Box 2 | Financing through RRM

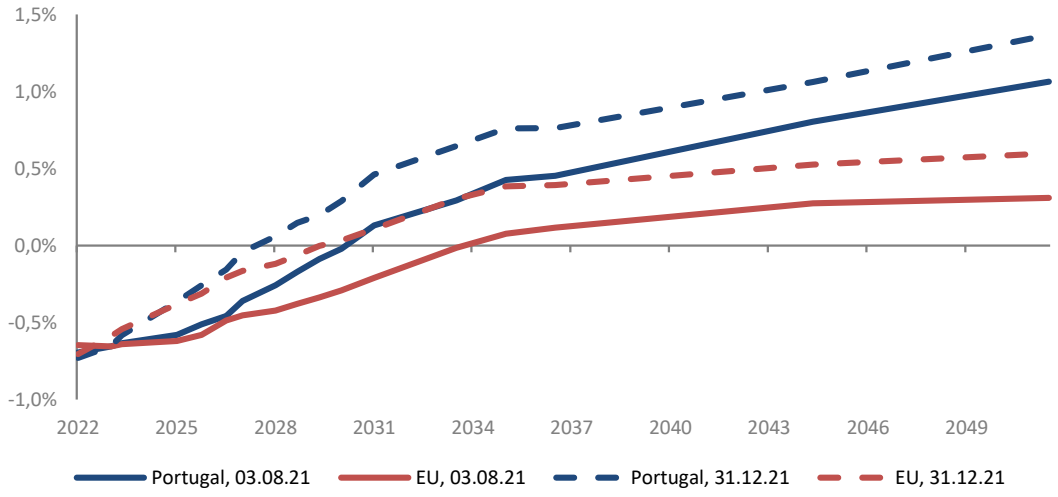
The European Commission created the temporary recovery instrument Next Generation EU (NGEU) as a response to the COVID-19 crisis, amounting to EUR 750 billion, aiming to support economic recovery through financial contributions and loans to Member States.

The Portuguese Recovery and Resilience Plan (RRP), developed under the Recovery and Resilience Mechanism (RRM) and approved by the European Union on 13 July 2021, contains an investment plan based on 3 structuring dimensions: resilience, climate transition and digital transition. The funding granted by the European Union to Portugal in the period 2021-26 under the RRM amounts to EUR 16.6 billion: EUR 13.9 billion in the form of financial contributions and EUR 2.7 billion in the form of loans.

Following the approval of the RRP, the Portuguese Republic received an amount of EUR 2.2 billion on 3 August 2022, equivalent to 13% of the funds to which it is entitled in the form of pre-financing: EUR 1.8 billion in the form of a grant and EUR 350.9 million in the form of a loan.

The loan was granted for a 30-year period, with a 10-year grace period and an average life of 20 years. The interest rate of this loan is not fixed and is linked to the European Union's cost of financing. As an illustration, the yield curves for Portugal and the EU are presented below, showing that there is a financial advantage in using RRP financing compared with OT financing, especially for longer maturities.

Chart 16 – Portuguese and European yield curves



The favourable foreign exchange effect of derivative hedging (net) was higher in 2021, totalling EUR 0.5 billion (compared to EUR 0.3 billion in 2020). After derivatives hedging, the balance of direct government debt stood at EUR 278.0 billion, thus recording a EUR 10.0 billion increase compared to 2020.