



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI

President

Mr Matt Carthy
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 26 July 2016

L/MD/16/368

Re: Your letter (QZ-070)

Honourable Member of the European Parliament, dear Mr Carthy,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 17 June 2016.

Before addressing your specific question, let me briefly discuss the context of the housing and homelessness crisis in Ireland mentioned in your letter.

During the pre-crisis years, fiscal, macro- and microprudential policies did not succeed in taming the macro-financial cycle, avoiding a misallocation of resources and thus ensuring stability. While this problem was very well known and discussed even before the euro was introduced, the lack of appropriate anticyclical and supervisory measures in the pre-crisis years contributed to excessive domestic credit creation by Irish banks.

Credit to the private sector in fact increased by 20% per year between 2002 and 2007, creating major vulnerabilities in the financial sector. Moreover, the credit boom also helped to make the economy overly reliant on the construction sector as a driver of growth and employment, as well as a source of government revenue. By 2006 roughly half of fiscal revenues were from taxes largely linked to the construction sector, and the expenditure side of the budget was based on the assumption that those revenues would continue to flow forever. Last but not least, national banking regulation and financial supervision during the boom years underestimated the risks taken by the financial institutions. Burgeoning credit growth and the consequent expansion of banks' balance sheets, which led to highly concentrated exposures to the construction industry and property sector, should have sounded the alarm.

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Turning to the present, the level of non-performing loans in Ireland continues to be among the highest in the euro area, largely as a legacy of the pre-crisis years. The share of mortgages in long-term arrears is also particularly high, at about two-thirds of total mortgage arrears. In this context, the issue of non-performing loans in Ireland needs to be addressed as a priority, and sustainable solutions implemented. This will contribute to improving the ability of banks to support sustainable economic growth with new credit at favourable interest rates, which would in turn be of benefit to the Irish economy and its citizens more generally.

From a general point of view, the ECB favours measures which can help to reduce the high level of non-performing loans and thereby strengthen the support which banks in the future can give to borrowers and the economy. However, the precise definition of the national legislative measures to achieve this objective as well as their application limits and compliance with national law are a national responsibility. According to Article 127(4) of the Treaty on the Functioning of the European Union, the ECB may submit opinions on draft legislative provisions presented by the national authorities in its fields of competence. Finally, whether the sale of distressed mortgages in the manner described in your letter is contrary to Irish law or the contractual provisions agreed between the banks and the customers concerned is an issue that needs to be dealt with by the competent authorities. In accordance with its mandate, the ECB will continue to monitor developments so as to identify the emergence of any risks to the financial system.

Yours sincerely,

[signed]

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