the end of 2022, and their geographical distribution is estimated on the basis of 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 Union 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.

(16) In its Recommendation of 18 June 2021, the Council recommended that in 2022 Estonia maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. The Council 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, according to 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[14]. 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 grants under the Recovery and Resilience Facility and other Union 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[15]. 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. That 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).

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14 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.

15 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.

(18) In 2023, the fiscal stance is projected in the Commission's 2022 spring forecast at 0,2 % of GDP on a no-policy-change assumption[16]. Estonia is projected to continue using the grants under the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union 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[17]. 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 2022 Staility 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. According to the Commission's analysis, debt sustainability risks appear low over the medium term.

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16 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.

17 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.

(20) 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 with an indicative timetable for implementation to be completed by 31 August 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 recovery and resilience plan. In particular, the recovery and resilience plan focuses on the green and digital transitions, 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, especially with regard to green and digital skills. The recovery and resilience 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 transitions. Measures supporting the climate objectives in Estonia account for 41,5 % of the recovery and resilience plan's total allocation, while measures supporting digital objectives account for 21,5 % of the recovery and resilience 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 recovery and resilience plan, to ensure broad ownership of the overall policy agenda.

(22) Estonia submitted the Partnership Agreement provided for in Regulation (EU) 2021/1060 of the European Parliament and of the Council[18] on 18 April 2022 but the other cohesion policy programmes provided for in that Regulation have not yet been submitted. In line with Regulation (EU) 2021/1060, Estonia is to 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 coordination, complementarity and coherence between those cohesion policy 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 transitions 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.

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18 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).

(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, in particular 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 Union in 2019. Public expenditure on long-term care was only 0,4 % of GDP in 2019 (compared to the Union 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 Union Heads of State or Government set out in the Versailles Declaration, the Commission's proposal for a REPowerEU plan aims to phase out the Union's dependence on fossil-fuel imports from Russia as soon as possible. For this purpose, the Commission intends to identify the most-suitable projects, investments and reforms at national, regional and Union level in dialogue with 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.[19] 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 interconnections 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. Finland signed a ten-year lease agreement for a floating liquefied natural gas (LNG) terminal on 20 May 2022 and Estonia has a cooperation agreement with Gasgrid Finland to have access to it. Completing the ongoing synchronisation with the continental power grid of the Union, ensuring sufficient capacity for the interconnections with neighbouring Member States and joint renewable energy projects should remain a policy priority.

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

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 Union 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 in respect of 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, established by Regulation (EU) 2021/1057 of the European Parliament and of the Council[20], to improve employment opportunities and strengthen social cohesion.

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20 Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231 30.6.2021, p. 21).

(29) In the light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion[21] is reflected in recommendation (1).

(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, including through their recovery and resilience plans, to implement the recommendations set out in the 2022 Recommendation on the euro area. For Estonia, this is reflected in particular in recommendations (1), (2) and (3).

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

1. In 2023, ensure 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 fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. 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. 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 the negotiations with the Commission and subsequently starting their implementation.

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

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, in particular the energy efficiency 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