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To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Croatia and delivering a Council opinion on the 2023 Stability Programme of Croatia

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2023) 611 final.

Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of Croatia and delivering a Council opinion on the 2023 Stability Programme of Croatia

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:

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 to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular to promote the green and digital transition 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. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

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).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[3], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it did not identify Croatia 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 Croatia's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 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 13 March 2023.

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

[3] COM(2022) 780 final.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[4] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring 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 plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains.
On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[5], structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

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4 COM(2023) 62 final.
5 COM(2023) 168 final.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing 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 also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) The REPowerEU Regulation[6] adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The 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. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age 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 to finance new energy-related reforms and investments under their recovery and resilience plans.

[6] 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).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[7]. 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 as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission 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 target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its Communication on orientations for a reform of the EU economic governance framework[8], the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition 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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[7] COM(2023) 141 final.
[8] COM(2022) 583 final.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU'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 at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023, the objective is to conclude the legislative work in 2023.

(9) On 14 May 2021, Croatia 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 28 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Croatia[9]. 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 Croatia 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 28 April 2023, Croatia submitted its 2023 National Reform Programme and 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. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Croatia's biannual reporting on the progress made in achieving its recovery and resilience plan.

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9 Council Implementing Decision of 28 July 2021 on the approval of the assessment of the recovery and resilience plan for Croatia (ST 10687/21; ST 10687/21 ADD 1).

(11) The Commission published the 2023 country report for Croatia[10] on 24 May 2023. It assessed Croatia's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022, and took stock of Croatia'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 Croatia's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(12) Based on data validated by Eurostat,[11] Croatia's general government balance improved from a deficit of 2.5% of GDP in 2021 to a surplus of 0.4% in 2022, while general government debt fell from 78.4% of GDP at the end of 2021 to 68.4% at the end of 2022.

(13) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included VAT and excise duties cuts; while such expenditure-increasing measures included energy price caps, allowances for vulnerable consumers, support schemes for businesses, and social assistance for pensioners and vulnerable households. The Commission estimates the net budgetary cost of these measures at 1.6% of GDP in 2022. The general government balance has also been impacted by the budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.1% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 0.1% of GDP in 2022, from 1.3% in 2021.

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10 SWD(2023) 611 final.
11 Eurostat-Euro Indicators, 47/2023, 21.4.2023.

(14) On 18 June 2021, the Council recommended that in 2022 Croatia[12] 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 Croatia to keep the growth of nationally financed current expenditure under control.

(15) According to the Commission estimates, the fiscal stance[13] in 2022 was broadly neutral, at +0.2% of GDP, which was appropriate in a context of high inflation[14]. As recommended by the Council, Croatia continued to support the recovery with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 2.6% of GDP in 2022 (2.7% of GDP in 2021). Nationally financed investment provided a contractionary contribution of 0.6 percentage points[15] to the fiscal stance.[16] Croatia therefore did not preserve nationally financed investment, which is not in line with the Council recommendation. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a broadly neutral contribution of 0.1 percentage points to the fiscal stance. Croatia therefore sufficiently kept under control the growth in nationally financed current expenditure.

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12 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Convergence Programme of Croatia, OJ C 304, 29.7.2021, p. 48.

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

14 Croatia also experienced strong real GDP growth in 2022.

15 Nationally financed investment had a contractionary contribution to the fiscal stance due to a decrease in investment expenditure done by local authorities.

16 Other nationally financed capital expenditure provided an expansionary contribution of 0.5 percentage points of GDP. This was partly due to a one-off cost of an international arbitration case.

(16) The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is more favourable than the Commission 2023 Spring Forecast for 2023 and in line with it thereafter. The government projects real GDP to grow by 2.2% in 2023 and 2.6% in 2024. By comparison, the Commission 2023 spring forecast projects a lower real GDP growth of 1.6% in 2023 and 2.3% in 2024, mainly due to more conservative estimates for households' and public consumption, as well as total investment.

(17) In its 2023 Stability Programme, the government expects that the general government balance will deteriorate to a deficit ratio of 0.7% of GDP in 2023. The deterioration in 2023 mainly reflects the lagged impact of inflation on public spending, namely through the indexation mechanisms of public wages, pensions and social benefits. According to the programme, the general government debt-to-GDP ratio is expected to decrease from 68.4% at the end of 2022 to 62.6% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 0.5% of GDP for 2023. This is broadly in line with the deficit projected in the Stability Programme. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 63.0% at the end of 2023.

(18) The government balance in 2023 is expected to continue to be impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 (in particular on the revenue side: VAT and excise duties cuts; but also on the expenditure side: energy price caps, allowances for vulnerable consumers, support schemes for businesses, and social assistance for pensioners and vulnerable households). The net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 1.5% of GDP in 2023[17]. Most of the measures in 2023 do not appear targeted to the most vulnerable households or firms, and many of them 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 fiscal recommendation for 2023, is estimated in the Commission 2023 spring forecast at 0.2% of GDP in 2023 (compared to 0.3% of GDP in 2022). The budgetary cost of temporary protection to displaced persons from Ukraine is projected to remain stable compared to 2022.

[17] 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.

(19) On 12 July 2022, the Council recommended[18] that Croatia take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[19], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Croatia should stand ready to adjust current spending to the evolving situation. Croatia 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.

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18 Council Recommendation of 12 July 2022 on the National Reform Programme of Croatia and delivering a Council opinion on the 2022 Convergence Programme of Republic of Croatia *OJ C 334, 1.9.2022, p. 88.*

19 Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of Croatia, which is used to measure the fiscal stance, is estimated at 10.3% in nominal terms.

(20) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (-1.0% of GDP), in a context of high inflation. This follows a broadly neutral fiscal stance in 2022 (+0.2% 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 0.4 % 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. 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 also driven by the maintenance of untargeted energy measures, permanent increases in public sector wages and social benefits, and lower VAT rates on non-energy products. In sum, the projected growth of nationally financed primary current expenditure is not in line with the recommendation of the Council. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 3.1% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.7 percentage points[20]. Therefore, Croatia plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security, such as energy renovation of buildings, digitalising the public administration, investment in digital diagnostics and equipment in hospitals, and support to the green and digital transitions of the business sector, which are funded by the Recovery and Resilience Facility and other EU funds.

[20] Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0.5 percentage points of GDP. This is driven partly by a base effect of higher spending in 2022 due to some one-off measure, while in 2023 there is envisaged a reduction in transfers to utility companies.

(21) According to the Stability Programme, the general government deficit is expected to increase to 1.5% of GDP in 2024. The increase in 2024 mainly reflects higher capital expenditure and a still relatively high indexation of wages, pensions, and social assistance spending. The programme expects the general government debt-to-GDP ratio to decrease to 59.8% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 1.3% of GDP in 2024. This is broadly in line with the deficit projected in the programme. The Commission 2023 spring forecast projects a higher general government debt-to-GDP ratio, of 61.8% at the end of 2024, with the difference vis-à-vis the Stability Programme projections being largely explained by the denominator effect (difference in the nominal GDP in 2024) and, to a lesser extent, different assumptions concerning the stock-flow adjustment.

(22) The Stability Programme envisages the phasing out of most of the energy support measures in 2024. The Commission currently assumes the net cost of energy support measures at 0.2% of GDP in 2024. These estimates hinge upon the assumption of no renewed energy price increases.

(23) Council Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term objective by 0.5% of GDP as a benchmark.[21] Taking into account fiscal sustainability considerations, 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[22] in 2024 should not exceed 5.1%, as reflected in this recommendation. At the same time, the remaining energy support measures (currently estimated by the Commission at 1.5% of GDP in 2023) should be phased out, contingent on energy market developments and starting from the least targeted ones, and the related savings should be used to reduce the government deficit. Based on Commission estimates, this would lead to a growth in net primary expenditure below the recommended maximum growth rate for 2024. In addition, according to the Commission 2023 spring forecast, the growth in net nationally financed primary current expenditure in 2023 is not in line with the recommendation of the Council. If this is confirmed, lower growth in net primary expenditure in 2024 would be appropriate.

(24) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow at 6.8% in 2024, which is above the recommended growth rate. The adjustment projected in the Commission forecast is less than the savings from the full phasing out of energy support measures, which is due to an increase in the dynamics of capital, wage and social expenditure.

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21 Cf. Article 5 of Council Regulation (EC) No 1466/97, which 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.

22 Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

(25) According to the programme, government investment is expected to remain stable at 4.6% of GDP between 2023 and 2024. The programme refers to reforms and investments, that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. These include reforms (health care and welfare sector, improving the management of state-owned enterprises, improving the fiscal responsibility act) and investments (transport and water infrastructure, energy renovations of multi-dwelling buildings and houses, investments in the green and digital transition, as well as in educational infrastructure) which are mostly also part of the Recovery and Resilience Plan.

(26) The Stability Programme outlines a medium-term fiscal path until 2026. According to the programme, the general government deficit is expected to decline to 0.8% of GDP in 2025 and to 0.6% by 2026. The general government deficit is therefore planned to remain below 3% of GDP over the programme horizon. According to the programme, the general government debt-to-GDP ratio is expected to decrease from 59.8% at the end of 2024 to 55.6% by the end of 2026. The general government debt-to-GDP ratio is therefore planned to drop and remain below 60% over the programme horizon.

(27) 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. The implementation of Croatia's recovery and resilience plan is well underway. Croatia submitted two payment request(s), corresponding to 59 milestones and targets in the plan and resulting in an overall disbursement of EUR 1.4 billion. Croatia is expected to submit an amendment of its plan, which should feature a REPowerEU chapter as well as additional measures in other areas, to be financed by the loan component. In accordance with Article 14(6) of Regulation (EU) 2021/241, on 30 March 2023, Croatia expressed its intention to request EUR 3 612 000 000 of additional loan support under the Recovery and Resilience Facility. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Croatia's strategic objectives in the field of energy and the 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 the plan, to ensure broad ownership of the overall policy agenda.

(28) The Commission approved all of Croatia'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 as well as achieving balanced territorial development in Croatia.

(29) Croatia imports about 53% of the total energy consumed each year, while having great potential in renewable energy, in particular from solar, wind, and geothermal sources. Half of the country's electricity is generated by hydropower plants; the share of wind energy has increased and reached 14%, but the share of solar energy is still only 1%. Key factors to accelerate the uptake of solar and wind installations are the streamlining of the permitting procedures and finalisation of the relevant legislative framework to provide producers and self-consumers with more legal certainty. Other factors include a significant upgrading of the transmission network and extending it to the southern part of the country, which is where renewable energy sources are mainly produced, as well as the roll-out of smart metering for small solar installations. Energy consumption in the residential sector is rather high in Croatia (35% of total energy consumption), with 71% dependency on gas for heating. The revision and simplification of the procedures for installing solar photovoltaic facilities in multi-apartment buildings as well as the accelerated roll-out of heat pumps for heating and cooling are relevant measures for energy renovation in the building sector. The share of renewable energy sources used in transport is low (7% against the 2030 target of 14% in 2030), as is the one of rail in passenger transport (2.5% against 8% in the EU). Modernising the rail infrastructure and rolling stock and ensuring an increased uptake of zero-emission vehicles can greatly contribute to the decarbonisation of the transport sector. Croatia´s consumption of natural gas has dropped by 22% in the period August 2022–March 2023, compared with the average gas consumption over the same period in the preceding five years, beyond the 15% reduction target. Croatia could keep pursuing efforts to temporarily reduce gas demand until 31 March 2024[23].

[23] Council Regulation (EU) 2022/1369 and Council Regulation (EU) 2023/706.

(30) 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, these 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 Croatia for 31 occupations that required specific skills or knowledge for the green transition, including in the construction and manufacturing sectors (both below the EU average).

(31) In light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion[24] is reflected in recommendation (1) below.

[24] Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

(32) 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 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 high 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, 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 Croatia, recommendations (1), (2) and (3) contribute to the implementation of the first, second and third euro area recommendations.

HEREBY RECOMMENDS that Croatia 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 these are targeted at protecting vulnerable households and firms, 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 5.1%[25].

   Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU 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, to achieve a prudent medium-term fiscal position.

2. Continue the steady implementation of its recovery and resilience plan and swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

[25] 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 23.

3. Reduce overall reliance on fossil fuels by accelerating the deployment of renewables, in particular wind, solar, and geothermal sources, finalising the incomplete legislative framework, streamlining administrative procedures for permitting, simplifying the procedures for installing renewable energy sources (i.e. solar photovoltaic facilities) in multi-apartment buildings and providing more legal certainty. Support small-scale renewable energy generation capacity. Further upgrade electricity transmission and distribution grids, in particular by improving the transmission links between the north and south of the country, and advancing the roll-out of smart meters. Accelerate the implementation of energy efficiency measures, including the installation of heat pumps. Reduce dependence on fossil fuels in the transport sector by promoting sustainable solutions, in particular rail and the electrification of road transport. 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