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Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Croatia

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Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Croatia

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the European Commission,

Whereas:

GENERAL CONSIDERATIONS

(1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance[1], together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure[2], and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States[3] are the core elements of the reformed EU economic governance framework. The framework aims at ensuring public debt sustainability and sustainable and inclusive growth through reforms and investments. It promotes national ownership and has a medium-term focus, combined with an effective and coherent enforcement of the rules.

(2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring that, by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3% of GDP over the medium term, and ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the

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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, 2024/1265, 30.4.2024, ELI: ttp://data.europa.eu/eli/dir/2024/1265/oj).

2 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).

3 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).

European Semester and addressing the common priorities of the EU. To that end, each plan is to present a medium-term commitment to a net expenditure[4] path, which effectively establishes a budgetary constraint for the duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan is to explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263.

(3) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.

(4) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorses the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF CROATIA

(5) On 14 November 2024, Croatia submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36 of Regulation (EU) 2024/1263, as agreed with the Commission. The reason for the delayed submission was to ensure that MTFSP and DBP are complementary and consistent with the National Budget 2025-2027 that was scheduled to be adopted on 14 November 2024, making full use of data released with the benchmark statistical revision. On 21 November 2024, Croatia submitted an addendum to revise the net expenditure growth path of the plan to apply a conservative approach in the fiscal (expenditure) policy planning over the adjustment period, and ensure that the projected general government debt remains plausibly at prudent levels.

Process prior to the submission of the plan

[4] Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes fully matched by revenue from Union funds, (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.

(6) Prior to the submission of its plan, Croatia requested technical information[5], which the Commission provided on 21 June 2024 and published on 14 November[6]. The technical information indicates the level of the structural primary balance in 2028 that is necessary to ensure that the general government deficit is maintained below 3% of GDP over the medium term and that the general government debt remains below 60% of GDP over the medium term, in the absence of further budgetary measures beyond the 4-year adjustment period. The medium term is defined as the ten-year period after the end of the adjustment period. The technical information was prepared and transmitted to the Member State under two scenarios: a scenario including consistency with the deficit resilience safeguard[7], in line with Article 9(3) of Regulation (EU) 2024/126, and a scenario without this safeguard.

The technical information for Croatia sets out that, in order to comply with the applicable fiscal rules over an adjustment period of 4 years, and based on the Commission's assumptions, the structural primary balance should amount to at least -0.4% of GDP at the end of the adjustment period (2028; scenario without the deficit resilience safeguard), as per the following table. For information, considering also the deficit resilience safeguard, the structural primary balance should amount to at least -0.4% of GDP at the end of the adjustment period (2028). However, the deficit resilience safeguard is not a requirement for Croatia, which is eligible for technical information.

Table 1: Technical information provided by the Commission to Croatia

Final year of the adjustment period	2028
Minimum value of the structural primary balance (% of GDP), scenario without the deficit resilience safeguard	-0.4%
For information only: Minimum value of the structural primary balance (% of GDP), scenario with the deficit resilience safeguard	-0.4%

Source: Commission's calculations.

(7) In line with Article 12 of Regulation (EU) 2024/1263, Croatia and the Commission engaged in a technical dialogue from September to November 2024. The technical dialogue took stock of the technical information provided by the Commission, and centred on discussing the tax reform that will enter into force in 2025 and the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union in fair green and digital

5 Prior guidance transmitted to the Member States and Economic and Financial Committee includes technical information i) with and without an extension of the adjustment period (covering 4 and 7 years, respectively), and ii) with/without deficit resilience safeguard.

6 https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#Croatia

7 The deficit resilience safeguard established in Article 8 of Regulation (EU) 2024/1263 establishes that the annual improvement in the structural primary balance is of 0.4 percentage points of GDP (or 0.25 percentage points of GDP in case of an extension of the adjustment period) until the structural deficit is lower than 1.5% of GDP.

transition, social and economic resilience, energy security and the build-up of defence capabilities.

(8) In November 2024, in line with Article 11(3) and 36(1), point (c), of Regulation (EU) 2024/1263, Croatia engaged in a consultation process with civil society, social partners and other relevant stakeholders. The national medium-term fiscal-structural plan was discussed at the Economic and Social Council, which includes trade unions, the employers' association and representatives of the Government.

(9) The Fiscal Policy Commission delivered an opinion on the macroeconomic forecast and the macroeconomic assumptions underpinning the multi-annual net expenditure path. The Fiscal Policy Commission concluded that the projected sizes of the real GDP growth rates, the implicit GDP deflator and the national price index are adequate and that the macroeconomic projections are broadly the same or slightly more positive than the currently available projections of the other relevant institutions. The Fiscal Policy Commission endorsed the macroeconomic projections for the period up to 2028 prepared by the Ministry of Finance and pointed out that the projections are within an acceptable range and provide a good basis for drawing up the national medium-term fiscal-structural plan.

Other related processes

(10) On 14 November 2024, Croatia submitted its Draft Budgetary Plan for the year 2025. The Commission adopted an opinion on this Draft Budgetary Plan on [26 November][8].

(11) On 21 October 2024, the Council addressed to Croatia a series of country-specific recommendations (CSRs) in the context of the European Semester[9].

SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT THEREOF

(12) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

Context: Macroeconomic and fiscal situation and outlook

(13) Economic activity in Croatia grew by 3.3% in 2023, driven by all GDP components except for inventories, with largest positive contributions coming from investment and household consumption. According to the European Commission Autumn 2024 Forecast, the economy is expected to grow by 3.6% in 2024, on the back of expanding domestic demand, primarily household consumption and investment, and with a negative contribution from net exports. In 2025, real GDP is set to increase by 3.3%, as domestic demand growth decelerates. In 2026, real GDP is expected to increase by 2.9%, as domestic demand continues decelerating, and the contribution of net exports becomes neutral. Over the forecast horizon, potential GDP growth in Croatia is expected to grow

[8] Commission Opinion on the Draft Budgetary Plan of Estonia, 26.11.2024, C(2024)90XX final

[9] Council Recommendation on economic, budgetary, employment and structural policies of Croatia, not yet published.

by 4.2% in 2024, 3.6% in 2025 and 3.3% in 2026, driven by capital accumulation, total factor productivity and labour contribution, with the latter declining visibly toward 2026, amid a decreasing working age population and despite higher labour participation rates. The unemployment rate stood at 6.1% in 2023, and is projected by the Commission to amount to 5.1% in 2024 and 4.7% in 2025 and 4.6% in 2026. In 2024, inflation (GDP deflator) is projected to decrease from 11.7% in 2023 to 6.6% in 2024, and to reach 3.2% in 2025 and 2.1% in 2026.

(14) Regarding fiscal developments, in 2023 Croatia's general government deficit amounted to 0.9% of GDP. According to the European Commission Autumn 2024 Forecast, it is set to reach 2.1% of GDP in 2024 and to remain at 2.1% of GDP in 2025 and, on a no-policy change basis, to decline to 1.9% in 2026. The European Commission Autumn 2024 Forecast does not yet include Croatia's draft budget for 2025 that the government proposed to the national parliament in November. However, the Commission forecast includes the Budgetary Framework for the period 2025 – 2027 that was adopted by the government on 31 October. General government debt was 61.8% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, the debt ratio is expected to decline to 57.3% of GDP at end-2024. It is projected to decline to 56.0% of GDP at end-2025 and the ratio is expected to remain at 56.0% at the end-2026. The fiscal forecast by the Commission does not consider the policy commitments in the medium-term plans as such until they are underpinned by credibly announced and sufficiently specified concrete policy measures.

Net expenditure path and main macroeconomic assumptions in the plan

(15) Croatia's national medium-term fiscal-structural plan covers the period 2025-2028 and presents a fiscal adjustment over four years.

(16) The plan contains all information required by Article 13 of Regulation (EU) 2024/1263.

(17) The plan, as complemented by the addendum, commits to the net expenditure path indicated in Table 2, corresponding to an average net expenditure growth of 4.8% over the years through 2028.
The technical information (assuming a linear adjustment path) is consistent with an average net expenditure growth of 4.0% over the adjustment period (2025-2028). The net expenditure path committed to in the plan is reported to lead to a structural primary balance of -0.2% of GDP at the end of the adjustment period (2028)[10]. This is higher than the minimum level of the structural primary balance of -0.4% of GDP in 2028 provided by the Commission in the technical information on 21 June 2024[11].

10 This does not reflect the addendum submitted on 21 November 2024 and its conservative approach to the net expenditure path.

11 In the scenario without the deficit resilience safeguard.

The plan assumes potential GDP growth to decrease to 2.5% in 2028 (from 4.5% in 2024). In addition, the plan expects the growth rate of the GDP deflator to decrease to 2.2% in 2028 (from 6.7% in 2024).

Table 2: Net expenditure path and main assumptions in Croatia's plan

	2024	2025	2026	2027	2028	Average over the period of validity of the plan 2025-2028
Net expenditure growth (annual, %)	18.6	6.4	4.9	4.1	3.7	4.8
Net expenditure growth (cumulative, from base year 2023, %)	18.6	26.2	32.3	37.8	42.9	n.a.
Potential GDP growth (%)	4.5	4.0	3.5	2.9	2.5	3.2
Inflation (GDP deflator growth) (%)	6.7	3.7	2.6	2.4	2.2	2.7

Source: Medium-term fiscal-structural plan of Croatia and Commission calculations

Implications of the plan's net expenditure commitments for general government debt

(18) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, gradually decrease from 57.3% of GDP in 2024 to 53.1% at the end of the adjustment period in 2028, as per the following table. Over the medium term, the general government debt to GDP level is expected to gradually decline to reach 49% in 2038. While these figures do not reflect the addendum submitted on 21 November, its conservative approach to the net expenditure path ensures that the projected general government debt remains plausibly at prudent levels.

Table 3: General government debt and balance developments in Croatia's plan

	2023	2024	2025	2026	2027	2028	2038
Government debt (% of GDP)	61.8	57.3	55.8	54.9	54.1	53.1	49.0
Government balance (% of GDP)	-0.9	-2.1	-2.3	-1.9	-1.8	-1.5	-1.4

Source: Medium-term fiscal-structural plan of Croatia

Thus, according to the plan, general government debt would stay below the Treaty reference value of 60% of GDP over the medium term.

Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for debt as set out in Article 16(2) of Regulation (EU) 2024/1263.

Implications of the plan's net expenditure commitments for the general government balance

(19) Based on the plan's net expenditure path and assumptions, the general government deficit would increase from 2.1% of GDP in 2024 to 2.3% in 2025 and gradually decrease to 1.5% in 2028. While these figures do not reflect the addendum submitted on 21 November 2024, its conservative approach to the net expenditure path, ensures that the projected general government deficit is maintained below 3% of GDP over the medium term.

Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period (2028).
In addition, in the ten years following the adjustment period (i.e. until 2038), the government deficit would not exceed 3% of GDP.

Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out Articles 6, point (b), and 16(2) of Regulation (EU) 2024/1263.

Macroeconomic assumptions of the plan

(20) The plan is based on a set of assumptions which differs from the Commission's assumptions transmitted to Croatia on 21 June. In particular, the plan uses different assumptions for four variables namely: the starting point (structural primary balance), potential GDP growth, GDP deflator growth, nominal implicit interest rate. A careful assessment of these differences in assumptions is necessary, especially as average net expenditure growth in the plan is higher than implied by the technical information. An assessment of these differences in assumptions is provided below.

The differences in assumptions with the most significant impact on average net expenditure growth are listed below, together with an assessment of each difference considered in isolation.

- The plan uses more up-to-date data and assumes a better initial position compared to the Commission's assumptions transmitted on 21 June. In the prior guidance, the structural primary balance for 2024 was -2% of GDP while the plan assumes -1.5% of GDP, the same as in the European Commission Autumn 2024 Forecast. The higher structural primary balance is due to a significant revision of the data released after the prior guidance transmission. This contributes to higher average net expenditure growth over the adjustment period than according to the Commission's assumptions. This assumption is deemed to be duly justified.
- The plan assumes potential GDP growth to gradually decrease from an estimated 4.5% in 2024 to 2.5% by 2028 and to moderate further to 1.6% by 2038, averaging at 3.2% over the adjustment period. In the prior guidance of the Commission, potential output is projected to grow by 2.6% on average over the same period. Beyond the adjustment period, the plan assumes the

same potential growth as in the prior guidance. In the European Commission Autumn 2024 forecast, average potential growth over the adjustment period is 2.9%, reflecting the data updates and new assumptions since the Spring 2024 forecast. The difference between the plan and the prior guidance during the adjustment period is only partly justified by the revised data and the new assumptions. The remaining difference is largely related to high employment growth assumption in the plan. Overall, this contributes to higher average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. Consequently, this assumption is deemed to be not duly justified.

- The plan assumes the GDP deflator to reach 6.7% in 2024, 3.7% in 2025, 2.6% in 2026, 2.4% in 2027 and 2.2% in 2028. In the Commission's prior guidance, the assumed GDP deflator in 2024 was 5.5%, coming down to 2.2% in 2025 and 2026, and slightly increasing to 2.3% in 2027 and 2028. The European Commission's Autumn 2024 forecast assumes higher GDP deflator in 2024 and 2025 than assumed in the prior guidance, set at 6.6% and 3.2%, reflecting the data updates and new assumptions since the Spring 2024 forecast. The Commission projects the GDP deflator to reach 2.1% in 2026. Thus, the GDP deflator assumed in the plan is higher than the Commission's assumptions, by 0.5 percentage points both in 2025 and 2026, reflecting higher private and public consumption deflators. This contributes to higher average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. Consequently, this assumption is deemed to be not duly justified.
- The plan assumes nominal implicit interest rates to reach 2.9% in 2024 and to gradually decrease to 2.6% in 2028. This contributes to higher average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. The Commission's prior guidance assumed nominal implicit interest rates of 2.8% in 2024 gradually increasing to 3.1% in 2028. The plan's lower implicit nominal interest rates reflect lower market interest rates following the upgrades of credit rating for Croatia by relevant credit rating agencies. Overall, the plan's assumption is deemed to be duly justified by the use of more recent market data.

Overall, all the differences in assumptions taken together could lead to an average net expenditure growth in the plan that is considerably higher than the average net expenditure growth implied by the technical information. However, Croatia's plan, as complemented by the addendum, includes a more prudent net expenditure path that leads to an average net expenditure growth which still exceeds the average net expenditure growth implied by the technical information but only by an amount that can be explained through differences in assumptions that are considered as duly justified.

The Commission will take into account the above assessment of the plan's assumptions in future assessments of compliance with the net expenditure path.

Fiscal strategy of the plan

(21) According to the indicative fiscal strategy in the plan, the commitments on net expenditure are to be delivered through both expenditure restraint and discretionary revenue increases. To achieve the fiscal targets, the plan mentions that certain expenditure categories, that are under the control of the government, will have a limited growth (ex: expenditure on compensation of employees is expected to decrease from 13.0% of GDP in 2025 to 12.6% in 2028). According to the plan, discretionary revenue measures, linked to the tax reform that will enter into force in 2025, are to bring additional revenues amounting to 0.4% of GDP over the entire adjustment period. At the same time there are also measures that increase government expenditure linked to implementing the pension reform (increasing the pension indexation formula) and implementing new social policy measures like affordable housing.

The specification of the policy measures to be adopted is to be confirmed or adjusted and quantified in the annual budgets. At the same time, there are risks to the implementation of the indicative fiscal strategy in the plan, which stem from risks to the macroeconomic assumptions underpinning the plan, delays in public procurement process that could slow downs investments and further setbacks in implementing the structural reforms.

The Draft Budgetary Plan for 2025 specifies the policy measures through which the net expenditure commitment for 2025 will be achieved[12].

Reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union

(22) The plan describes policy intentions concerning reforms and investments to respond to the main challenges identified in the context of the European Semester, especially the CSRs, and to address the common priorities of the EU. The plan contains 290 planned reforms and investments measures, out of which 209 are financially supported by the Recovery and Resilience Facility and 81 are newly identified measures and measures under other EU programs, including cohesion policy. Overall, the national recovery and resilience plan (RRP) measures were tailored to contribute to implementing the existing CSRs. The new measures added in the MTP further contribute to implementing the past years CSRs and the new CSRs issued in 2024.

(23) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan includes a set of measures to support climate neutrality and address climate adaptation challenges. To step up efforts towards the 2030 target and implementation of the Integrated National Energy and Climate Plan, a planning framework for the implementation of the Low-Carbon Development Strategy will be established, including a proposal for binding sectoral emission reduction targets for the most difficult to decarbonise sectors and setting up

[12] See Commission Opinion of 26 November 2024 on the Draft Budgetary Plan of Croatia.

structures needed for the roll out the Social Climate Fund. To strengthen climate resilience, an Action Plan together with indicators will be adopted in order to speed up the implementation of the Climate Adaptation Strategy. These actions relate to the 2023 CSRs on effective absorption of EU Funds and the 2023 CSR on reducing overall reliance on fossil fuels. The plan contains RRP measures supporting the strengthening of the public administration, judiciary and state assets through digitalisation and simplification of administrative and judicial processes, enhancing the state ICT infrastructure, widening the network of digital services, and expanding the broadband and 5G access for households. Reforms and investments in state ICT infrastructure and digital services relate to the 2020 CSRs on increased access to digital infrastructure and services, promoting skills acquisition, and increasing the efficiency and capacity of the public administration to design and implement public projects and policies at central and local level. The plan includes measures beyond the RRP aiming to enhance cybersecurity, further digitise public services and strengthen data management within the public administration. These measures concern the 2019 and 2020 CSRs linked to improving electronic communication in courts, improving the efficiency of judiciary and increasing access to digital infrastructure and services. In addition, the plan includes important reforms to improve the attractiveness of research careers in the ICT field related to the 2019 and 2020 CSRs on increased access to digital infrastructure and services as well as on focusing investment on the green and digital transition. The plan also includes a set of RRP measures in the transport sector, addressing, inter alia, CSRs on increasing access to digital infrastructure and services, fostering the green and digital transition, reducing energy demand and reliance on fossil fuels in transport and promoting sustainable transport solutions. Moreover, the plan includes measures on energy and post-earthquake renovation of buildings, seismological data network development, circular use of construction waste from buildings with the status of a cultural good and development of green urban renewal strategies, addressing CSRs on energy efficiency, green transition, reducing reliance on fossil fuels and continuing RRF implementation.

(24) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes a comprehensive reform of the education system aiming to widen access to early childhood education and care and higher education, and improve the quality of primary and higher education, including by introducing one-shift teaching and preparing the transition to whole-day school in primary education. The reform of the education system relates to the 2019 CSR on improving access to, quality and labour market relevance of education and training, the 2020 CSR on promoting skill acquisition, the 2024 CSR on reducing skill shortages by strengthening basic skills and enhancing upskilling and reskilling, and the CSRs from 2023 and 2024 on continuing the steady implementation of the RRP. The plan also includes important labour market reforms to improve the legal framework and increase employment by improving the accessibility and quality of vocational education and adult learning, providing targeted active labour market policies, and strengthening the system of inclusion and monitoring of vulnerable groups. These reforms concern the 2019 and 2020 CSRs on strengthening labour market measures and institutions, improving their cooperation with social services,

and improving the adequacy of unemployment and minimum guaranteed benefits. In the area of social resilience, the plan includes a reform of the pension system to increase pension adequacy, as well as comprehensive reforms of the social welfare system aiming to reduce the risk of poverty and social exclusion of vulnerable groups by integrating social benefits and improving quality, accessibly and availability of deinstitutionalised community-based social services, in particular long-term care. These social welfare reforms relate to the 2019 CSR on consolidating social benefits and improving their impact on poverty reduction, the 2020 CSR on improving the adequacy of unemployment benefits and minimum guaranteed benefits, and the 2024 CSR on reducing labour and skills shortages by facilitating access to formal long-term care at home and in the community. The plan also contains multiple measures protecting children at risk of poverty and social exclusion within the framework of the European Child Guarantee. In addition, the plan includes measures to further improve the performance and competitiveness of public research, development and innovation by reducing the fragmentation of public research institutes and higher education institutions, and providing grants to research projects under a new programme framework, in line with the 2019 CSRs on focusing investment-related economic policy on research and innovation, and on improving the capacities of national authorities to design public projects and policies, with the 2020 CSR on increasing the efficiency and capacity of public administration to design and implement public projects, and with the 2024 CSRs on continuing the implementation of the RRP, and on improving competitiveness through addressing the high fragmentation of public research institutions. In addition, the plan includes reforms to improve the functioning of the public administration through improving the capacities of public servants, in line with the 2020 CSR on increasing the efficiency and capacity of public administration to design and implement public projects, with the 2022 and 2024 CSRs on continuing the implementation of the RRP, and with the 2024 CSR on reducing skill shortages. Moreover, the plan includes RRP measures under the renovation of buildings components, focusing on the development of skills for post-earthquake reconstruction and energy renovation and introducing new adult learning programmes in construction for non-EU workers which concerns the CSRs on promoting the acquisition of skills for green transition, ensuring effective absorption of funds and continuing the RRP implementation.

(25) Concerning the common priority of energy security, the plan includes key RRP investments aiming to upgrade electricity networks, increase liquefied natural gas (LNG) regasification capacity, and expand cross-border gas transportation infrastructure. Additionally, it incorporates measures supporting the uptake of renewable energy sources, energy renovation of buildings, energy efficiency in industry, and sustainable zero-emission transportation, while addressing energy poverty. These measures relate to the 2019 CSRs on focusing investment policy on energy efficiency, renewables and environmental infrastructure, the 2020 CSR on focusing investment on green and digital transitions, in particular on environmental infrastructure, clean and efficient production and use of energy, the 2022 CSRs on diversifying imports of fossil fuels and reducing overall reliance on fossil fuels and on accelerating the deployment of renewables, the 2022, 2023 and 2024 CSRs on continuing the implementation of the RRP, and the 2023

CSR on reducing reliance on fossil fuels by accelerating the deployment of renewable energy.

(26) Concerning the common priority of defence capabilities, the plan does not include details about the investments or reforms addressing this common priority.

(27) In addition, the plan includes other policy measures going beyond the common priorities of the EU, including to improve the management of state assets by reducing the number of SOEs, improving their governance, including by aligning national standards to international best practices, and strengthening human capacity to monitor corporate governance in SOEs. These measures relate to the 2019 CSR to improve corporate governance of SOEs and step up the sale of SOEs and inactive assets. In addition, the plan further includes the liberalisation of the services markets, administrative and fiscal burden relief, and the strengthening of the support for the growth of start-ups. These measures concern the 2019 CSR on excessive product and services market regulation and reducing the most burdensome parafiscal charges; and the 2020 CSRs on further reducing parafiscal charges and regulatory constraints on goods and services markets, and promoting private investment to foster economic recovery. The plan also includes measures such as providing loans and interest rate subsidies to micro, small and medium-sized enterprises, supporting projects in mid-caps and large enterprises, and investing in equity and quasi-equity instruments, relating to the 2020 CSR on maintaining measures to provide liquidity to small and medium-sized enterprises, and the 2024 CSR on accelerating investments supported by EU funds. Measures to foster a more efficient functioning of capital markets are also included, in line with, most recently, the 2024 CSR on increasing access to diverse sources of funding and promoting capital markets. The plan also includes RRP measures on modernisation of seaports, adaptation of fully autonomous and electric vehicles and infrastructure to the needs of disabled passengers, further addressing the 2020 CSR on increasing access to digital infrastructure and services. Moreover, the plan includes the RRP measures on energy renovation of buildings with a status of a cultural good, integration of seismic data into expert bases for spatial plans and adoption of guidelines for the application of a model for monitoring energy consumption in multi-dwelling buildings, addressing, inter alia, the 2020 CSR on increasing access to digital infrastructure and services. Furthermore, the plan aims to strengthen the resilience of the health system by expanding access to services through innovative models, investment in cutting-edge equipment and infrastructure, as well as in the digitalisation of the medicine pathway, while enhancing the quality of care through harmonised clinical guidelines and specialist trainings. These efforts aim to address key health challenges, such as oncology and waiting lists, while also enhancing waste and resources management within health facilities, thus supporting the 2020 CSRs on improving health system resilience and on promoting balanced healthcare distribution and eHealth, and the 2021 CSR on fiscal reforms for sustainable healthcare. Training-related aspects are also tied to the 2020 CSR on promoting skills acquisition. Outside the RRP, Croatia is implementing measures including the development of eHealth, palliative care,

and health technology assessment, as well as promoting healthy lifestyles and disease prevention.

(28) The plan provides information on the consistency and, where appropriate, complementarity with the cohesion policy funds and Croatia’s RRP. The investments under cohesion policy targeting the strengthening of research and innovation capacities are complementary to investments and reforms under RRP aiming to improve performance of public research sector as well as innovation output of enterprises. Investments in education facilities covering all level of education are complementing RRP investments and contribute to widening access to early childhood education and care and higher education, and improving the quality of primary education.

(29) The plan provides an overview of the public investment needs of Croatia related to the common priorities of the EU with the exception of the 4th priority related to defence capability building. The plan aims to contribute to meeting the public investment needs of Croatia regarding the common priorities of the EU. For the first common priority related to just, green and digital transitions, including compliance with the European Climate Law, the plan describes the investment needs for 79 measures. The measures are related, among others, to green and hydrogen investment, energy efficiency and promoting clean energy, investments in sustainable urban and rail transport, digitalising the public administration and justice system, supporting and promoting R&D. For the priority linked to social and economic resilience, including the European Pillar of Social Rights, the plan describes the investment needs for 24 measures. These relate, among others, to measures improving the access to affordable housing, adult learning programmes, vouchers for re-skilling and up-skilling, active labour market policies, constructing and upgrading ECEC facilities, primary and secondary schools, including to complete the transition to single-shift in primary schools, and demographic revitalisation measures to support families with children and prevent depopulation. In relation to the priority linked to energy security, the plan describes the investment needs for 15 measures, related, among others, to improving energy efficiency through building renovation, promoting clean energy through developing hydrogen production capacity and charging stations, and upgrading the electricity transmission grid.

Conclusion of the Commission’s assessment

(30) Overall, the Commission is of the view that Croatia’s plan fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION

(31) In accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Croatia.

HEREBY RECOMMENDS that Croatia

1. Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

In addition, the Council invites Croatia to ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations, and addressing the common priorities of the Union.

ANNEX I

Maximum growth rates of net expenditure
(annual and cumulative growth rates, in nominal terms)
Croatia

Years		2025	2026	2027	2028
Growth rates (%)	Annual	6.4	4.9	4.1	3.7
	Cumulative (*)	26.2	32.3	37.8	42.9

(*) The cumulative growth rates are calculated by reference to the base year of 2023.