

Frank Elderson
Member of the Executive Board

[COURTESY TRANSLATION¹]

Mr Eduardo Ferro Rodrigues
President of the Assembly of the Republic
Palácio de São Bento
1249-068 Lisboa
PORTUGAL

Frankfurt am Main, 14 May 2021

Request for an ECB opinion on a draft law extending the period of bank moratoria in the context of the COVID-19 pandemic

Dear Mr Ferro Rodrigues,

Thank you for your letter dated 16 April 2021, requesting an opinion of the European Central Bank (ECB) on a draft law extending the period of bank moratoria in the context of the COVID-19 pandemic (hereinafter the 'draft law').

After careful consideration, the ECB has decided not to adopt an opinion in the present case as the draft law only touches marginally on the ECB's fields of competence pursuant to Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union, in conjunction with the sixth indent of Article 2(1) of Council Decision 98/415/EC² and Article 127(6) of the Treaty on the Functioning of the European Union. In reaching its decision not to adopt an opinion, the ECB took into particular account that the purpose of the amendments introduced by the draft law is to extend bank moratoria expiring in the first half of 2021 for an additional period of six months, upon request of the beneficiary. All companies, regardless of the economic sector in which they operate, are considered to be eligible.

By way of background information, the ECB refers to its Financial Stability Review from November 2020³, where it noted that the importance of policy measures in containing the economic and financial stability impact of the pandemic makes managing the exit from this support equally important. Economic and financial sector policy measures have so far limited the materialisation of credit risk and

¹ The official ECB letter is addressed in the official language of the concerned Member State.

² Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions (OJ L 189, 3.7.1998, p. 42).

³ European Central Bank, Financial Stability Review (November 2020), available on the ECB website at www.ecb.europa.eu.

adverse feedback loops between the real economy and the financial system. A continued, powerful and targeted policy response is vital to protect the economy until the pandemic passes. Even then, risks for households and firms facing a cliff edge from the withdrawal of policy support must be balanced against the risks related to prolonged support (e.g. possible misallocation of capital, postponed loss recognition, etc.). While moratoria are a positive measure from a financial stability perspective when borrowers are facing temporary cash-flow disruptions, they pose financial stability risks for banks when cash-flows do not recover and borrowers become non-viable, unless the loans under moratoria are also state-guaranteed. The longer the duration of a moratorium, the more difficult the exit from this policy could be; it might also weaken payment discipline further ahead.

The ECB appreciates that you have sent the draft law to the ECB for consultation and remains confident that the Assembly of the Republic will continue to consult the ECB on future draft legislative provisions that fall within the ECB's fields of competence under the Treaty on the Functioning of the European Union and Council Decision 98/415/EC.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'F. Klodson', is positioned below the closing text.

Cc: Mário Centeno, Governor, Banco de Portugal