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Recommendation for a

COUNCIL RECOMMENDATION

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

{SWD(2026) 206 final}

Recommendation for a

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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 Article 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) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation and the surveillance of the implementation of country-specific recommendations.

(2) On 16 July 2025, the Commission adopted its proposal for a regulation establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and Regulation (EU, Euratom) 2024/2509 ([2]). The proposal

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

[2] Proposal for a Regulation of the European Parliament and of the Council establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and Regulation (EU, Euratom)

aims to increase the effectiveness of Union funding by reducing the fragmentation of the financial architecture and to support Member States in the coordination of their economic policy in line with Article 175 TFEU.

(3) On 25 November 2025, the Commission adopted an opinion on the 2026 draft budgetary plan of Estonia. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 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. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area ([3]), a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 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]) on 21 April 2026 and the Joint Employment Report, and the Recommendation on human capital on 9 March 2026.

(4) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. The European Semester is aligned with the Competitiveness Compass, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(5) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of Recovery and Resilience Facility (RRF) implementation ([5]). Recovery and resilience plans, along with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycle, and programmes funded by the European cohesion policy were required to take country-specific recommendations into accounts. As the RRF approaches the end of its lifetime, it remains essential to sustain the reforms and investments supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

(6) On 3 June 2026, the Commission published the 2026 country report for Estonia. It assessed Estonia's progress in addressing the relevant country-specific recommendations and took stock of Estonia's implementation of the RRP. On the basis of that analysis, the country report identified the most pressing challenges Estonia is facing. It also assessed Estonia's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment,

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2024/2509 - COM(2025) 565 final. The proposed Regulation is currently the subject of negotiations with the co-legislators.

[3] OJ C, C/2026/2434, 28.4.2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj.

[4] OJ C, C/2026/2434, 28.4.2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj.

[5] 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).

skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(7) On 21 January 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Estonia ([6]). The plan covers the period from 2025 until 2028 and presents a fiscal adjustment spread over four years. The Council recommended the following maximum growth rates of net expenditure: 7.1% in 2025, 5.1% in 2026, 3.6% in 2027 and 3.2% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to the base year of 2023 of 9.2% in 2025, 14.8% in 2026, 18.9% in 2027 and 22.6% in 2028.

(8) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending ([7]) and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Estonia, on 8 July 2025 the Council, upon a recommendation from the Commission, adopted a Recommendation allowing Estonia to deviate from the recommended maximum growth rates of net expenditure ([8]). The period when the national escape clause is activated (2025-2028) allows Estonia to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

(9) On 30 April 2026, Estonia submitted its 2026 Annual Progress Report ([9]) on adherence to the recommended maximum growth rates of net expenditure and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Estonia's biannual reporting on the progress made in implementing its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(10) Real GDP growth in 2025 was 0.6% and HICP inflation stood at 4.8%. The Commission Spring 2026 Forecast projects real GDP to grow by 1.6% in 2026 and 1.7% in 2027, and HICP inflation to stand at 4.4% in 2026 and 2.9% in 2027.

(11) Based on data provided by Eurostat ([10]), Estonia's general government deficit increased from 1.1% of GDP in 2024 to 2.0% of GDP in 2025. The increase in the deficit in 2025 mainly reflects stronger expenditure dynamics, in particular public investment on large infrastructure projects, such as Rail Baltica. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 4.5% of GDP in 2026 and of 4.8% of GDP in 2027. The

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6 Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Estonia (OJ C/2025/652, 10.2.2025, ELI: http://data.europa.eu/eli/C/2025/655/oj).

7 Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19.3.2025, C(2025) 2000 final.

8 Council Recommendation of 8 July 2025 allowing Estonia to deviate from the maximum growth rate of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C/2025/3970, 20.8.2025, ELI: http://data.europa.eu/eli/C/2025/3964/oj).

9 The 2026 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

10 Eurostat-Euro Indicators, 22.4.2026.

increase in the deficit in 2026 mainly reflects a decrease in revenue in particular due to the personal income tax reform (transition to a universal tax-exemption system) and an increase in expenditure mainly on the back of defence spending reaching 5% of GDP, and of investment projects such as Rail Baltica. The increase of the deficit in 2027 mainly reflects weaker revenue dynamics.

(12) Based on the Commission's estimates, the fiscal stance ([11]), which includes both nationally and EU financed expenditure, was contractionary, by 0.5% of GDP, in 2025. It is projected to be expansionary, by 2.8% of GDP in 2026, and contractionary, by 0.3% of GDP in 2027.

(13) Based on data provided by Eurostat ([12]), Estonia's general government debt increased from 23.5% of GDP at the end of 2024 to 24.1% of GDP at the end of 2025. The increase in the debt ratio in 2025 mainly reflects the government deficit. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to increase to 26.9% by the end of 2026 and further to 30.5% by the end of 2027. The increases in 2026 and 2027 mainly reflect high and sustained budget deficits and positive stock-flow adjustments in 2027.

(14) Based on Eurostat data, total general government defence expenditure in Estonia amounted to 4.2% of GDP in 2025**,** corresponding to an increase of 2.1 percentage points of GDP compared to the reference year 2021. According to the Commission Spring 2026 Forecast, it is projected at 5.0% of GDP in 2026**,** corresponding to an increase of 3.0 percentage points of GDP compared to 2021.

(15) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022–2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Estonia adopted a fiscal policy measure to mitigate the impact of high energy prices on households and firms ([13]). Namely, it postponed the fuel and electricity excise tax rate increases from 2026 to 2027. According to the Commission Spring 2026 forecast, the fiscal cost of this measure is projected to amount to approximately 0.1% of GDP in 2026.

(16) Based on the Commission's calculations, net expenditure in Estonia grew by 2.0% in 2025 and 5.7% cumulatively over 2024 and 2025. The net expenditure growth in 2025 is below the recommended maximum growth rate. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also below the recommended maximum growth rate.

(17) Based on the Commission's calculations, net expenditure in Estonia is projected to grow by 12.0% in 2026, and 18.4% cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum

[11] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

[12] Eurostat-Euro Indicators, 22.4.2026.

[13] This reflects the situation at the cut-off date of the Commission's Spring 2026 Forecast (4 May 2026).

growth rate, corresponding to a deviation of 2.8% of GDP in annual terms. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 1.5% of GDP in cumulative terms. However, the projected deviation is within the flexibility of the national escape clause based on current projections for defence spending.

(18) On 3 June 2026, the Commission adopted a report under Article 126(3) TFEU ([14]). That report assessed the situation of Estonia *vis-à-vis* the deficit criterion, as its planned general government deficit in 2026 exceeds the reference value of 3% of GDP. The report concluded that, taking into account all the relevant factors as appropriate, the deficit criterion is not fulfilled by Estonia. However, the Commission was of the view that there is no case to open an excessive deficit procedure for Estonia, as the Council has activated the national escape clause for Estonia and the projected deficit in excess of the reference value in 2026 is fully explained by the increase in defence expenditure since 2021, based on the Commission Spring 2026 Forecast. In light of this and after considering the opinion of the Economic and Financial Committee as established under Article 126(4) TFEU, the Commission has not proposed to open an excessive deficit procedure.

(19) Due to heightened security needs, defence spending is on the rise in Estonia. It increased from 2% of GDP in 2021 to 4.2% in 2025 and is expected to exceed 5% of GDP starting in 2026. Therefore, it is important that Estonia finds stable sources of revenue or expenditure-decreasing instruments, that can support the financing of not only spending needs for defence but for all structural spending needs, including healthcare and long-term care, in the medium to long term.

(20) The general government tax revenue remains four percentage points below the EU average, at 35.2% of GDP in 2024, against 39.4% in the EU. Since 2024, several measures have been introduced to increase the revenue: the VAT rate was increased twice, reaching 24% in 2025; personal and corporate income tax rates were raised to 22%; excise duties on alcohol, tobacco and energy are set to increase annually until 2027/28; and a new motor vehicle tax was introduced in 2025. While these reforms help narrow the revenue gap with the EU average, they further increase the reliance on labour and consumption taxes, already above the EU average as a share of GDP. They also risk placing a disproportionate burden on lower-income groups and exacerbating income inequality. It would be beneficial to broaden the tax base through taxes less detrimental to growth. For instance, by tapping into property taxation, which remains underutilised. Property taxation revenues in 2024 amounted to just 0.3% of GDP, well below the EU average of 1.8%, reflecting Estonia’s focus on taxing land rather than property. Phasing-in a tax on vacant residential property would broaden the tax base while reducing housing shortages. Efforts have also been made to improve spending efficiency. However, most recent spending reviews, the last one in 2025, have had a rather narrow focus in areas of public spending such as museum funding or administrative procedures in the social sector. Furthermore, the link between spending reviews, efficiency gains and resource reallocation remains limited. Strengthening it would require more frequent reviews and ensuring that the resulting savings are clearly reflected in the budget and channelled towards priority areas.

[14] Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 3.62026, COM(2026)302 final.

(21) The systematic, meaningful and timely involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the Union's funding instruments, as well as in the context of the European Semester.

(22) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF) in Estonia, is above the average pace at EU level, both in terms of project selection and payments. It is important to keep current momentum, while maximising the impact of investments on the ground. Estonia is already taking action under its cohesion policy programmes to boost competitiveness and growth. Nevertheless, some areas may require further strengthening, including those relating to persistent territorial disparities, economic diversification and just transition. While overall good, effective implementation is challenged by the limited availability and use of regional data. It is essential to ensure that the new investments identified by Estonia in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation ([15]), are deployed rapidly and effectively.

(23) Persistent regional disparities hamper convergence and growth in Estonia. Economic activity, high-value public services and skilled labour are concentrated around the capital region. The remote and rural regions face structural challenges linked to sparse population, demographic decline, connectivity issues and access to basic public services. As a country on the eastern external border of the EU, Estonia faces additional challenges hindering its prospects for economic and social development as existing structural challenges are exacerbated. Russia's war of aggression against Ukraine increases security pressures, disrupts cross-border economic activities and decreases investment attractiveness and further limits access finance. Security concerns for people and critical infrastructure require investments in civil protection, preparedness and military mobility, which could provide opportunities for the regions' economies, while adding further pressure on the financing of public services. Supporting economic diversification and strengthening the resilience of the region is particularly important in Ida-Viru county, which is undergoing a major industrial, economic and social transformation as the oil shale-based industry is being phased out.

(24) Estonia faces several challenges related to research and innovation, access to finance, energy efficiency in buildings, renewable energy and energy security, sustainable transport, labour and skills supply and social protection.

(25) Although Estonia's overall innovation performance has steadily improved since 2017, business research and development (R&D) spending as a share of GDP remains below the EU average. At the same time, support to business R&D has increased markedly, with direct public support reaching 0.15% of GDP in 2023, above the EU average. This includes new initiatives such as the national applied research centre, the TemTA programme for applied research and technology development, performance-based incentives for science–business collaboration, and measures to strengthen intellectual property management and technology transfer. However, patenting has declined and research–business cooperation remains limited, indicating that public investment in

[15] Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review.

R&I is not yet sufficiently leveraged. Fragmentation between innovation support and broader support initiatives for small and medium-sized enterprises (SMEs) reduces policy effectiveness and weakens the translation of research into market outcomes. Addressing these shortcomings, including by ensuring more integrated support frameworks and sustained investment in applied research and high-impact areas such as artificial intelligence, would help strengthen the commercialisation of innovation.

(26) Availability of finance is a major investment obstacle for 19% of companies in Estonia, while the share of finance-constrained firms is significantly higher than the EU average. Estonian businesses rely heavily on internal financing, reflecting structural features such as the tax system, the prevalence of SMEs and a modest institutional investor base. Persistent gaps in SMEs' access to finance continue to hold back innovation, commercialisation of research and the uptake of resource-efficient technologies. While the integration of Baltic capital market infrastructure since 2017 and support from national and supranational institutions have contributed to the development of the capital market, private equity and venture capital, financing constraints persist, exacerbated by the 2021 pension reform, which reduced the size of domestic capital markets and institutional investment. Although instruments such as the investment account regime, targeted guarantee schemes, and new financing agreements, notably with the European Investment Fund, have expanded access to finance, demand continues to exceed supply, as illustrated by the rapid oversubscription of regional support calls. Improving access to finance, especially for SMEs outside major urban centres, including through targeted guarantees and a more integrated innovation and business support framework, would help mobilise investment, support scale-up, and accelerate the adoption of innovative and resource-efficient technologies.

(27) Buildings are responsible for 46.1% of energy use in the country, with final energy consumption improvements in the residential sector stalling in Estonia between 2019 and 2024. Low energy efficiency of the housing stock results in heating costs consuming a high share of disposable incomes, which affects vulnerable groups particularly hard. Estonia relies mostly on grant-based support schemes for renovations, and use of financial instruments remains limited. Increasing availability of financial instruments could advance decarbonisation and affordability of housing through lower heating costs in renovated dwellings. Establishing a clear path toward a decarbonized and energy efficient building stock will also help to tackle the need for climate adaptation and increasing overall crisis resilience.

(28) Estonia's energy mix has shifted notably towards renewables, rising from 35% in 2023 to 40% in 2024. However, although its share of the energy mix decreased importantly from 30% in 2023 to 25% in 2024, domestically sourced oil shale remains Estonia's main energy source, hindering the green transition. Although daytime prices have fallen in recent years due to the increasing penetration of solar power in the electricity mix (67.9% of renewables in the net electricity generation in 2025, one of the highest in the EU), Estonia remains vulnerable to severe price spikes during periods of high demand. While Estonia's electricity grid was successfully synchronised with the EU grid in February 2025, other synchronisation projects, notably with Latvia and Finland, remain to be completed to support the transition and enhance energy security. Although Estonia's first large-scale battery energy storage system came into operation in 2025, the construction of more such systems is essential to increase the country's energy flexibility. Work to strengthen the resilience of critical energy infrastructure

must also continue, particularly regarding cybersecurity and infrastructure surveillance.

(29) Resource productivity in Estonia is dragged down by the prominence of resource-intensive industries and considerable reliance on oil shale (52.5% of the gross available energy in Estonia in 2023). In 2024, Estonia generated EUR 1.15 per kg of material compared to the EU average of EUR 2.99. In terms of resource productivity measured as gross domestic product (GDP) over domestic material consumption (DMC), Estonia is still among the worst performers in the EU and shows a slightly worsening trend – the index value in 2023 was 127.7 and 124.7 in 2024. To boost resource productivity, Estonia needs to shift away from oil shale, further support bio-based innovation to turn resources into higher-value applications as well as development and uptake of resource-efficient technologies and improve circularity, which requires substantial investment.

(30) Estonia's transport sector continues to be a large greenhouse gas emitter. Road transport is responsible for 48% of Estonia's effort sharing emissions in 2024, having increased by 27% since 2005. This is due to Estonia having a car fleet that is the oldest in the EU as well as an above EU average car ownership rate. To tackle this and implement its own Transport and Mobility development Plan 2021-2035, Estonia must implement measures to encourage a shift towards the use of sustainable public transport. To that end, support to move towards integrated solutions and improving multimodal connection and services for passengers is essential, as is further rail electrification and the completion of Rail Baltica. Estonia's transport infrastructure is vulnerable to climate change impact; this should be taken into account when planning new investments in the sector.

(31) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital-related structural challenges in the areas of skills and education, which hamper competitiveness. The 2026 country-specific recommendations addressed to Estonia can contribute to the implementation of the Council Recommendation on human capital in the Union.

(32) Estonia continues to face challenges in strengthening its skills supply and improving transitions into the labour market. Early school leaving (above 10% in 2025) continues to weigh on educational attainment, while youth unemployment (above 20% in 2025) and a high share of young people not in employment, education or training (11.2% in 2025) point to persistent difficulties in school-to-work transitions. The age group 18-24 is particularly exposed to in-work poverty. Vocational education and training (VET) and higher education play an important role in upskilling for growing sectors with high labour demand. However, VET remains insufficiently attractive overall, while higher education faces shortages of graduates in key fields such as science, technology, engineering and mathematics (STEM). Wide disparities in access to upskilling and reskilling, depending on age, socio-economic background and education level, continue to constrain the skills base, particularly in regions transitioning towards higher value-added activities. Schools face growing diversity in student needs, including rising demand for additional learning support, while significant teacher shortages, especially in STEM subjects and in Estonian as a second language, pose risks to education quality and are particularly severe in rural areas. Although digital skills are broadly in line with the EU average, Estonia has not yet reached the EU target of 80%, and many workers still lack adequate ICT and software skills, while demand for AI and digital competences is expected to increase. Skills

relevant for the green transition also remain in short supply as it is too early to see the impact of recent measures, including those supported under the RRF. Strengthening education-to-work transitions, expanding targeted upskilling and reskilling initiatives (including outreach to low-skilled and older adults), and supporting early labour market integration of young people would help improve employment outcomes. Collective bargaining coverage and trade union density are among the lowest in the EU and the tripartite social dialogue has weakened in recent years. Enhancing social dialogue and collective bargaining, including through tripartite engagement could contribute to addressing these challenges.

(33) Low social expenditure and gaps in social protection coverage contribute to high poverty risks for vulnerable groups. The minimum income support remains relatively low, while overall social benefit expenditure remains below the EU average (17.8% of GDP in 2024, versus the EU average of 27.3%), limiting the poverty-reducing impact of social transfers. Persons with disabilities, including those in employment, face substantially higher poverty risks than the general population (working-age population with disabilities 32.5%, compared with 15% for people without disabilities), partly reflecting relatively low disability benefits. Single-parent households are also particularly exposed to poverty and housing cost pressures. A limited social housing stock and housing affordability challenges further exacerbates poverty risks, especially among vulnerable groups. While Estonia's planned housing policy for 2025–2035 is a positive step, its implementation should be monitored to assess its impact on housing affordability. Reforms to the minimum income system aim to improve the adequacy and efficiency of subsistence benefits, but as these reforms remain at an early stage, their impact is yet to be seen. Despite recent reforms, pension adequacy in Estonia remains a challenge, with poverty risks among older people remaining among the highest in the EU. Risks are particularly high for women and older people living alone, with the latter recording the highest risk of poverty or social exclusion in the EU. This is linked to longer life expectancy, household composition patterns and limited survivor pension coverage, which result in many older women living alone with relatively low incomes. Strengthening benefit adequacy and broadening access to social protection, as well as improving participation in additional pension pillars could reduce poverty risks.

(34) Estonia continues facing challenges regarding access and affordability of health care and long-term care, particularly in regions outside main urban centre areas and among vulnerable groups. While Estonia has undertaken reforms and investments to address health workforce shortages, to strengthen primary care and the hospital network as well as promote integration of health care and social services, access remains a challenge. Public expenditure on health and long-term care is well below the EU average, contributing to significant unmet needs, high out-of-pocket payments and limited availability of long-term care services, particularly home-based care, leading to continued reliance on informal care, that disproportionately affect lower-income groups and increases poverty risks among those in need of care. Despite quality guidelines, access to social services varies considerably between municipalities, and rising waiting lists further constrain access. Significant inequalities in life expectancy and healthy life years persist in Estonia, closely linked to socio-economic status, education, income and place of residence. The current social health insurance model is not financially sustainable in the long term, as expenditure is projected to grow faster than revenues due to ageing, rising demand and labour market changes. It remains crucial to continue implementing reforms to better integrate healthcare and social

services, prioritise prevention and ensure sustainable funding, to address workforce shortages and reduce disparities in access and affordability.

(35) 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, in 2026 the Council recommended that the euro-area Member States take action, including through their RRPs, to implement the 2026 Recommendation on the economic policy of the euro area. For Estonia, the recommendation (1) helps implement the first, the second and the third recommendations on the euro area, recommendation (2) helps implement the fourth recommendation on the euro area, recommendations (3) and (4) help implement the seventh recommendation on the euro area, recommendation and the recommendation (5) helps implement the fifth recommendation on the euro area.

HEREBY RECOMMENDS that Estonia take action in 2026 and 2027 to:

1. Continue adhering to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, while making use of the flexibility under the national escape clause for higher defence expenditure. Reinforce defence readiness while ensuring spending efficiency and gradually adapting the budget to sustain structurally higher defence spending. Ensure that any measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings while ensuring that their fiscal cost is compatible with the commitments under the EU fiscal framework. Ensure sustainable financing for spending needs, including defence, by broadening the tax base, tapping into taxes that are less detrimental to growth, including property taxation, and directing spending to priority areas based on public spending reviews.

2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Sustain implementation momentum under cohesion policy programmes, building, where appropriate, on the reallocation to strategic priorities and flexibilities in the mid-term review of the cohesion policy framework. Address the unique socio-economic, security and civil preparedness challenges affecting regions on the EU's external eastern border.

3. Better leverage public investment in R&I and address obstacles to commercialisation of R&I. Improve access to finance, including for scaling up, especially for small and medium-sized enterprises and companies outside main urban areas, including by integrating innovation and business support frameworks.

4. Further invest into energy efficient renovations, including through financial instruments, to reduce energy demand and contribute to increasing the affordability of housing. Reduce overall reliance on fossil fuels and the share of oil shale in the energy mix by investing in renewable energy and by promoting energy storage. Increase energy security and resilience against hybrid threats, for example by ensuring the sufficient capacity of electricity interconnections and strengthening the grid infrastructure’s resilience. Increase the use of sustainable and less polluting transport, by accelerating the completion of Rail Baltica, and by facilitating the integration of public transport systems. Raise resource productivity by supporting the uptake of resource-efficient technologies.

5. Improve skills by expanding opportunities for low-skilled and older adults and strengthening STEM education across all levels. Reduce early school leaving by

addressing teacher shortages and supporting learners with special needs. Improve employment of young people through more effective active labour market policies, while paying particular attention to regional disparities. Strengthen social protection to reduce the risk of poverty among vulnerable groups by increasing the adequacy and efficiency of the benefit system. Improve accessibility and affordability of healthcare and long-term care, including to address regional disparities, by ensuring funding.

Done at Brussels,

For the Council
The President