Box G: EU Funds will add to the State's resources

Ireland is likely to avail of three key EU supports entailing a total impact of €4.4 billion. These supports were designed to assist Member States responses to the Covid crisis and Brexit. This box looks at how the funds are expected to impact Ireland's public finances. For a more general discussion of the supports, see Box C of the Council's *Pre-Budget 2021 Statement*.

Most of the receipts are expected to help funding in 2021, with spending spread over several years (see Table G1). Over time, it is expected that the EU programmes will likely lead to increased budget contributions that will offset the short-term benefits associated with the funding.

Table G1: Cash impact of EU Funding

€ billion

	2020	2021	2022	2023	2024	2025	2020-25
SURE loans							
impact on cash spending	2.5						2.5
impact on cash receipts		2.5					2.5
Brexit Adjustment Reserve grants							
impact on cash spending			1.1				1.1
impact on cash receipts		0.9	0.2				1.1
Recovery and Resilience Facility grants							
impact on cash spending			0.2	0.2	0.2	0.2	0.9
impact on cash receipts			0.2	0.2	0.2	0.2	0.9
Total impact							
impact on cash spending	2.5	0.0	1.3	0.2	0.2	0.2	4.4
impact on cash receipts	0.0	3.4	0.4	0.2	0.2	0.2	4.4

Sources: Department of Finance; and Fiscal Council workings.

The SURE programme provided €2.5 billion in lending

The largest single source of funds is the Support to mitigate Unemployment Risks in an Emergency (SURE) Instrument. Ireland drew down €2.5 billion under the SURE instrument in the first quarter of 2021. This amount was based on costs associated with the Temporary Wage Subsidy Scheme, which cost over €2.7 billion in 2020 before the scheme was replaced by the Employment Wage Subsidy Scheme.[55]

The general government accounting of SURE loans is relatively clear. Any expenditure associated with the SURE loans—subsidies in Ireland's case—would be treated as general government expenditure, while interest on the loans would be accounted as such. There is no general government revenue impact on receipt of funds. In other words, the spending increases the deficit without any revenue offset in the normal way.[56] This programme supports the financing of these amounts, substituting for market-issued debt.

[55] The SURE loans are raised on markets by the European Commission and allow Member States benefit from the EU's strong credit rating, low borrowing costs, and long-term financing (repaid no later than 2053). Member States back the loans with guarantees covering 25 per cent of total lending. Ireland's guarantee is €483 million (1.9% of EU-27 GNI). If a Member State did not meet its loan obligations, say a missed loan repayment, the Commission could call on guarantees pro-rata. Before doing so, however, the Commission is expected to draw on its own resources to some extent. For more detail, see Eurostat's note: https://ec.europa.eu/eurostat/documents/10186/10693286/Treatment_guarantees_MS_SURE_methodological_note.pdf

[56] The guarantees are treated as contingent liabilities. If called, they would be treated as general government expenditure (capital transfers), disimproving the deficit. Similarly, repayments would be treated as revenue (capital transfers), improving the deficit.

The Brexit Adjustment Reserve grants are expected to represent €1.1 billion in funding

The *SPU 2021* projections assume that the Brexit Adjustment Reserve will provide €1.1 billion in grant funding, mostly coming in 2021, then being spent entirely on capital spending in 2022. The amounts were not specified for any particular department.

Treatment of these amounts in general government terms is unclear at this stage. However, it seems likely that the expenditure associated with the funds would be treated as general government spending, with this being fully offset by general government revenue in the form of a capital transfer. This would therefore not impact the general government deficit or debt.

The Recovery and Resilience Facility (RRF) grants are assumed to provide €0.9 billion

The RRF is provided to mobilise investment and frontload financial support in the first years of the recovery from Covid-19. The *SPU 2021* projections assume that €0.9 billion of grant funding will be received and spent over the four years 2022–2025. Although there is an option to avail of loans under the facility as well, it is possible that Ireland will not do so. Eurostat has given preliminary guidance that the RRF grants will be deficit neutral. That is, they will not disimprove the deficit. This suggests that if there is any general government impact, such as an increase in public investment, this would be offset by a corresponding increase in revenue (capital transfer).[57]

[57] Eurostat's guidance: https://ec.europa.eu/eurostat/documents/10186/10693286/GFS-Draft-guidance-note-statistical-recording-recovery-resilience-facility.pdf