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Recommendation for a

COUNCIL RECOMMENDATION

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

{SWD(2024) 611 final}

Recommendation for a

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on the economic, social, employment, structural and budgetary policies 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 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights.

(2) The REPowerEU Regulation[3], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy

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

2 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17), ELI: http://data.europa.eu/eli/reg/2021/241/oj.

3 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans

security and diversify the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Croatia added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

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

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

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[7]. The objectives of the new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more

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and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1), ELI: https://eur-lex.europa.eu/eli/reg/2021/241/oj.

[4] COM(2023) 168 final.

[5] COM(2024) 77 final

[6] COM(2023) 901 final.

[7] Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

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

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) On 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], which was amended on 8 December 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the RePowerEU

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

[9] Council Implementing Decision of 28 July 2021 on the approval of the assessment of the recovery and resilience plan for Croatia (10687/2021).

chapter[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that 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.

(8) The Commission published the 2024 country report for Croatia[11] on 19 June 2024. It assessed Croatia's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 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.

(9) Based on data validated by Eurostat[12], Croatia's general government balance decreased from a surplus of 0.1% of GDP in 2022 to a deficit of 0.7% in 2023, while the general government debt fell from 67.8% of GDP at the end of 2022 to 63.0% at the end of 2023.

(10) On 12 July 2022, the Council recommended[13] 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[14], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Croatia was recommended to 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. In 2023, according to the Commission estimates, the fiscal stance[15] was expansionary, by 3.0% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided an expansionary contribution to the fiscal stance of 1.3% of GDP. This includes the increased cost of the targeted

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10 Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 28 July 2021 on the approval of the assessment of the recovery and resilience plan for Croatia (15834/2023).

11 SWD(2024) 611 final.

12 Eurostat-Euro Indicators, 22.4.2024.

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

14 Based on the Commission Spring 2024 Forecast, the medium-term potential output growth of Croatia in 2023, which is used to measure the fiscal stance, is estimated at 11.6% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

15 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 excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds. A negative (positive) sign of the indicator indicates an expansionary (contractionary) fiscal policy.

emergency 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 in 2023 was therefore only partly due to the targeted emergency support to households and firms most vulnerable to energy price hikes. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) was also driven by untargeted emergency energy measures, permanent increases in public sector wages and social benefits. The growth of nationally financed primary current expenditure in 2023 was not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 3.4% of GDP in 2023. Nationally financed investment amounted to 3.6% of GDP in 2023, representing an increase of 1.4 percentage points as compared to 2022. Croatia financed additional investment through the Recovery and Resilience Facility and other EU funds. Croatia financed public investment for the green and digital transitions, and for energy security, such as energy renovation of buildings, biofuel and hydrogen production, water and waste infrastructure, electricity and gas infrastructure, digitalising the public administration, investments in digital diagnostics and equipment in hospitals, support to the green and digital transitions of the business sector, which are partly funded by the Recovery and Resilience Facility and other EU funds.

(11) The Commission Spring 2024 Forecast projects real GDP to grow by 3.3% in 2024 and 2.9% in 2025, and HICP inflation to stand at 3.5% in 2024 and 2.2% in 2025.

(12) The Commission Spring 2024 Forecast projects a government deficit of 2.6% of GDP in 2024, while the general government debt-to-GDP ratio is set to decrease to 59.5% by the end of 2024. The increase of the deficit in 2024 mainly reflects a further increase in expenditure due to the new reform of public wages, a further increase in pensions and social assistance and a high increase in nationally funded investment. The decrease of the general government debt-to-GDP ratio in 2024, despite an expansionary fiscal stance, is due to a denominator effect from still robust GDP growth and a debt-reducing stock-flow adjustment. The latter includes the partial use of deposit reserves to repay part of the debt in 2024 (after higher deposits were recorded in 2023 due to prefinancing part of future debt repayments) and the accounting transactions in ESA terms following the delivery of military jets that were paid in previous years. Based on the Commission’s estimates, the fiscal stance is projected to be expansionary, by 1.2% of GDP, in 2024.

(13) Expenditure amounting to 1.2% of GDP is expected to be financed by non-repayable support (“grants”) from the Recovery and Resilience Facility in 2024, compared to 0.7% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Croatia. Expenditure amounting to 0.3% of GDP is expected to be backed by loans from the Recovery and Resilience Facility in 2024, compared to 0.1% of GDP in 2023, according to the Commission Spring 2024 Forecast.

(14) On 14 July 2023, the Council recommended[16] that Croatia ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed

[16] Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Croatia and delivering a Council opinion on the 2023 Stability Programme of Croatia, OJ C 312, 1.9.2023, p. 97.

primary expenditure[17] in 2024 to not more than 5.1%. When executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, Croatia's net nationally financed primary expenditure is projected to increase by 14.4% in 2024, which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 3.6% of GDP in 2024. This risks being not in line with what was recommended by the Council.

(15) Moreover, the Council recommended that Croatia take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Croatia should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[18] of emergency energy support measures is estimated at 1.9% of GDP in 2023 and projected at 0.6% in 2024, and 0.0% in 2025. In particular, the electricity and gas price caps measures are assumed to remain in force until end of September 2024. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 1.3% of GDP in 2024, whereas net nationally financed primary expenditure[19]provides an expansionary contribution to the fiscal stance of 2.2% of GDP in that year. The emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. This risks being not in line with what was recommended by the Council. Moreover, the related savings are not projected to be fully used to reduce the government deficit. This also risks being not in line with the Council recommendation. The budgetary cost of emergency energy support measures targeted at protecting vulnerable households and firms is estimated at 0.1% of GDP in 2024 (0.4% in 2023), of which 0.1% of GDP preserve the price signal to reduce energy demand and increase energy efficiency (0.3% in 2023).

(16) In addition, the Council also recommended that Croatia preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 4.5% of GDP in 2024, from 3.6% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and

[17] Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) and one-offs and other temporary measures.

[18] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

[19] This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (ii) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

Resilience Facility grants, is expected to decrease at 2.3% of GDP in 2024 from 3.4% of GDP in 2023. This decrease is driven by the end of the 2014-2020 programming period of EU structural funds, for which funds were available until 2023.

(17) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 2.6% of GDP in 2025. The general government debt-to-GDP ratio is set to decrease to 59.1% by the end of 2025.

(18) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan, including the REPowerEU chapter, is essential to boost Croatia's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Croatia to continue the implementation of reforms and to accelerate investments by addressing risks of delays while ensuring strong administrative capacity. Absorption challenges could emerge due to the high concentration of investments towards the end of the implementation period of the recovery and resilience plan (RRP). Maintaining a sufficiently strong level of coordination among different levels of administration would lessen such risks by ensuring effective governance and facilitating timely project implementation. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(19) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, Croatia is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. While Croatia has made progress in implementing cohesion policy and the European Pillar of Social Rights, challenges remain and significant regional disparities persist between the capital and the rest of Croatia in terms of labour productivity, levels of investment and employment. Accelerating the implementation of cohesion policy programmes, coupled with the strengthening of administrative capacity at all levels of government, is crucial. The priorities agreed in the programmes remain relevant. Beyond the administrative capacity measures, it is important to see fast implementation of investments in R&D outside of the capital region. It is also necessary to facilitate the transition to a climate-neutral economy by implementing the territorial just transition plans, addressing energy poverty and creating energy communities. Improvement in the collection and management of waste remains a priority. It is important to promote active labour market policies, upskilling and reskilling with a view to individual learning accounts, support deinstitutionalisation and invest in adequate and affordable community-based social services. Croatia could use the Strategic Technologies for Europe Platform initiative[20]to help transform its competitiveness through investments in the areas of

[20] Regulation (EU) 2024/795 of 29 February 2024 establishing the Strategic Technologies for Europe Platform (STEP).

digital technologies and deep innovation, clean and resource-efficient technologies, and biotechnologies and medicinal production.

(20) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Croatia faces several additional challenges related to access to diverse sources of financing and the promotion of capital markets, skills mismatches in the labour market, and the fragmentation of public institutions that carry out research, development and innovation activities.

(21) Non-bank financing in Croatia remains insufficiently developed. Stock market capitalisation and the level of issuances of debt and equity instruments lag significantly behind the EU average. Private equity and venture capital market activities show limited positive trends. The low level of confidence in and the lack of attractiveness of alternative sources of financing act as a further barrier to the channelling of private savings to the capital market and the development of the stock market. Increasing the capacity of innovative small and medium-sized enterprises to achieve market readiness and attract investors can promote a more competitive investment climate. Measures that facilitate the direct participation of retail investors in bond and equity markets and address taxation-related obstacles for investors would further strengthen the role of market financing.

(22) Positive trends on Croatia's labour market continue, albeit with persistent skills mismatches. These exacerbate labour shortages while limiting productivity increases. Labour shortages are particularly pronounced in construction, tourism and in some parts of industry. Despite improvements, the employment rate is still low, especially for low-skilled workers. There is a growing number of inactive people among those aged 15-29 not in education, employment or training. The limited availability of early childhood education and care facilities and adequate deinstitutionalised long-term care hinder labour force participation, particularly by women. This compounds labour force shortages and prevents the full use of the domestic labour force amid adverse demographic trends. Shortages of teachers in physics and mathematics affect basic skills and the Programme for International Student Assessment (PISA) results, hindering the acquisition of more advanced skills, the improvement of tertiary education attainment (which is one of the lowest in the EU), the increase in the number of students in science, technology, engineering, and math (STEM) fields, and the innovation capacity of the economy. Participation in adult learning programmes is very limited. As a result, the availability of skilled staff is seen by businesses as one of the main barriers to investment. Croatia has been implementing investments and reforms in education and training, including under the RRP and cohesion policy, to improve the supply of skilled workers and align programmes with the needs of the labour market. However, there is both a need and scope to intensify these efforts by adjusting existing measures and introducing individual learning accounts to make adult learning more attractive and accessible, including for the inactive working age population and foreign workers. Increased efforts are also needed to develop the skills necessary for accelerating the transition to a circular economy, both within the education system and the labour market.

(23) Croatia's research and innovation performance continues to show positive trends. However, further progress is hampered to some extent by a highly fragmented landscape of public research, development and innovation across public research institutions and faculties within universities. In particular, the large number and fragmentation of these institutions hinders efficiency and reduces scope for cooperation and knowledge transfer, including between business and academia.

Croatia has been implementing reforms under the RRP to reduce the number of public research institutions. However, an increase of the scope, ambition and pace of implementation of these efforts would be beneficial. Additionally, the share of business expenditure for R&D and the uptake of innovation schemes by businesses remains well below the EU average, leading to an overall decrease in performance.

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

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

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[21] in 2025 to a rate consistent with maintaining the general government deficit below the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term.

2. Strengthen administrative capacity to manage EU funds, accelerate investments and maintain momentum in the implementation of reforms. Address emerging delays to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review, continue focusing on the agreed priorities while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

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

3. To strengthen competitiveness: (i) boost access to diverse sources of financing and promote capital markets facilitating the participation of retail investors in the bond market, and addressing barriers to listing and strengthening corporate governance to improve the attractiveness of the stock market; (ii) reduce labour and skills shortages by strengthening basic skills, enhancing upskilling and reskilling, and improving access to formal home- and community-based long-term care; and (iii) address the fragmentation of public institutions that carry out research, development and innovation activities by ensuring a comprehensive and binding approach to merging various support functions, bolstering the financial incentives for mergers, and ensuring the promotion of relevant strategic goals under the performance agreements between the Ministry of Science and Education and public research and higher education institutions.

Done at Brussels,

For the Council
The President