HOUSES OF THE OIREACHTAS

Volume 2

No. 25
Morning
No. 26
Afternoon

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 10 Meitheamh 2015

Wednesday, 10 June 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

DEPUTY CIARÁN LYNCH IN THE CHAIR.

would you use?

Mr. Cyril Roux: Our banking system today?

Senator Susan O'Keeffe: Yes.

Mr. Cyril Roux: It's quite frail. All the banks, or most of the banks, are under restructuring plans. They have very large non-performing exposures. They have weak profitability and I have to say, as you were talking about political influence, that political pressure is, you know, built on them to reduce yet further their profitability and that's something that has ... worries the ECB because, if they're not profitable, then they will veer away from their restructuring plans and that will spell a lot of trouble for these banks.

Senator Susan O'Keeffe: How does the ECB show its worry?

Mr. Cyril Roux: Well, we monitor very closely and, at some point, will say, "Well, you're off and you need more capital." So, you know ... or, you're ... you know, at some point we can say, "You're not viable", you know. "You're not returning to profitability, you're not viable. You said you would get this net interest margin of this and that and you are not there, and you are far from it. You're not returning to profitability." And then, you know, at some point you make the decision, "Are you likely to fail, because you haven't proven that you have the path to return to profitability?" So, you have to be very careful of what you wish for.

Senator Susan O'Keeffe: Thank you.

Chairman: So, with that said, I'd like to bring matters to a conclusion now with you, Mr. Roux, and to thank you for your participation today with the inquiry and for your engagement with the inquiry and to formally excuse you, as I propose that we suspend the meeting until 2.20 p.m. No.

Senator Susan O'Keeffe: He is now joking.

Chairman: Until 2.55 p.m., and we'll return at that time.

Senator Susan O'Keeffe: I promise to be back in time.

Chairman: Great stuff, is that agreed?

Sitting suspended at 2.08 p.m. and resumed at 3.10 p.m.

Central Bank-Financial Regulator - Mr. Tom O'Connell

Chairman: Okay, so, with that said, I now propose that we move back in to public session, is that agreed? And we deal with session 3 this evening ... or this afternoon's public hearing is with Mr. Tom O'Connell, former assistant director general and chief economist, Central Bank. The Committee of Inquiry into the Banking Crisis is now resuming in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off.

Today we continue our hearings with senior officials from the Central Bank of Ireland and Financial Regulator and at our session this afternoon we will hear from Mr. Tom O'Connell, former assistant director general, chief economist at the Central Bank. Tom O'Connell joined the Central Bank of Ireland in 1970 as an economist, he was appointed assistant director general of the economics division in April 200. As chief economist, his responsibilities were economic analysis, research and publications, monetary policy and financial stability statistics. He retired in 2010. Mr. O'Connell, you are very welcome before the inquiry this afternoon.

Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry, which overlap with the subject matter of the inquiry. The utmost caution should then be taken not to prejudice those proceedings.

In addition, there are particular obligations of professional secrecy on officers of the Central Bank in respect of confidential information they've come across in the course of their duties. This stems from European and Irish law, including section 33AK of the Central Bank Act 1942. The banking inquiry also has obligations of professional secrecy in terms of some of the information which has been provided to it by the Central Bank. These obligations have been taken into account by the committee and will affect the questions asked and answered which can be lawfully given in today's proceedings. In particular, it will mean that some information can be dealt with on a summary or aggregate basis only, such that individual institutions will not be identifiable.

Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. And members of the public and journalists are reminded that these documents are to be confidential and they should not publish any of the documents so displayed.

The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis and you have been furnished with booklets of core documents. These are before the committee and will be relied upon in questioning and form part of the evidence to the inquiry. So, if I can now ask the clerk, in commencing proceedings, to administer the oath to Mr. O'Connell. Thank you.

The following witness was sworn in by the Clerk to the Committee:

Mr. Tom O'Connell, former Director General and Chief Economist, Central Bank-Financial Regulator.

Chairman: Okay. I thank you again, Mr. O'Connell, for being here this afternoon and if I can invite you to make your opening remarks to the committee, please.

Mr. Tom O'Connell: Thank you very much, Chairman. If I may take it ... the committee through my opening statement. Thank you. Ireland's banking and economic crash should never have happened, should never have been allowed to happen, with all the consequences of huge increases in unemployment, rising emigration, enormous debt, suicides, etc., that we have seen. As well as addressing the aspects that I have been asked to deal with by the joint committee, I would like to talk about our experiences from my perspective as the head of the economics function in the Central Bank from 2005 until 2009.

In his report on the crisis, Professor Honohan described what happened here as a world-beating property bubble. As early as around the turn of the millennium, the head of the IMF Article IV mission to Ireland, James Morsink ... I remember him saying to us that a country could not prosper on the basis of selling property to one another at increasingly elevated prices - an obvious truism. The huge excesses here are well known, but I think that it is worth recalling some examples. As Donal Donovan and Antoin Murphy have noted in their book on the crash, the size of Anglo Irish Bank's balance sheet in 2007 was six times what it was in 2001. The former chief executive of Bank of Ireland himself has stated that it took Bank of Ireland 200 years to grow its balance sheet to €100 billion; it took only four further years for the second €100 billion to be added on to reach €200 billion. And, of course, Bank of Ireland was the most conservative of all the Irish banks. A further example of the absurd mania at its height was the fact that a small site in Ballsbridge was acquired for €174 million at the height of the crisis - at the height of the boom, I should say - and purchased not so long ago for €22 million, that's a fall of 87% ... you know, an indication of the huge excesses that we experienced.

If I can turn to the independence of the Central Bank, as you know, the Central Bank's independence is established in law, essentially as a result of the EU treaties and the ECB statute. There's a reason why central banks are legally independent - so that they can take tough, unpopular decisions when required, without regard to populist government priorities. This applies, in particular, to monetary policy issues. However, it has to be asked how independent the Central Bank was on other matters. Patrick Honohan, in his report, stated that the authorities displayed undue deference to the banks. In my view, this applied equally to the authorities' relationship with Government. Was the Central Bank going to act independently, and to possibly take unpopular decisions, if the Governor was always appointed by the Minister, with whom he had worked intimately for many years prior to his appointment, and with the Secretary General of the Department of Finance always serving on the board of the bank? Further, the boards of the Central Bank and regulator were also heavily weighted with political supporters of Government. In practice, it was my experience that any concerns or issues raised by staff for airing in the public arena were invariably watered down so as not to reflect adversely on matters of concern to Government. That was an undesirable state of affairs. While vested interests can be cheerleaders for asset prices, the authorities have a duty to be unflinching, straight and upfront on these matters.

I think it would be useful for me to reflect on the governance arrangements in the Central Bank. The decision-making entities in the bank in my time were the board and the Governor. The staff provided reports and advice to the board and Governor through the director general and deputy director general - what we economists would call the "kitchen cabinet", if you like. Now, some time ago, Dr. T. K. Whitaker, perhaps Ireland's most eminent public servant, regretted the passing of the stage where public servants gave their advice and opinions objectively without reference to political or populist issues, or to anticipate what might be welcomed by the Minister. In the Central Bank, it was difficult to get views through that might impinge on vested interests. For example, as land and property prices escalated to bizarre and absurd levels, I had written, in a low key way for the bank's bulletin ... comment in its quarterly bulletin, that there was a need to consider the issue of rezoning more land for building in order to increase housing supply. That's also an issue of course of continuing relevance at present. I saw Colm McCarthy writing in the newspaper last Sunday about that. But that was blocked from reaching a higher level in the bank in the light, in my view, of political and property interests on the bank's board.

Of course, as the demand mania for property took off against the background of restrictive zoning which limited the supply of housing, the inevitable result was huge property price inflation.

I think I should also say a few words about the relationship between the Central Bank and IFSRA – the financial regulatory authority - at least from the perspective of the economics function in the bank. While, at the operational level, the bank interacted with the banks through market operations - in the wholesale payment system target, for example - there was little or no contact after 2003, when the new regulator was set up, on major policy matters. As far as I could see, contact with banks was primarily effected through IFSRA. This was such that at a certain point, I think towards the mid-noughties, the Governor began to arrange high-level meetings with the main banks at occasional intervals to discuss ... discuss the big issues. I would have attended quite a lot of these. Further, in the bank, we had no knowledge of the large exposures of the banks to individual developers. Such data were rigorously concealed from my level in the bank. Of course, we were aware that banks' aggregate lending was increasing enormously and was concentrated in the property sector. I had a discussion with one of the consultants that was brought into IFSRA after the crash. I mentioned to him the name of one large developer, he, in turn, asked me how much I thought that ... that developer might have outstanding in borrowings. I suggested €1 billion; he said I could triple it. That, and newspaper reports that 15 borrowers from Anglo Irish Bank had borrowings in excess of €750 million each, together with the disclosure at your inquiry here that 20 developers had total borrowings of between €21 billion and €22 billion, were news to me.

It's sometimes said that nobody seemed to know that a property boom or bubble was developing. That's ... that is completely incorrect in my view. You will recall, for example, that, in his evidence to your committee here, Peter Nyberg - himself the author of a report on the collapse - asserted that it was obvious that a property-lending mania was afoot. At the decision-making levels in the bank, either people were unaware of what was happening, despite the clear evidence, or they were aware and chose to do nothing. Either way, it all seems quite incomprehensible to me.

While the bank in its public utterances presented a low-key assessment of what was happening, that is not to say it was not fully aware of the major excesses. The annual financial stability reports reviewed comprehensively what was happening and Patrick Honohan's report acknowledged that the three major excesses were well recognised in the FSRs, the Financial Stability Reports: there was the huge increase in bank lending, the concentration of this lending in the property sector, and the very large reliance on the ... by the banks on potentially volatile wholesale funding. The main body of the stability reports set out extensively how almost all indicators were pointing massively in the wrong direction. By contrast, the overall assessment and tone which reflected the views of the two boards tended to be reassuring – talking of a soft landing, and so on. In fact, I should say that one member of the board did have grave doubts, to the effect that I can recollect his words still ringing in my ear, "It was all a house of cards and would all end in tears". However, his views appear not to have had any impact on policy-making in the bank. Notwithstanding that director's views, it was probably necessary, in any event, to present such a rather hopeful overall assessment in public since the Central Bank could hardly conclude that the banks were about to collapse. However, whatever the published assessment, the authorities should have been working assiduously behind the scenes to curb the huge excesses and reckless lending of the banks – egregious risk-taking, as Patrick Honohan has termed it recently in his speech.

I don't want to go right through the whole thing, but I point out on page six of my opening statement there that, as another confirmation of us being aware of the problems emerging, the Governor and his letters to this Minister pre-budget frequently flagged the very high increase in the bank lending and the property prices and by implication, the natures of something above that. So it wasn't as if we were unaware of these things. In fact, you may recollect, the Government itself, through the Department of the Environment had around ... I think it was 1999 ... requested three reports from the economist, Peter Bacon, to assess what could be done to alleviate rising property prices.

Around that time, a memo was sent from the economics function of the bank to the then Governor, recommending that bank lending to the property sector needed to be reined in. For many years in the past, some of you may recollect the Central Bank had actually imposed credit ceilings on banks in the interest of prudence. The response to the note, which was sent up to the Governor, was that he would have to consider bringing this proposal to the board, which is fair enough. However, at the top of the note were the words, evidently added subsequent to the first comment, "That is out of the question". I have a copy of that memo as well.

Other specific responses given to me in reply to my pleas to rein in the banks were, verbatim: "The Central Bank is not going to disadvantage the Irish banking sector", and "The Central Bank is not going to collapse the construction sector", when, you know, construction sector really took off and we were completing 90,000 houses, or close to that, in 2006. On another occasion, when bank lending to the property sector was increasing at the astronomical rate of 65% year on year, I urged a very senior member of the Financial Regulator staff, that bank lending to the property sector needed to be curtailed. The response that I was given was that the lending was secured on property – that's true in almost all other property-related banking crashes that proved to be worthless when property prices crashed from unsustainable levels. I, personally, was also specifically prevented from bringing forward to the bank's financial stability committee, data on house price levels across Europe that showed the extraordinary heights prices had reached here relative to elsewhere. In fact, prices here were higher than anywhere else in Europe, any capital city, Amsterdam, Brussels, etc, except for central London. And of course, central London is a special case where you've got Arab sheikhs and Russian oligarchs and so on, buying properties. So, the net result was that the powers-that-be preferred to adopt an ostrich-like approach to the massive problem. I offer a few more examples there of the extent to which people were not willing to recognise the problem that was emerging at the top of page 8.

If I may go on ... in fact, in addition to the red flags in the stability reports, which Patrick Honohan recognised in his report, a financial expert has also reviewed the annual reports of the Central Bank over the years in the journal studies of spring 2009 and he has come to the same conclusion that the authorities were well aware of the dangerous situation that was developing, but decided to do nothing. In fact, what Peter Nyberg, who interviewed me ... the author of the banking report ... he kept asking me "Why did nobody do anything?" ... several times "Why did nobody do anything?" And I am afraid that the answer has to be that the authorities simply did not wish to do anything. And actually, Peter Nyberg also asked me why I did not publish a newspaper article on the bubble. I said to him that that would have been highly unorthodox - it would be like a civil servant, you know, writing an article in the newspaper, criticising the Minister of financial policy ... it just wouldn't be on ... in any event, I don't think it would've had an effect at a time when the Taoiseach was saying that anyone who was questioning the sustainability of what was happening should go and commit suicide. And in fact, you should recollect in the event when Morgan Kelly ... Professor Morgan Kelly wrote about the probability of a crash, he was derided - he was literally shouted down at an economics conference where he was presenting his paper on the property market. So, you know, people didn't want to know.

In fact, one also has to ask whether there was any appreciation in the commercial banks that things were getting out of hand. On the face of it, it would seem that certain divisions of the banks – maybe the capital markets divisions - were in fact well aware that we were experiencing a property bubble. You have to ask, "Why else would the two main banks have decided to sell off their headquarters buildings and major landmark branches at colossal prices at the height of the bubble?" Was it the case that their lending colleagues in the banks were, at the same time, even financing, in whole or in part, the acquisition of these premises? And from the Central Bank side, you know, one has to ask, "How did the Central Bank see the erosion of the banks' deposit base being halted as the Central Bank pumped increasingly vast amounts of liquidity into the banks to prop them up?" In fact, you may be aware of the fact that the total ... the maximum amount ... or at its peak rather, the amount of liquidity pumped out into the banks was €140 billion, you know, with the ... both from the Central Bank and the ECB. I mean, once you spell that out, that's €140,000 million - there are 12 digits in that. So, you can well understand why the ECB was jumping up and down when the accommodation provided to Irish banks was at ... was at that massive level.

Now, if may I turn to a few words about the role of economists in the Central Bank. During the critical period 2000 to 2007 when the property mania was at its height, none amongst the top three executives in the bank was an economist – not that economists are the fount of all wisdom, I would have to admit. This would have been less of an issue if there was a willingness to listen to the views of economists, I would admit. You may recollect the Canadian expert, Rob Wright, saying to you here that he noted the relatively small number of economists employed in the Department of Finance, having 7% of staff being economists compared with 60% in Canada's Department of Finance. This aversion to economists really carried over to the Central Bank, I would admit, and was part of the problem.

In addition, the Financial Regulator employed very few economists. A member of top management in the bank put it to me on one occasion, that the bank wants economists and other specialists to be "on tap but not on top". So, economists were in a sort of cul-de-sac. And this rather recalls the episode in the early 1920s when the Governor of the Bank of England, Montagu Norman, said to the chief economist, "You are not here to tell us what to do, but to explain to us why we have done it".

However, it is the norm now in almost all central banks for economists to occupy the great majority of the top decision-making positions for the obvious reason that central banks are primarily concerned with issues in the area of macroeconomics, monetary policy and financial economics. On the other hand, in Ireland, the top positions in both the bank and Financial Regulator were filled traditionally by administrators and accountants. Accountants by their work and training are concerned with detail, but do they always see the bigger picture? The clean bill of health given by external auditors to all the banks right up to and even beyond the crash would suggest otherwise. In fact, you may recollect, I checked it out there on the website, the Anglo-Irish bank profits in November 2008 were declared to be €784 million and that was post the Lehman's problem in September 2008. It would seem to me that accountants tend take a more backward-looking perspective on a balance sheet ... I mean, that's maybe what they're expected to do ... whereas examining a balance sheet from an economics perspective would entail a more forward-looking consideration. Perhaps, in the wake of the crash, now, it could be argued that the type of appointments within the Central Bank structure, has lurched too far in the other direction, with economists predominating at the top of the bank and regulatory function. In my view, there should be a diversity of skills and backgrounds at the highest level of the bank and Financial Regulator.

Having said that, it is quite extraordinary that, at the highest level, there seemed to be a blindness to the fact that there had been a whole series of recent property-related banking crashes - we had them in Japan, Finland, Sweden, the savings and loan sector in the US, Norway, the Lawson mini-boom in the UK 1989, 1990. Of course, the sub-prime crisis in the US itself and the related securitisation of mortgage assets that led to massive losses for many international banks was also a property-related phenomenon. And one shouldn't forget that in the years leading up to the crash, the Bank for International Settlements, the BIS, of which Ireland, through the Central Bank, is a shareholder, had also been warning consistently for some time about the runaway evolution of asset prices with wholly inadequate attention being paid to risk. Despite all of that, there seemed to be little interest in such experiences elsewhere, with the implicit belief that they had little relevance for Ireland. In my view, this was a manifestation of a closed mind and an unwillingness to learn. While economists were well aware of these banking debacles, their relevance to Ireland did not seem to register at a level where it should have done. The view seemed to be, as the cliché has it, that the time ... this time is different, or we are experiencing a new paradigm.

Now, some people suggest that it was the collapse of Lehman's that brought down the Irish banks. Now that event didn't help clearly, as Lehman's failure did greatly affect liquidity flows, interbank lending, etc. However, as the UCC economist, Seamus Coffey, noted in a radio interview some time ago:

> Ireland's crash derived from developments between 2002 and 2007. Our problem was a pre-existing property bubble, before Lehman's hit.

And related to the fact of the enormous increase in bank lending, Irish banks of course were significantly dependent on borrowing from the wholesale markets, which were greatly affected by the Lehman's event. Countries that had no such bubble, small countries like Belgium, the Netherlands, and Finland, they experienced some problems associated with the failure of Lehman's, but nothing on the scale of Ireland's banking crash and collapse. Our problem was a banking insolvency one. As Professor Honohan's report put it, the source of our problems was homegrown. Those who suggest that Lehman's brought us down are almost wholly wrong, and are merely seeking an external scapegoat, not the first time this would have happened in Ireland, in my view.

It was also suggested that, being in the eurozone, we were the victims of huge capital inflows to Ireland. This again is a fairly thin argument. Ireland participated in a quasi-monetary union with the UK from 1825 to 1979, when we joined the EMS. We have plenty of experience of living in a monetary union. We also joined the euro with our eyes open. If monetary conditions were not particularly optimal from Ireland's point of view, the corollary was that other policies should be used to deliver the appropriate economic conditions. This would have meant, *inter alia*, restrictive fiscal policy as well as a tightening of bank regulation. However, this would have run counter to the naive populist policies of the then Government.

In summary, it was crystal clear from about the turn of the millennium, and even before, Ireland was experiencing a major property bubble; "a world beating one", in Professor Honohan's words. It is not credible that those who ought to have been aware of what was happening were in the dark. One can only surmise that, as Professor Alan Ahearne has said here to your committee, too many people were benefitting from the boom time for prudence avoidance ... prudent avoidance measures to have been taken. Such necessary measures would not have been popular, but that should not weigh with those whose duty it was to ensure the country did not experience the catastrophe that we so painfully and unnecessarily suffered.

Now I know, Chairman, that you want to derive some lessons from the crisis too, so I've jotted down a couple of points there, but I will leave it to yourselves, you know, to take those on board as you see fit. Thank you very much.

Chairman: Okay, thank you very much for your opening comments, Mr. O'Connell. And before I bring in the lead questioners, I just want to locate and clarify a couple of matters with you. As the economist in the Central Bank, did you actually sit on the board, or attend board meetings, and engage actively with presentations and discussion and contributions at board level?

Mr. Tom O'Connell: No, Chairman, I wasn't on the board. And I would have attended the board for short sessions where economic papers were being presented, and I would have presented myself from time to time, and some of my specialist economic colleagues would have presented papers too on issues, yes.

Chairman: So you'd have been at boards on an invite and occasional level rather than each and every given board member ... meeting?

Mr. Tom O'Connell: That's true, Chairman, yes.

Chairman: Okay. So in that regard can you remember any CBFSAI board discussions, or discussions between your department and the senior management of the CBFSAI on the rather positive message conveyed in the 2007 financial services ... the stability report, the financial-----

Mr. Tom O'Connell: Yes, well, as I was suggesting there, the financial stability report, the body of it and the analysis would have been prepared in the financial stability department. Prior to maybe about 2005, there would have been significant input from the regulator, when they actually employed an economist at that point. But from there on-----

Chairman: And you would have been part of putting together that report in-----

Mr. Tom O'Connell: Yes, I would have had an input into that, yes.

Chairman: For clarity purposes, the 2007 report is a reflection of what's happening in 2006?

Mr. Tom O'Connell: No, it would have ... I think it was published in maybe November 2007, so it would have taken things right up through autumn 2007. Now, the way it was processed, if you like, was that there would be a joint board meeting of the ... with the CBFSAI and the Financial Regulator, and the body of the report will be presented, or the details, you know, the crazy lending, the concentration on property, the funding issues of banks, the indebtedness of the personal sector, all this sort of thing would be covered, and graphs and tables and other things shown to people. And the editorial, if you like then ... there probably would have been a draft editorial presented for the joint boards to consider. They would do ... have a lot of discussion about that. So the tone of the whole report would have been embodied in the editorial, and that would have reflected the views of the bank. In fact, it's probably of interest, I should-----

Chairman: We'll come on to that in a moment.

Mr. Tom O'Connell: Sorry.

Chairman: But I just want to stay with a particular area with you, and I'm very grateful if you want to expand again later on, Mr. O'Connell. But Professor Honohan called this report and the message that was invoked in it "a triumph of hope over reality". It's in the Honohan report, section 6.45. Would you care to comment upon that observation?

Mr. Tom O'Connell: I couldn't ... I wouldn't disagree too much with that, you know? But, as I said, even though a lot of the ... nearly all the indicators were pointing in a very bad direction in the body of the report. The financial stability reports normally had to conclude, and in fact when I was interviewed by Donal Donovan and Paul Gorecki from the ESRI for the Honohan report, I'd no sooner taken a seat for the interview when they say ... they took out the 2007 financial stability report and they read the third paragraph, I can recollect, and they put it to me: "Wasn't that very complacent?" And my recollection of that paragraph was that it starts ... it said "The risks in the financial stability ... in the financial system have increased and our" ... it's all worrying but it'll be all right on the night. Now a central bank probably couldn't say anything else, you know, other than that, so ... in fact, as you probably know, the financial stability reports have ceased since then, and ... because they could never conclude other than that "things are manageable." If they said, "The banks are going to fall over", you'd have a run on the banks massively.

Chairman: Under questioning two weeks ago, when Patrick Neary was in, on putting together the report and how the tone was set in it, and everything else, I put a number of propositions to him that late 2006, a discussion about the future of stamp duty had come on the table. I think it was the ... Michael McDowell, sometime in or around early September 2006, made a comment about it, the housing market was slowing down anyway but the speculation over stamp duty certainly had an immediate impact upon it, and the ... there was a slowdown in purchase as well. There was an assessment that the housing ... that the housing sector and construction sector was 24% of the Irish economy, twice of what it should have actually been, there was a whole load of information there with regard to loan-to-values, 100% mortgages, and, as was borne out later, that there was a structural deficit as well that was going to be faced because a lot of taxes were based upon consumption, and if consumption dropped, as we saw with the entry to the bailout programme, there was a shortfall of €30 billion. So when I put that proposition to Mr. Neary, Mr. Neary's response was, "Well, in the background that you have just presented there, Chairman, I think it does call the assessment into question." This is the 2000 financial ... or the 2007 report. "And you know I think reading that now and looking back on it, I think the message coming out from that statement to me is 'don't spook the horses.' That's clearly the message there." Was the report ... would you agree with Professor Neary's, or care to comment upon Mr. Neary's statement there that it was an exercise in not spooking the horses?

Mr. Tom O'Connell: Yes. No matter how ... I mean, if the analysis of the indicators proved to be positive, you could certainly say things were fine. If the analysis proved to be negative, a central bank had to sort of put a positive gloss on things rather than frightening the horses. I think you're right. So it's a sort of a predicament, you know. You may recollect when the Northern Rock run happened, it happened because somebody, and I'm not sure whether it was the Bank of England or some commentator, they mentioned that emergency liquidity was being supplied to Northern Rock. So the use of the word "emergency" caused that run. So, you know, that would confirm to you that you had to be very careful, and maybe be elliptical about one's assessment of the overall picture, but it was pretty clear to me that, you know, we had a major property bubble and it had to burst at some time. One could never say when, but that was underlying the ... what was happening in the Irish economy.

Chairman: Just returning back to that report, Professor ... or, sorry, yes, Patrick Neary was also on record as saying that the tone of the financial stability report for 2007 was very much set by the Governor and the board, that that ... the final narrative in that regard. I'd like to focus upon your specific role, however, and in your statement you state ... and this is in general activity in the Central Bank. In your statement you state you were instructed to contact authors to retract their published views. Can you provide further information on this, bearing ... being mindful of section 33AK, but how were these requests made to you and how did you follow through on these requests?

Mr. Tom O'Connell: Well-----

Chairman: I'll ... I'll give you two examples there. It'll come up on the screen at the moment, you say, "when around 2005, ... Alan Barrett had expressed a view in an ESRI Quarterly Economic Commentary that the banks were in a rather fragile state, I was instructed to request the Director of the ESRI to ensure that such comments were not published in future". You then go on say, "In the 2007 Financial Stability Report [that we just discussed], a deliberate decision was taken to delete the conclusions of a research study updating the extent of the overvaluation of Irish property services". So, going back to you again, can you provide further information on this as to how the request was made to you and how, how these ... and how did you follow through on the request with regard to these matters?

Mr. Tom O'Connell: Yes. Well, in relation to the Alan Barrett comment, which was at ... I think it happened at the launch of the ESRI quarterly commentary, and I think the reference to the fragility of the banks was actually in the quarterly commentary, I was, I was asked by somebody senior to me in the bank to ring Frances Ruane in the ESRI, which I duly did, and asked that, you know, those references should not arise in the future. Now to some degree that's understandable, you know. If the leading research institute is commenting on the possibility of the banks collapsing, I mean, it's one thing to try to sort of cool down those comments but I would argue that behind the scenes, something should be done to prevent that happening and that really wasn't happening at that time.

Chairman: But what was the rationale for ... can you explain just the rationale as to why ...whether you call this a censorship or an editorial position or trying to create a particular narrative on something, what was the rationale underpinning all this?

Mr. Tom O'Connell: Well, I think, as I said in my opening statement, the, the view in the banks seemed to be ... and I mean, this came out very clearly when we were ... we would be discussing or interacting with the IMF and the OECD, in particular with the OECD country reports, it was embarrassing. When I used to go to Paris to ... with people to look at the reports, almost every line was parsed, and any, anything of a negative nature needed to be taken out. So, for example, if ... let's say if the OECD was saying that the house price increases are "very significant", they would be asked to maybe alter that to "quite significant", you know. I felt it was quite embarrassing. My attitude to these things was the IMF came here for the Article IV missions; we spoke to them, we gave them our views. My attitude was, let them go off and make up their own minds and come back and if their view is different from ours, having considered what we had said to them, so be it. And if they have different views from those prevailing in the country as a whole, I think that would help domestic economic debate.

Chairman: To come back to the question I'm asking you, you say you were instructed to request a director of the ESRI to ensure that such comments were not published in future, and then you say "a deliberate decision was taken to delete the conclusions of a research study updating the extent of the overvaluation of Irish property prices". Now-----

Mr. Tom O'Connell: Yes Chairman, in relation to the second one, that was ... that decision, I mean, what would have happened would have been the stability reports would be drawn up-----

Chairman: Did you?

Mr. Tom O'Connell: Pardon me?

Chairman: Did you actually carry out those actions? You instructed------

Mr. Tom O'Connell: No, no, no, I didn't personally delete the, the ... updated the research study.

Chairman: No, but you said that you were instructed to request a director of the ESRI to ensure that such comments were not published.

Mr. Tom O'Connell: Oh yes, I did that, yes.

Chairman: You carried out that action?

Mr. Tom O'Connell: I did that, yes.

Chairman: Okay.

Mr. Tom O'Connell: Otherwise I would have said. I was-----

Chairman: And what was the nature of the discussions between you and the authors of this content?

Mr. Tom O'Connell: Pardon, sorry?

Chairman: What was the nature of the discussions between you and the authors of this content? Both the-----

Mr. Tom O'Connell: Well, in relation to the update of the research study, which is the third item I think I mention on the opening statement there, no, the way the stability reports would be prepared, they'd be drawn up by the technical experts, if you like, sent up the line, deletions had been taken out, so at ... it will be at that point where somebody would say "we're not going to put that in", so it will be deleted. So, I mean, our ... our seniors, if you like, had the option of deciding what goes in or what wouldn't go in. So, I wouldn't have taken that out myself. It would have been-----

Chairman: I'm going to return to this again, Mr. O'Connell but I just need to wrap this up. Would these be considered contrarian views?

Mr. Tom O'Connell: Are you talking to me saying this?

Chairman: These two articles, in terms of one, the request to remove one, and the other one - a deletion, would they have been considered accurate, contrarian, general-----

Mr. Tom O'Connell: Well, I'd consider ... I'd consider them realistic, you know.

Chairman: Realistic.

Mr. Tom O'Connell: So, I mean, calling a somebody a contrarian is sort of suggesting they're a bit of ...they're a maverick. In fact, Peter Nyberg spoke to me about that quite a lot but I would maintain they were realistic, not necessarily contrarian. It was the non-contrarians who were being off the wall.

Chairman: Okay. In that regard, but if we were to take the context of the contrarian, if you take the Nyberg report or the Honohan report, that they talk about the herd instincts, so somebody who was operating outside the herd would have been a contrarian even though they might have been talking the world of sense. In that regard, can I put the question to you that was there contrarian opinions in ... being expressed at the time and how were they expressed in the Central Bank?

Mr. Tom O'Connell: They were but not at the ... at a senior, at a very senior level. I mean, for example, I used to say to my colleagues, almost every day, we had to have more land zoned. In fact, I used to joke with them and sort of say ... I mean, because the restrictive ... the restriction on housing supply ensured by the restrictive zoning meant that when the demand for housing went up you'd have vertical supply curve, land went up, house, property prices went through the roof. I used to say to the people that you could, you know, zoning should be freed up everywhere bar Stephen's Green, Howth Head and Killiney Head - jokingly, because, you may recollect, I mean ... and, in fact, Jerome Casey, who was a construction sector analyst who wrote about this extensively and he said, he noted that in north County Dublin, the zoned land was owned by eight developers. There was a cartel, if you like. And, in fact, even some of them were intermarried, so-----

Chairman: Okay, that's fabulous colour but I'm going to come back to the question again, okay. And what I want to ask you, basically, I want to get a position on how contrarian positions in the Central Bank were being managed.

Mr. Tom O'Connell: They weren't well received, I'll tell you.

Chairman: Well, John Hurley ... well, tell us more about how they weren't received. So, how were they managed?

Mr. Tom O'Connell: Well, I, I mentioned there a couple of the ... in my opening statement, various things were said to me, that the Central Bank is not going to collapse the construction sector was one. The Central Bank is not going to disadvantage the Irish banks and by that they mean ... that was happening at a time when the, the ... some of the foreign owned banks, like Ulster Bank and Bank of Scotland Ireland were going mad with 100% mortgages and they were throwing confetti around the ... loans around like confetti. So, it was said to me that yes, we're not going to, to inhibit the Irish banks. In other words, we're going to let them compete with these mad guys, you know.

Chairman: This is the final question so, for the moment. Governor Hurley, when he was before this committee, stated:

> I was not aware of contrarian views within the Central Bank, which differed in substance from the Bank's overall assessment[s]. Views, which set out a[s] different risk assessment[s], were not made known to me or to the Board in my presence.

Would you care to comment upon that?

Mr. Tom O'Connell: Well ... maybe contrarian ... contrarian views probably didn't drift up to the board, I, I, that would be certainly the case, I think. I would have often ... I would have often said informally, I won't say daily, but I would say weekly - and I'm under oath - I would have said to my senior people that things were going crazy; the banks have to be reined in. I said this many a time. In fact, when the ... they mentioned there that one of the leading people in the regulatory staff, I said to him that property and construction lending at that particular point was growing at 65% year on year. Now, you have to recollect, this was in the euro area. The ECB indicated that the appropriate growth in the money stock in the euro area was 4% to 4.5%, credit and money 4% to 4.5%. We were at 65%. You know, I mean that was 16 times-----

Chairman: You said that was the financial stability report for 2007?

Mr. Tom O'Connell: Well, those things would have been taken into account by implication, because yes, the, the massive increases in bank lending were noted clearly and they were graphed and illustrated and I think there were European comparisons there, so we were a complete outlier in nearly all cases. If you look at the tables there, we were either worst or second worst on almost every metric.

Chairman: All right. Deputy Murphy, 25 minutes.

Deputy Eoghan Murphy: Thank you Mr. O'Connell, you're very welcome. Could you just give the committee an understanding, Mr. O'Connell, of how senior you were in the Central Bank?

Mr. Tom O'Connell: I was, my rank was assistant director general and so from the top down you'd have the Governor, you had the director general and deputy director general, so the top three; and then there were four or five of us at about ... at the assistant director general level dealing with maybe markets, the currency centre and economics and so on.

Deputy Eoghan Murphy: Who did you report directly to?

Mr. Tom O'Connell: Probably ... my ... it would have been both the director general and the Governor, yes, but-----

Deputy Eoghan Murphy: Okay. So you were quite senior in the Central Bank.

Mr. Tom O'Connell: Yes. So it was, it was sort of loose, you know. I mean, we were all ... I heard you talking the famous seventh floor, we were all on the seventh floor, so we'd be interacting quite a lot. So, it was sort of informal, you know, you didn't have to wait for ... oh, but sometimes - I think it has to be said, all right - that if say, a board paper bypassed somebody and went to the Governor, there would have been a bit of irritation about it, that the, you know, the hierarchical system wasn't followed.

Deputy Eoghan Murphy: But you weren't on the board. Were you still privy to board papers, though?

Mr. Tom O'Connell: I would get quite a few board papers, yes, and maybe the minutes. Sometimes though, those that are only relevant to me. I certainly would have got no regulatory papers.

Deputy Eoghan Murphy: To what end would these minutes or these reports have come to you for comment, for agreement?

Mr. Tom O'Connell: No, just for information really, you know. Information, yes.

Deputy Eoghan Murphy: Okay. And then when it came to ... kind of, to drafting or signing off key external communications from the bank - a financial stability report, a pre-budget letter - were you central to those ... to the preparation and signing off of those documents?

Mr. Tom O'Connell: Yes, I would have been heavily involved in those, yes, yes.

Deputy Eoghan Murphy: So, if someone want to make a change to something that you had drafted, would that have to come back to you for approval? Would final wording of a document have to come back to you for approval?

Mr. Tom O'Connell: Well, the convention was if something ... if a draft paper were sent up the line, say the draft financial stability report ... up the line and somebody deleted something or watered it down or whatever, I mean, that was taken as, you know, they were superior ... they were more senior to us, so we accepted that. Now, maybe you could argue the toss sometimes and say "Well, I don't think it's right to delete that or whatever" but, generally speaking, what they wanted went, you know.

Deputy Eoghan Murphy: Okay and in terms then ... if you look at something like a financial stability report, and the engagement between Central Bank and the regulator on preparing those reports, after 2004, from previous evidence we've heard, responsibility fell more to the Central Bank. Why was that?

Mr. Tom O'Connell: Well, I suppose financial stability issues generally are more of an economic nature rather than a purely micro-regulatory nature but ... yes, prior to ... yes 2004, the regulatory people did have an economist or two whose ... part of his duties were to liaise with the financial stability department and have an input into the ... into the stability report. Subsequently, the financial stability department would be liaising with the regulator about information or data, that sort of thing, but they weren't really actively involved beyond that point, you know.

Deputy Eoghan Murphy: It is fair to say, then, when it comes to the 2007 financial stability report, that the Central Bank is the key player in drafting that report?

Mr. Tom O'Connell: Yes, that would be true.

Deputy Eoghan Murphy: And are you key in the Central Bank to drafting that report?

Mr. Tom O'Connell: Well, it would be myself and the head of the financial stability department. In actual fact, the head of the financial stability department, although he had the title senior adviser, he was on the same salary as me, so in fact, he often, in practice, dealt with the director general who was the chair of the financial stability committee ... so ... but I would have had a lot of sort of lateral contact with the head of the financial stability department and, you know, we worked in the bank and we had written papers for a long time together and so on.

Deputy Eoghan Murphy: Well, looking at the 2007 report, house prices are beginning to fall but the 2007 stability report favours a soft-landing scenario over a hard landing. Why?

Mr. Tom O'Connell: Nobody can say "Well, it's going to be soft or hard". In fact, it's pretty common for asset price adjustments, particularly in stock markets, as you know ... whatever ... a currency thing ... for commodity markets to get abrupt drops. In fact, quite often you'll get an overshooting downwards. Now, housing market will be ... sort of ... you ... maybe you'll get a slower adjustment, if you like, but you probably can't ... you can never say *ab initio* ... as I think it's more in hope than in confidence you'd talk about soft landings. But, if sentiment, sort of, decreases monotonically or gradually, you might get a ... a ... a gradual fall but you certainly couldn't rule out ... I mean, for example, the instances in Sweden, Finland, Japan, the savings and loans in the States, they were pretty precipitous falls, you know. So, I suppose the Central Bank had to come down on one side or the other ... was there going to be a ... could we say there was going to be a hard landing? Well, for starters you wouldn't know *ex ante* if it's going to be soft or hard but, in general, I suppose, all central banks would tend to, more in hope than in confidence, say "We'd hope for a soft landing rather than a hard landing".

Deputy Eoghan Murphy: I'm hearing, Mr. O'Connell, analysis behind how you answered that question but Professor Honohan, in his report, stated that there was no analytical evidence provided in support of this key conclusion. That's on page 84 of his report. So how was it reached?

Mr. Tom O'Connell: Yes. No, but there wouldn't have been in my view ... I mean, there's no way you could figure out *ex ante* analytically whether it was going to be soft or hard.

Deputy Eoghan Murphy: How do you then decide you would include this language?

Mr. Tom O'Connell: I mean, from my recollection, property prices peaked in February 2007 ... house prices here. And, you know, we were seeing a gradual fall, I guess. The stability report came out probably in November 2007, so you were seeing a sort of a gradual fall ... a fall away and it was probably an extrapolation of that but there would have been, to my knowledge, no analytical or no high-powered analysis to prove that, you know ... of the binomial possibilities, that it was going to be a soft rather than a hard landing. You could possibly extrapolate from the peak property price period in February 2007, given that up through autumn there'd been gradual falls but, you know, if something was going to hit the system, people like the buy-to-let investors and so on might've had to get out quickly, you know.

Deputy Eoghan Murphy: Let me put this again, sorry. You say in your opening statement, talking about the financial stability reports, that the overall assessment in tone which reflected the views of the two boards tended to be reassuring and you imply that this was in contrast to the main body of the financial stability reports, which would you have drafted. So what are you saying there? Did that language come from the board?

Mr. Tom O'Connell: Yes, well, in essence I'm saying that the editorial in the financial stability report ... I mean, they would have had a day-long consideration of the body of the report - all the details, data and so on - and they would form their views and that would be embodied in the editorial, sort of. So, I always felt there was a potential disconnect, if you like, between the body of the report, the technical analysis and the overview.

Deputy Eoghan Murphy: And did you object at the time?

Mr. Tom O'Connell: Did I object? Maybe not because I probably knew that what the board says goes, you know.

Deputy Eoghan Murphy: Okay.

Mr. Tom O'Connell: I mean, I may have interpolated at the day-long session possibly all right saying, you know, "That's a very serious situation and can we have a more benign view in the editorial?" But I ... I have to be honest ... I probably didn't object as much as I should have done.

Deputy Eoghan Murphy: You mentioned in your opening statement that it was a question of tone and you've just said there ... there said editorial but Honohan also notes in his report, on page 83, in relation to the estimates of house price overvaluation said had appeared in financial stability reports ... results of models estimating overvaluation were presented in successive financial stability reports "up to and including that for 2006", but:

> By contrast [this is on page 83 of the Honohan report] the 2007 [financial stability report] is notable for the absence of any updating of the calculations reported earlier. In particular, there was no update of the McQuinn-O'Reilly (2006) model. However, an internal staff updating of this model undertaken in April 2008 (after publication of the 2007 [report]) indicated that house price overvaluation was estimated to have reached almost 35 per cent by mid-2007.

In your opening statement you say that "a deliberate decision was taken [in preparing the 2007 financial stability report] to delete the conclusions of a research study updating the extent of the overvaluation of Irish property prices". So, first of all, was the 2006 Quinn-O'Reilly model updated in advance of the 2007 financial stability report?

Mr. Tom O'Connell: Yes, my recollection is that it would have been because, if you like, the format of the ... obviously, the question of overvaluation was a very topical issue which would have been looked at - or should have been looked at - and it certainly would have be done and the ... I'm sure ... I would stand to be corrected on this but I would imagine the draft financial stability report probably had that update in it but it was taken out.

Deputy Eoghan Murphy: That's probably the research study then that was deleted from the 2007 financial stability report.

Mr. Tom O'Connell: Yes.

Deputy Eoghan Murphy: So who made the decision to delete it?

Mr. Tom O'Connell: Do ... can I name names?

Chairman: No, but you can tell us at what level it was made. Was it made up further-----

Mr. Tom O'Connell: It was made at a level above mine.

Deputy Eoghan Murphy: Was it made at the board?

Mr. Tom O'Connell: No, I think below the board.

Deputy Eoghan Murphy: Below the board. A level above yours.

Mr. Tom O'Connell: Yes.

Deputy Eoghan Murphy: Okay. Someone you reported to?

Mr. Tom O'Connell: Pardon me?

Deputy Eoghan Murphy: Someone you reported to?

Mr. Tom O'Connell: Yes.

Deputy Eoghan Murphy: Okay. Why was that decision made?

Mr. Tom O'Connell: Well, I can only assume that they were afraid of frightening the horses, you know-----

Deputy Eoghan Murphy: Did you challenge it?

Mr. Tom O'Connell: -----even though ... even though, in actual fact, 35% was an underestimate, in my view. In fact, Honohan, as you probably know, had some econometric issues about the McQuinn-O'Reilly approach and I would have had too. But, no, I guess that there probably was a view that if you put this in and ... the estimated overvaluation, even though it's on the low side, in my view, of 35%, could have spooked the horses.

Deputy Eoghan Murphy: So did you challenge its exclusion?

Mr. Tom O'Connell: I can't remember whether I did or not but, I mean, by implication, the draft going up the line would have included it. So, I would have wanted it to be in but it was taken out.

Deputy Eoghan Murphy: But could a soft-landing scenario still have been put forward in the 2007 stability report if the research had been included?

Mr. Tom O'Connell: Well, I don't think that research would have been conclusive one way or the other, you know. You'll probably note from, you know, both Nyberg and Honohan and so on that you won't get anything terribly definitive. In fact, you may recollect going back to Greenspan ... Greenspan famously or infamously said "I can never know whether there's a bubble there or not but what I'll do is, I'll pick up the pieces after the bubble", you know, so that's not a very wise thing to do. But, not, the 35% estimate would have been an underestimate in my view. And in the event it was, of course, it was very much an underestimate.

Deputy Eoghan Murphy: The people who did that research in 2007, a report and still concluded in favour of a soft landing over a hard landing.

Mr. Tom O'Connell: I think you still could have done, yes. But again it's more ... you could say it is a bit of wishful thinking, you know. Nobody can ... can say *ex ante* whether it is going to be a soft or a hard landing. I mean, when the stability report came out in November 2007 that was eight or nine months since the peak of the property market so there had been, sort of, a gradual decline and maybe the ... extrapolating that the hope was that that would continue and they wouldn't have a complete collapse, you know.

Deputy Eoghan Murphy: On the language, because it was very important in the scheme of things because it had an impact on the public in terms of their awareness to the actual challenges the economy were facing. Soft landing was reassuring.

Mr. Tom O'Connell: Yes, although I wouldn't attach too much significance to a soft landing. I mean, I think in that third paragraph of the financial stability report which both Donal Donovan and Professor Gorecki put to me ... I think it was sort of said that the risks are increasing but they are manageable, you know. It means the same thing,. If they're manageable, we're looking ... we're looking at a soft landing. But I wouldn't attach too much significance to the particular words that were used and in a way, I mean, any Central Bank probably had to sort of say, ''Well, it will be all right on the night'', or words to that effect, you know.

Deputy Eoghan Murphy: Are you agreeing with then the overall tone and assessment of the 2007 financial stability report?

Mr. Tom O'Connell: No, I personally wouldn't have agreed with it, no. No, because the body of the report was pointing in all the wrong directions. In fact, I used to say------

Deputy Eoghan Murphy: I'm confused because you seem to be saying that it was probably necessary to present such a hopeful overall assessment in public since the Central Bank can hardly conclude that the banks were about to collapse. So are you agreeing with that report and how those decisions were reached?

Mr. Tom O'Connell: Well, no, well back as early as 2001-2002, my view was that things were going crazy and we had a massive bubble in the system. So I mean, what sort of a ... if you look at ... go back to the stability report in 2007 you had the body of the report all indicators pointing in the wrong direction. And then you have an overall assessment of what's happening. I mean, the ... could ... if I mean I was asked to do an objective assessment, an objective overview on the basis of the indicators, I would be inclined to say, ''Yes, we are headed for big trouble''. But, a central bank being a central bank can't really say that, you know; it has to, sort of, pull its punches really.

Deputy Eoghan Murphy: Okay. So the Central Bank then did the job it was meant to do.

Mr. Tom O'Connell: Pardon me?

Deputy Eoghan Murphy: The Central Bank did the job it was meant to do with those financial stability reports?

Mr. Tom O'Connell: Sorry, I can't catch-----

Deputy Eoghan Murphy: The Central Bank did the job that it was meant to do.

Mr. Tom O'Connell: Yes, but I mean you see, the Central Bank ... in fact, I should have said it when Donovan and Gorecki asked me about that or put that paragraph to me, I sort of said ... they said to me, ''Isn't that very complacent?''. I said, ''No. That's Central Bank speak and it's negative in fact''. In fact, you probably know loads of people have made a good living out of parsing the words of Greenspan or Bernanke or Mervyn King or whatever, you know, if they altered their statement from one month to the next. So in Central Bank speak, in my view, the overall assessment was possibly ... probably quite negative, even if it had used the words ''soft landing'' and ''things are manageable'' and so on. But if you read between the lines, as people who were familiar with Central Bank speak would do or would want to do, you could see that was pretty negative, you know?

Deputy Eoghan Murphy: And so it would be your view that, excuse me, that nobody was reading between the lines?

Mr. Tom O'Connell: Well, experts would be. No, because, in fact, outsiders, I mean-----

Deputy Eoghan Murphy: Okay.

Mr. Tom O'Connell: Prior to that, back a couple of years before that, we would have had occasionally very large investors coming to Ireland and thinking about investing in bank shares. And I remember there was a huge ... I think it was the second largest pension fund in the world from Holland came over. We wouldn't normally meet them but I think I was told since they're so important you have to go and meet them. Now these guys in 2005 were utterly and totally sceptical of Irish bank shares. But I mean I had to sit there in front of them and sort of say "Well, yes, they are problems over there all right". In the event they didn't invest but, I mean, people in the know were clear that things were problematic. And, you know, they'd be the people who were reading Central Bank speak and they would have seen that third paragraph in the FSR in 2007 as being a negative message, rather than a positive one, in my view.

Deputy Eoghan Murphy: I wanted to come back to something you said in relation to the board to try to get a better understanding of what was happening there. You mentioned in your opening statement political and property interests on the bank's board making it difficult to get certain views through, but earlier you also said that contrarian views didn't drift up to the board. So, which is it?

Mr. Tom O'Connell: No, contrarian ... I wouldn't call them contrarian views. But I ... they were sort of realistic views. Yes, I mentioned that example of the need for more zoning of land, which was a crying need at the time. I mean, as I said, these guys had cornered the market in zoned land in north Dublin. In fact. there's another case ... it arose in Waterford ... in Dungarvan I think. I mean, it mattered greatly where on a map the line for rezoning was. So when I put that up ... because you had to increase housing supply, particularly in the greater Dublin area and you weren't going to do that unless you had more land zoned. So when I put a very tentative point in the comment which was the editorial for the bulletin, to push it up the line to say we need to consider, you know, more zoning or whatever or, you know, some very milk and watery language, that was deleted. It didn't go beyond ... it didn't get to the board.

Deputy Eoghan Murphy: It didn't get to the board.

Mr. Tom O'Connell: No.

Deputy Eoghan Murphy: So what do you mean when you talk about political and property interests on the bank's board making it difficult to get certain views through? Is someone mindful of who's on the board so they are keeping things from getting through?

Mr. Tom O'Connell: Yes, it's the intermediate person between me and the board-----

Deputy Eoghan Murphy: Between you and the board-----

Mr. Tom O'Connell: -----who blocked it and, you know, I mean, as you know, land zoning and so on is a very contentious issue. People can make fortunes out of it, or not, as the case may be. And it didn't go beyond to the person to whom I was reporting, no.

Deputy Eoghan Murphy: Okay, so was that person then protecting members of the board from a potential conflict or was he protecting them from having to consider information that would conflict them? I mean, why protect them?

Mr. Tom O'Connell: No, my interpretation would be that if you get into the issue of zoning of land and so on, that is a very - what do you call it? - controversial area, you know, because ,I mean, I was going to say down in Dungarvan there was a criminal case there where somebody was up for corrupt planning. And the county manager, in the course of the trial, said that if you zoned a particular piece of agricultural land, that would have increased in value tenfold. So, the zoning of land, as you blokes probably know very well, more than I do and county council and so on, is a very contentious issue. But the point ... the economic point is that one needed to increase housing supply and, therefore, zoned land ... more zoned land had to be brought on stream. And I was trying to hint at that in my draft comment, which never went beyond that.

Deputy Eoghan Murphy: Mr. O'Connell, in your view, was your intermediary acting appropriately by not bringing that to the board?

Mr. Tom O'Connell: Well, I thought ... I mean, suppressing what I saw as an economic argument wasn't a good thing, you know.

Deputy Eoghan Murphy: You also state that the large exposures of the banks to individual developers was rigorously concealed from your level in the bank. Concealed on purpose I-----

Mr. Tom O'Connell: Well, no, it was a question of secrecy you know. You don't leave these things lying around the place. No more than, for example, my colleague on the seventh floor dealing with liquidity to the banks. You know every day they'd have a table about the provision of liquidity to the banks, the collateral the banks had, how much more they could borrow over the next few months and so on. You didn't leave that lying around the place. I was shown it the odd time but it was never actually physically given to me. I might have perused it over somebody's shoulder or been asked to look at something like that. But so, being ... being ... not seeing the large exposures, it was, sort of, par of the course. You know, I didn't need to know but, of course, we knew anyway that total bank lending was going crazy.

Deputy Eoghan Murphy: Was it being deliberately kept from you, this information?

Mr. Tom O'Connell: I don't think I probably needed it, you know. But I mean-----

Deputy Eoghan Murphy: I'm sorry you said it was "rigorously concealed from your level in the bank" and you used the word "secrecy". So was it deliberately kept from you?

Mr. Tom O'Connell: Well, I don't mean in a pejorative sense, you know. It was just that if you didn't need to have the ... to see the data, I mean, it wasn't provided to you.

Deputy Eoghan Murphy: I'm going to take issue on that expression, "rigorously concealed", because that intimates an intention, an act, you know, a motivation to keep it from you.

Mr. Tom O'Connell: Well, maybe it's not the best choice of words by me but it probably wasn't necessary. I mean, I would know from the press anyway. These guys who were developing places around the city and so on, they had to be borrowing massive amounts but I wouldn't have known definitively. But, of course, I'd know that ... I'd know that individual bank's lending was increasing massively and the aggregate lending was increasing massively too to the property sector, yes.

Deputy Eoghan Murphy: Okay. You talk about the intermediary that you would report to keeping information from the board.

Mr. Tom O'Connell: Well, that item didn't go forward-----

Deputy Eoghan Murphy: In relation to zoning you said keeping information from the board.

Mr. Tom O'Connell: Yes.

Deputy Eoghan Murphy: So when the board made decisions, when it agreed editorial or financial stability reports, when it drafted pre-budget letters, was it making those decisions with the full information?

Mr. Tom O'Connell: Well, those guys were pretty smart, you know. Some of them were in the property sector themselves ... there were businesspeople and others. Had they got the full information? I'm not sure, but, I mean, the drafts, or papers if you like, were filtered through to the board and it was up to the top people in the Central Bank to decide what went or what didn't go, you know.

Deputy Eoghan Murphy: Was it your contention that key facts were intentionally kept from the board of the Central Bank?

Mr. Tom O'Connell: Well, I thought ... I mean, that point about the zoning was an important point, I mean, it's not a ... it's not an issue where there's any impropriety involved or anything like that, in my view, but it's just a common sense economic point that housing supply had to increase and in order to do that you needed more zoned land.

Deputy Eoghan Murphy: And what about then memos that you would have written about reining in lending to the property sector, which you referenced in your opening statement, by imposing credit ceilings? And the memo came back with the words, "That is out of the question", added to the memo. Why did that happen do you think, and was that information brought to the board?

Mr. Tom O'Connell: No, that would have ... that was a note that went to the Governor and yes, ... as I said ... the Governor initially had said, "We'll have to consider bringing this to the board ... this issue to the board, as to whether we restrict the banks in their lending", but the point you mention, "That is out of the question", seems to have overridden that, so that item would not have gone to the board, I think, by definition.

Deputy Eoghan Murphy: And just to clarify again, would the board have been aware of that model that was in the first draft of the financial stability report of 2007 on overvaluations of house prices, Irish property prices, that was then dropped out? They wouldn't have been aware of that?

Mr. Tom O'Connell: No, they would not have known in my view.

Deputy Eoghan Murphy: Okay, so that was also kept from them. When it came to then the drafting of the pre-budget letters, just, these letters that went, were you involved in the drafting, the initial drafting of these?

Mr. Tom O'Connell: Yes, I would have been. I would have overseen it or put some pointers to the chaps who might draw it up, you know.

Deputy Eoghan Murphy: But you wouldn't be involved in final sign-off of those?

Mr. Tom O'Connell: Well, the Governor would have the final say on that, you know. For example, if he didn't like the tone of the draft that was sent to him, he would alter it. He'd come back to us and, yes, he had the final say. Yes.

Deputy Eoghan Murphy: Did the Governor or the board have the final say on the pre-budget letters?

Mr. Tom O'Connell: The Governor would generally show it to the board, so they would have an input into it in my ... yes.

Deputy Eoghan Murphy: Okay, so would those same vested interests, those same things that were happening that we have just discussed about, would they have also been in play with the submission or the drafting of the pre-budget letters in terms of information being kept from the board?

Mr. Tom O'Connell: Well, I don't think that would have arisen with the pre-budget letter. You know, most things would have been on the table. Now, I can recollect in the past though, having said that, that, you know, from the economics department we might have suggested maybe some tax change or whatever, but that would typically have been not ... that wouldn't run because the view in the bank was that taxation was a matter for Government and we don't sort of suggest that they tax X and subsidise Y, you know. So they would be, sort of, general economic issues, talking about the stance of upcoming fiscal policy in the budget recommendation, maybe bank lending property prices would have figured quite strongly, I think, too, yes.

Deputy Eoghan Murphy: Okay. So that's an example of information not going to the board, but not because of a conflict of interest or a potential one or an intermediary stepping in the way but because it wasn't what the Central Bank did. Is that correct? You didn't give advice on taxation issues. Is that what you said?

Mr. Tom O'Connell: No, no, no. Yes ... I think ... I can recollect way out back in the past we probably did, you know. We put something in about maybe something should be taxed, let's say for environmental reasons or something like that. But the view was that it's not for us to say what taxes should go up or taxes down, it's really for Government, you know.

Deputy Eoghan Murphy: And did you ever disagree yourself with any of the pre-budget letters that were sent to the Minister between 2002 and 2008?

Mr. Tom O'Connell: The ... no, I think ... I think I would have been in general agreement with those, you know, because we would have drafted the approach and the approach generally wouldn't have been massively altered by the Governor or the board for the most part.

Deputy Eoghan Murphy: And did you ever write to the board yourself expressing concern about information being kept from them by the person your reported to?

Mr. Tom O'Connell: No, I didn't, no.

Deputy Eoghan Murphy: And then when we come to the 2004 pre-budget letter, it's noted by the board, after the budget, that the advice from the Central Bank was not fully adhered to. In that scenario, what does the Central Bank do? Does it write a post-budget letter? Does it note this in its financial stability report?

Mr. Tom O'Connell: No, I mean, I think the view is that ... the bank or the Governor is giving advice to the Government, the best advice as he sees it, and the Government is the final arbiter in these things, you know. They can decide to ... not to accept that advice. I mean, it would be fairly common, you know. The Bank of England might be recommending to the British Government the same thing or the Fed in the States, you know, it would be fairly common.

Chairman: I need you wrap up and I'll bring in-----

Deputy Eoghan Murphy: And my final question, the failure to pursue post-budget announcement what hadn't been adopted by the Central Bank pre-budget. Did that have anything to do with the membership of the board of the Central Bank, or vested interests, as you describe them, operating within the bank?

Mr. Tom O'Connell: Well, I can only surmise about that. You know, a lot of people on the board had a strong political affiliations, as you are probably aware. I have ... I mean, it'd be logical for them to put their preferences to their political friends, I suppose, from time to time-----

Chairman: Sorry, I'm not even going to go there. I'm just going to wrap that up. Senator MacSharry, please.

Senator Marc MacSharry: Thanks and welcome, Mr. O'Connell. Just to get through a few ... the mandatory pieces first. Was there any interaction with the banking supervisory team on macroeconomic or financial aspects, for example, on the strong credit growth in the years preceding the crisis?

Mr. Tom O'Connell: Well, there certainly would have been ... as part of the ... procedure for processing the stability report. In fact ... yes, maybe you're, sort of, asking about, you know, the interaction with the regulator, or between the bank and the regulator, and there would have been quite a lot of fora there. You had the memorandum of understanding between the bank and regulator for starters. Then you had the ... the Governor used to have a Monday morning meeting, you know, dealing with current issues and so on, and we'd all be there together. You had the financial stability committee itself, of course, which dealt with things. The regulator and the bank would have been on that. And, of course, we were on the same floor, so we'd bump into one another quite a few times a day. But having said that, I mean, to take one example I remember when the Seán Quinn thing burst, you know, I wouldn't have had any-----

Chairman: Mr. O'Connell, you were in the Central Bank, I think, in 1970 until 2010. By my recollection that's 40 years. Now you probably have a better understanding than any of us inside in this room as to what the obligations of section 33AK actually are. If you want to waive them, inform us that you want to do so and I'll try and guide you but I would be advising you in that regard, okay?

Mr. Tom O'Connell: No, sorry, Chairman, no, I was taking that as an example. When the problem thing arose ... I wouldn't have interacted with my financial regulatory colleagues on the same floor about that but I think I mentioned maybe to one of the guys at the water fountain on one occasion "This is an issue for you", and they'd say "Yes, it is an issue", so you know we wouldn't be going into detail on it, no.

Senator Marc MacSharry: Okay, apart from water fountain interactions, was there a structural or formal interaction between your department and the banking supervisory team in a variety of issues, but you specifically said the stability report?

Mr. Tom O'Connell: The financial stability committee would have been the forum, I suppose, where the interaction was greater-----

Senator Marc MacSharry: Were you on that and was there-----

Mr. Tom O'Connell: Yes I was, yes, and there were regulatory people there too.

Senator Marc MacSharry: That's grand, so there was interaction. That's good. And it was in a formal way, yes or no?

Mr. Tom O'Connell: Yes, I mean there were members there, so issues that were ... issues, significant and important issues would arise there and there'd be a round-table discussion of it, yes.

Senator Marc MacSharry: Okay, that's grand. On page 40 of the Regling and Watson report it is mentioned that by far the most serious macro-financial flaw was the over-exposure of institutions to commercial property. From the documentation seen by the inquiry this, particular theme of commercial property financing appears not to have been regularly discussed at the Central Bank and Financial Services Authority of Ireland board meetings before 2006 and was still playing a smaller role in residential property in 2007. In your opinion, why was there so little attention to this theme until, kind of, late/post-2007?

Mr. Tom O'Connell: Well .. I was sent actually 400 pages, you know, the two volumes to look at there. When I went over it, commercial property lending and the area was covered in the stability report. In fact, I can recollect the material that was sent to me. Lending to the commercial property sector was, back in 2002-3-4, rising at 40% to 45%, you know, which is very, very high. But I would agree with you that it didn't receive maybe the degree of prominence that it should have got because if you look at the banking crashes in most countries - Japan, Sweden, Finland and so on - it's commercial property that brings people down. Now to some extent, my view also is that the residential mortgage area was politically more important and, therefore, it should be looked at more carefully. I mean, politicians, like you folks, were very concerned about that, and that was also reflected in the great emphasis on the consumer function in the regulator.

Senator Marc MacSharry: But is it your contention that commercial property and its importance, while you may have been personally aware, as you said there, it was growing to 45% in the early 2000s, your ... is it your contention that because it was conceived or felt to be politically more important, it was ignored?

Mr. Tom O'Connell: I think that was an element of it, yes, but, I mean, commercial ... the commercial property area, I think, was covered ... was covered to some degree. Vacancy rates would have been flagged, for example, rents and commercial property would have been flagged quite a lot, but I ... as far as I can recollect, there was probably only one special article on commercial property, maybe in the 2007 financial stability report. You could argue that it should have been treated more extensively at an earlier stage, I think, on reflection. That's probably right, yes.

Senator Marc MacSharry: Okay. In your opinion, were banks aware of the risks to financial stability and to their own business strategies, and would you think that the banks awareness of this increased over time or what's your sense of it?

Mr. Tom O'Connell: I presume the banks weren't aware of it. The fact that they went ahead and engaged in all this lending. For some naive reason they probably assumed that things would be all right on the night. But, I mean, when you look at it with property prices increasing at 20%, 25% a year, their own lending increasing at 30%, 35% a year, year in, year out, I mean, you had to ask where was it all going to end.

Senator Marc MacSharry: Can you just ... I know you said it earlier and, just for fear of getting it wrong, I'm going to ask you to repeat it cause I mightn't have been concentrating as much as I should have been. Your position on retirement was what?

Mr. Tom O'Connell: I was assistant director general, it's called, yes.

Senator Marc MacSharry: Assistant director general. And you reported, if I recall correctly, to the director general, on the economics side, and the Governor themselves?

Mr. Tom O'Connell: Yes, in the sort of in a loose way, depending on the topic, you know. In fact, quite often you would send something to both of them, maybe simultaneously, possibly, yes.

Senator Marc MacSharry: Okay. Would there be any ... is it fair to say that these two individuals, or these roles, were the only two people more senior to you?

Mr. Tom O'Connell: No, there was a third person. Deputy director general was ... there were three people ahead of me.

Senator Marc MacSharry: What's the problem?

Chairman: I ... I think we were observing. I'd be ... just be mindful of leading witnesses, but-----

Senator Marc MacSharry: Well, I'm not mentioning any names.

Chairman: Yes ... yes, okay.

Senator Marc MacSharry: The positions were held by various people, through the Chair-----

Chairman: I ... just, stop the clock a second there.

Senator Marc MacSharry: Yes, if we could. Can I speak?

Chairman: I ... no, no, I'm gonna speak 'cause I'm stopping the clock to speak. Now, just be mindful that when we get to writing a report here, if evidence provided inside in this room is not sought in a legal fashion, it doesn't matter what line of questioning a member takes, it cannot be used in the final report. So, with that regard I'd ask you to continue please, Senator MacSharry.

Senator Marc MacSharry: So-----

Deputy Michael McGrath: Sorry, Chair, the positions that people held in the Central Bank are on the public record, and getting those in testimony is, in my view, perfectly in order.

Chairman: Yes, okay. Well I'm just ... I-----

Deputy Michael McGrath: The positions people held at different dates and who reported to who is a public record.

Chairman: Okay, and I'm just being mindful to members ... that they be mindful of their questioning because if they do step outside the legal position, and this applies to all members, it creates difficulties in terms of a final report. So, Senator, back to yourself.

Senator Marc MacSharry: So, now that we're all clear, can you tell me were there any other positions that were more senior to yours than the two that I outlined?

Mr. Tom O'Connell: Yes, there was a deputy director general as well.

Senator Marc MacSharry: So apart from the position, as opposed to the personality ... apart from the position of deputy director general, director general and Governor, were there any more senior people than you in the Central Bank?

Mr. Tom O'Connell: No, I think that sums it up.

Senator Marc MacSharry: Okay, yes, that's good. Can I ask, how is it possible for information to be rigorously concealed, to use your words, or to use other words, not to be able to find their way to the board, not even through the water fountain interactions, when you reported to effectively three members of the board and the three most senior people, from an executive perspective, in the bank?

Mr. Tom O'Connell: Well I think, as I said to Deputy Murphy, maybe the term I used, "rigorously concealed", might suggest that there's a sort of ... some impropriety behind it-----

Senator Marc MacSharry: That's not the only reference-----

Chairman: I need ... I need to allow Mr. O'Connell to respond now, Senator.

Mr. Tom O'Connell: Yes, sorry ... no, it was ... it was not ... it was not made available to us, but you could argue that it maybe wasn't that necessary, you know, because we knew in any event that bank lending was increasing at a massive rate. I mean, what ... do we need to know ... although, it may have been relevant alright that it was concentrated on half a dozen property developers, but we were probably sort of roughly aware of that anyway. But I must say, I was taken aback though when I did mention one property developer to a consultant who came into IFSRA, and I had met him how much would they have borrowed, and he ... bank borrowing, and ... no, he asked me how much did I feel they had to borrow, and I said "How about €1 billion?" And he said "No, €3 billion".

Senator Marc MacSharry: And that's in your statement.

Mr. Tom O'Connell: Yes.

Senator Marc MacSharry: But you've also said, I mean, it might have been unfortunate there the first time to use the "concealment" word, but I mean, you said "That was blocked from reaching a higher level in the bank, in the light, in my view, of political and property interests on the bank's board". Now, naturally, this is of huge concern to ourselves here, in the public interest, in trying to get to a report at the end of this process. If you are saying on one hand, albeit a slip of the tongue, and a Freudian slip, to use the word "concealment", you're also saying here, specifically due to, what is your view of political and property interests on the bank's board, that notwithstanding the fact that at the water fountain, when you meet people, and the three other more only positions that are senior to you, that you have difficulty getting important vital information to the board. So, you'll forgive me for saying, but I'm bound to say, there's a lack of credibility here.

Chairman: Sorry. Hold on a second now. I ... I don't want to put this committee ... it'll be the first time that I'll actually have put this committee into recess of private session when we're in public hearings, but a member cannot-----

Senator Marc MacSharry: Chairman, can I ... can I-----

Chairman: No. I ... I ... please, because I don't want to move to private session.

Senator Marc MacSharry: Alright, you keep talking, so.

Chairman: We will, and the clock is stopped, and that's why I'm the Chair.

Senator Marc MacSharry: I think we should go into private session for a couple of minutes.

Chairman: No ... we can do that but we'll do that when we go-----

Senator Marc MacSharry: And we'll stop the clock at 15:09 there. I would suggest we do that as quickly as you can, Chairman.

Chairman: No, we ... we can take the break in a moment. If the ... the implication of a value judgment and questioning a member ... a testimony in here is something that is done at the final report stage. We have books of evidence, we have witnesses coming in before us, but to make a value judgment with regard to a witness's evidence, in session, and to imply something like that is very, very difficult, Senator. Okay?

Deputy John Paul Phelan: Can we take the break now, seeing that it's coming in a few minutes, and have that discussion?

Chairman: Okay, alright, that's great. Okay, we'll take a break. Okay, while we take the break can we just ... and can I remind the witness ... and we'll stop the clock there for Senator MacSharry. Can I remind the witness that once he begins giving evidence he should not confer with any person other than his legal team in relation to his evidence on matters that are being discussed before the committee. With that in mind, I now suspend the meeting until ... well, we'll ... we'll give it just a few ... five minutes for a suspension, and we might then resume, but depending how long the discussion will take I'll let you know, Mr. O'Connell, when to return to the room. Okay? And may I remind the witness that he is still under oath until we do resume at that stage, and I now request that the public Gallery would be cleared. Yes, sorry, I now propose we go into private session.

The joint committee went into private session at 4.28 p.m. and resumed in public session at 5.15 p.m.

Chairman: We will now resume in public session and to continue with Senator MacSharry. Senator MacSharry.

Senator Marc MacSharry: Thank you very much and sorry for delaying you, Mr. O'Connell. Before the break, I was referring to your ... to your evidence about your view in communicating your views to the board and I suggested that this did not seem credible. Now I don't want to make any judgment or give the impression that I want to put forward any opinion. But can I ask you, do you feel that this is reasonable?

Mr. Tom O'Connell: I'm not sure what the ... what the thread really is, Senator. Are you saying-----

Senator Marc MacSharry: The thread was, I suppose, the proximity perhaps, through your immediate superiors being quite close to the board and is it reasonable to say that your views had no way of finding their way to the board given such proximity?

Mr. Tom O'Connell: Well, I think we were talking about the need for zoning more land to increase housing supply. That was where ... well the way things would operate would be-----

Senator Marc MacSharry: In fairness, you did make reference to a number of things. There were three different occasions where you intimated that there were political and property interests across the boards of both the regulator and the ... and the Central Bank in one part. You later talked about concealment and, granted, you wanted to correct that word. And the third issue then, where you mentioned the property and political interests at the board which, in your view, had prevented your views getting across. And I was simply putting forward to you, was it reasonable in your view to say that it was impossible to get your views to board level given your proximity to it, your seniority in the organisation?

Mr. Tom O'Connell: Well, the way it operated was our ... say our department might have a proposal or put an idea up and it had to get through to the levels above that. I mean, it was up to the levels above us, they were more senior than me in the organisation. They could decide what would run or not run. You know, that's the nature of a hierarchical set up.

Senator Marc MacSharry: I understand. And just at the various times that you would have been asked to make presentations to the board, did that never open an opportunity for you to say ''While I'm here and we are talking about this aspect of the economic forecasting of the bank, I would like to highlight that I have a concern about X or Y''? Did that ever occur?

Mr. Tom O'Connell: If it arose naturally, I can't recall too many instances. I mean if it ... obviously questions would be put to you by the board members and you would try to answer those. Now I ... the issue of housing supply and zoning of land, they may have been mentioned partly in the financial stability reports. I can't be definitive offhand. But since they relate to the need to increase housing supply to dampen the price increase of property, they probably arose there but not in a, sort of, a ... in a way to persuade-----

Senator Marc MacSharry: Can I ask you ... your view as articulated here seems quite strong on ... this was a view that you had, kind of, being putting across every day, you said, and you had difficulty in getting it through, is that the case? Is it fair to say, yes or no?

Mr. Tom O'Connell: Yes, that's fair to say.

Senator Marc MacSharry: You gave us the background.

Mr. Tom O'Connell: Yes, that's fair to say-----

Senator Marc MacSharry: Okay, can I ask-----

Mr. Tom O'Connell: Sorry, some people might say I'd a bit of a hang-up about zoning of land but I felt it was a very important ... it's not a political issue, it's an economic issue, but it had a massive bearing on the evolution of property prices so that's why I felt strongly about it. Now having said that, to get something through to the board and, let's say, even put it in the budget-----

Senator Marc MacSharry: You had your three superiors above you and they had to-----

Mr. Tom O'Connell: Yes, and my ... my feeling was that zoning of land was always a very controversial issue, as you probably know-----

Senator Marc MacSharry: No, no, I get all of that and, as you rightly say, politicians will know.

Mr. Tom O'Connell: So I felt the bank probably didn't want to get into that sort of controversial area, so that's why-----

Senator Marc MacSharry: Well, just again, if we could stick to "Yes" or "No", I've only a minute left. Specifically "Yes" or "No" if you can, okay? I mean we get all about zoning of land and all that. You had three superiors between you and the board, I think, we gathered from earlier debate. Was it that you independently felt it was impossible to put this forward to your three superiors or did you put it forward to the three superiors and felt that it reached a dead end there?

Mr. Tom O’Connell: Well, I put it forward ... I can recollect about, without harping on zoning of land, I put it in a comment, which is an editorial in the bulletin to the next level, and it didn’t run there. It was taken out, so for better or worse, that person felt that it wasn’t appropriate to put it further up, you know.

Senator Marc MacSharry: Yes. On three occasions you mention in your ... in your statement, that you were instructed - in one instance to do with seeking a retraction from the OECD published view, in one instance it was a request to the ESRI not to proceed and publish a particular view, and in another instance, it was to do with a change to the financial stability report. Did you protest strongly when this happened?

Mr. Tom O’Connell: I don’t think I would have done because I mean it was sort of a direction given to me, you know. I-----

Senator Marc MacSharry: Did it worry you to the point that, “Look, I’m concerned about this”?

Mr. Tom O’Connell: My worry was that people were in denial. You know, there was a massive property bubble there I felt no matter what the statistical exercises or econometric exercises would showed. So my concern was that, when this all hit the buffers, the country was going to be in a massive problem. So, I mean ... I ... in relation to the OECD chap, for example, you know, one of my subordinates, I asked him to ring the OECD ... to ring the newspapers, because I can recollect distinctly the OECD view about over-valuation of property was on, it was either page 3 or page 5 of *The Irish Times*, top of the page. And I mean, to expect the OECD to ring up the newspapers and say “Well they were misquoted”, you know, that was sort of off the wall. You let the OECD make up their own minds, for better or worse.

Senator Marc MacSharry: Was it that what you were asking them to do? To-----

Mr. Tom O’Connell: Well that’s effectively what ... yes, it was.

Senator Marc MacSharry: And was this common procedure? Was this regularly done?

Mr. Tom O’Connell: It wouldn’t be . Well, there wouldn’t be too many newspaper coverages of, say, IMF comments or OECD comments on Ireland, but there was-----

Senator Marc MacSharry: Would you contact the organisation and say “Look, would you ever mind-----

Mr. Tom O’Connell: That would be highly unusual, yes.

Senator Marc MacSharry: Thanks.

Chairman: Okay, thank you very much. Senator Barrett.

Senator Sean D. Barrett: Thank you, Chairman, and welcome back, Mr. O’Connell. Looking through the CBFSAI reports between 2004-2009, could it be said that the emphasis was on economic development, retail sales, industrial output, the live register, productivity, inflation, house prices and so on, and not sufficiently to the financial aspects of the banking industry, which, I think, we're agreed is what brought us down in the end?

Mr. Tom O'Connell: Yes, I'm just trying to recollect the structure of the quarterly bulletins and the annual reports and so on and I don't think they were treated ... the banks weren't treated much at all, if at all, from my recollection in the quarterly bulletins. Well, they would have been indirectly in the sense that there would be commentary on what was happening to credit, bank lending, the concentration of that lending in property and so on but I can't recollect ... it would have been left probably to the financial stability reports to comment on the balance sheet of the banks, you know, their funding structure and the extent to which they were dependent on wholesale funding, that sort of thing. So there wouldn't have been an overt commentary on the, certainly the entire structure of commercial banks' balance sheets in the regular quarterly bulletins. It would be on evolution of the money supply, which would include bank deposits, of course, and bank credit. As you probably know, regularly there would be ... there's a statistical survey or analysis of the sectoral distribution of credit. So, you would see ... and there would be a short commentary issued by the bank press office, I think, about how credit was going to the different sectors, property, construction, etc., etc., but I, I think you're ... you're, broadly speaking, right though, if you're talking about, technically, the quarterly bulletins, they probably didn't focus especially on the overall picture of ... for ... for the commercial banks.

Senator Sean D. Barrett: And could you just expand briefly on how this information was communicated to Europe? There is a ... on page 64, "the Bank was not aware of ... action ... taken by [any] other national central banks in the Eurosystem, which the bank", i.e., here, "was not already taking".

Mr. Tom O'Connell: Sorry, Senator, I'm not ... not sure what you mean by ... what actions do you ... do you mean, say, restrictive actions, say, is it?

Senator Sean D. Barrett: Yes, on restricting credit growth, because we had this very large credit growth in excess of the other countries in the eurosystem and was that communicated to Europe or proposed or discussed at any of the meetings that you were at?

Mr. Tom O'Connell: It ... until the crises broke I don't imagine it would have been a significant issue for the European Central Bank. I mean, as you know, at the time the European Central Bank had no function in supervising national banks in different countries. So, it probably wasn't on their horizon to any great degree, I would have thought. The EU Commission, of course, you know, would ... would be doing their surveys of Ireland, like the OECD and the IMF and they ... they would be alert to that, certainly, yes.

Senator Sean D. Barrett: And the HERMES model, Professor FitzGerald gave evidence ... it didn't include a financial sector. Was that ever discussed at, at meetings where, where you were present?

Mr. Tom O'Connell: Yes, I mean, a lot of econometric models would have a very limited financial sector, you know, because it's, it's difficult to model. I mean, you'd often have, say, things like a demand for money function and so on but the interactions between banks, I mean, interbank borrowing, interbank lending ... of course they're chopping and changing every day of the week, so, it is very difficult to capture that. So, usually in, in economic modelling, financial sectors are, are very ... they're stripped bare, largely. So, the ... you'd have ... you'd have a credit functioning ... figuring all right, and the money supply on the liability side but not an awful lot of interaction, you know, within the, the financial sector.

Senator Sean D. Barrett: The phone call to the ESRI about the Alan Barrett article. Soon afterwards, as you know, all the independent articles were dropped from the quarterly economic commentary, it just became an in-house ESRI thing. Were those events connected? Was the ESRI worried that it was annoying the Central Bank?

Mr. Tom O'Connell: I ... I don't know whether it was a coincidence or not but, I mean, as far as my recollection goes, I think the ... the comment by Alan Barrett was probably ... was in the commentary itself. You know, it wasn't a special article on the banking sector. And Morgan Kelly had an article subsequent ... well, was it subsequent? Yes, I think it was subsequent, actually, to it. So, I ... I wasn't fully aware that the independent articles had been taken out. I mean, it might depend on people who were offering articles to the ESRI to put in ... in their quarterly commentary.

Senator Sean D. Barrett: Okay, thank you very much. Thanks, Chairman.

Chairman: Thank you very much. Deputy O'Donnell.

Deputy Kieran O'Donnell: Thanks, Chairman. After the separation of the Financial Regulator and the Central Bank, the economists were deployed with the Central Bank and they ... the Financial Regulator had access for their purpose. Were there many tasks carried out by the economics section of the Central Bank for the ... for the Financial Regulator and how frequently was this interaction?

Mr. Tom O'Connell: I would say the ... the projects, if you like, were primarily done by economists in the financial stability department, probably relating to issues that arose. I'm trying to recollect. For example, yes, there was a question of whether ... there was a view around the place, if you like, that the Irish banks had got massively into property, as you're probably aware, in Britain, Ireland and the US, and there was a view that maybe these property ... or prices in ... property prices in those areas wouldn't be correlated, so it would be helpful if they weren't correlated because the diversification benefits for the banks would be there. So, there was a study done on that, for example, which actually indicated that the property prices tended to be correlated, you know, so that wasn't a very positive result. So, that was an example. There were also a few articles written on stress tests, that sort of thing, you know, the methodologies to be used, etc. So-----

Deputy Kieran O'Donnell: Were you ever asked to do ... by the Financial Regulator, were you ever asked to do studies on strong ... the strong credit growth in the banks, the Irish banks?

Mr. Tom O'Connell: Well, it was obvious, you know. I mean, you didn't need any studies for that.

Deputy Kieran O'Donnell: Were you asked to do studies on it?

Mr. Tom O'Connell: We weren't asked to do studies on it. There would have been probably studies done on the demand for credit, I think, all right, but I don't think that would have been in response to a request from the Financial Regulator, it just would have been an issue that was there and needed to be looked at.

Deputy Kieran O'Donnell: Mr. O'Connell, what was your primary role in the Central Bank?

Mr. Tom O'Connell: Well, it was in charge of the economics function and, I suppose, it was mainly to address economic issues, prepare reports, assessments, analysis and put them up the line, you know.

Deputy Kieran O'Donnell: And how much ... and what was ... how much of an input did you have into the writing of the financial stability report?

Mr. Tom O'Connell: I would have had fair ... fair input into it. My colleague, the head of the financial stability department, would have overseen that and his team of economists would be the main scribes there, if you like, but I would have had a lot of interaction with them laterally and I'd go back with bilateral comments and suggestions and so on, you know.

Deputy Kieran O'Donnell: And would you stand over all the contents of the financial stability reports?

Mr. Tom O'Connell: Certainly the body of the reports I would. Now, the tone and overall assessment, as I was saying earlier, I mean, I'd be somewhat unhappy with. You know, it tended to be on the optimistic side but, having said that, it probably had to be that way, you know, on the somewhat optimistic side. Although, if you read between the lines, you'll often see ... you could be sceptical about whether the benign picture that was being foreseen would actually be the outturn.

Deputy Kieran O'Donnell: And, Mr. O'Connell, going to your actual statement, right, it's ... there's quite a number of statements. You speak about, on page 2, that ... you say "In practice, it was my experience that any concerns or issues raised by staff for airing in the public arena were invariably watered down". You speak about that:

> I had written, in a low key way for the Bank's Comment[s] in its Quarterly Bulletin, that there was a need to consider the issue of rezoning ... land for building in order to increase housing supply ... an issue of continuing relevance at present. [This] was blocked from reaching a higher level in the Bank in the light, in my view, of political and property interests.

And then, on page 4, you speak about that ... you speak about that, that you said you were prevented from providing data. I was urged, you say, I ... you speak about that you were prevented from providing data in respect of housing data to the financial stability committee. So-----

Mr. Tom O'Connell: House price levels, say, yes.

Deputy Kieran O'Donnell: House price levels, right.

Mr. Tom O'Connell: Yes, yes.

Deputy Kieran O'Donnell: Now, if you had those level of concerns and this statement and you feel so strongly about what's in this statement, why didn't you resign your position in the Central Bank?

Mr. Tom O'Connell: I don't think that would have achieved very much anyway. I mean, I think, as I said as well-----

Deputy Kieran O'Donnell: Well, if you felt this strongly, you've given us this statement here today which is basically saying, if I read it, you use the words "watered down", you use the words "blocked", you use the words ... many other similar words throughout your statement.

Now, if you felt that strongly over a reasonable period of time in the Central Bank, why didn't you consider your position and why didn't you resign your position if you felt that strongly?

Mr. Tom O'Connell: Well, I don't think it would have had any effect anyway. You saw what the result ... when Morgan Kelly wrote the article-----

Deputy Kieran O'Donnell: Morgan Kelly wasn't working for the Central Bank, Mr. O'Connell.

Mr. Tom O'Connell: No, he wasn't, but, I mean, there was ... people were not ... my ... if I were to have packed it in, it would have had no effect, in my view. In fact, Nyberg asked me why didn't I write an article in the press. I'm convinced if I did that - it would have been totally off the wall, of course, to do that - it would still have had no effect because that ... you must remember at that time, people were on a high. The boom was ... the boom was going ahead.

Deputy Kieran O'Donnell: No, but you were in a position as chief economist in the bank. You had a position of status within the bank. You were based on the seventh floor of the bank.

You speak about that, you said on page 3 of the statement, you said:

> It is sometimes said that nobody seemed to know whether a property boom or bubble was developing. That, that's completely incorrect in my view.

If I read this statement based on a literal interpretation of the statement, it leads me to believe that you were extremely unhappy with what was happening in the Central Bank. You felt your professional integrity was being questioned. You were there in a position of responsibility. If you felt as strongly as you felt here surely, if you felt as strongly as ... sorry let me rephrase that, if you felt as strongly as what I take from this statement, why did you not resign your position?

Mr. Tom O'Connell: I didn't think that would serve any function. I probably could have retired early at the time, say, maybe 2003 or '04, but I'm ... I don't think it would have had any effect. I mean, I-----

Deputy Kieran O'Donnell: What impact were you having in the Central Bank? From this statement here it appears that one could take an interpretation that you were having little impact.

Mr. Tom O'Connell: You kept battering away and trying to convince people that things were going wrong. In fact, one thing I didn't mention there-----

Deputy Kieran O'Donnell: With due respect, Mr. O'Connell, a financial stability report came out in 2007 that said there was a soft landing. That's a total variance to what you've put in your statement to us here today and you're saying, at the same time, you stand over what's in the financial stability report, you might have an issue with the tone but not with its content. So the question is ... someone looking in with a reasonable interpretation, that if you felt as strongly as you felt based on what's in here, you should have resigned your position in the Central Bank, and made a statement in terms of your professional integrity as the chief economist of the Central Bank, if you felt that strongly, based on what you put in the statement here today.

Mr. Tom O'Connell: I was trying to convince people inside that things were getting out of hand. I mean, I remember-----

Deputy Kieran O'Donnell: Were you successful?

Mr. Tom O'Connell: Well, if I had retired or resigned early, you'd be dismissed as a maverick in my view anyway. The men in white coats would probably be sent for and they would bring you away. That's what happens in certain instances. So I don't think it would have had any effect. So I kept trying to plug away and convince people that things were going wrong.

Deputy Kieran O'Donnell: And did you achieve. ... were you successful in any way?

Mr. Tom O'Connell: Well, no, the proof of the pudding is in the eating. I wasn't successful, no.

Deputy Kieran O'Donnell: So, therefore, in hindsight, reflecting now, should you have resigned your position?

Mr. Tom O'Connell: I don't think it would have had any effect. I don't think it would have had a good result necessarily.

Deputy Kieran O'Donnell: Why not?

Mr. Tom O'Connell: Because people would have just said he is a maverick, he's off the wall. During the boom period, you may recollect, in fact, if you go back earlier even, when you had the dotcom boom and investment managers who opted out of that, for example, they got fired but in the event, of course, they proved to be right.

Deputy Kieran O'Donnell: You speak in your statement about the Central Bank ... should be there effectively to be the voice of reason and to state... surely, if you were ... had these major reservations, you owed it in terms of professional integrity, that if you ... clearly, as you're saying here, that you were battering effectively against a closed door. Surely you had it on the basis of professional integrity and on behalf of the taxpayer that was paying your salary to resign your position.

Mr. Tom O'Connell: I don't think integrity is a question because I would have presented my views as they were but they weren't accepted at a higher level. I mean, that's the nature of things. I have no doubt in the Department of Finance people would have been saying the same thing. I think you're getting some witnesses coming forward with that and if their views are not accepted, that is the nature of the organisation. People at the top decide as to how they play things.

Deputy Kieran O'Donnell: Mr. O'Connell, you were chief economist. You weren't, effectively, someone who was ... a person who was a junior that had just joined the Central Bank. You were in the Central Bank at that stage nearly 40 years. You were probably one of the most longest -serving officials in the Central Bank. So, therefore, I'll ask it one last time. Do you feel you should have considered your position on an integrity basis? Could you have done more?

Mr. Tom O'Connell: Could I have done more? The only other option, I think ... well, I could have resigned. Would that have any effect? We don't know. I could have written an article in the press, say, around 2003 or 2004. Would it have had an effect? I doubt it, when people were, you know, enjoying the boom and the fruits of the boom. I doubt it. People would dismiss you, you know, as a crank as it were.

Chairman: Thank you. Deputy Joe Higgins.

Deputy Joe Higgins: Mr. O'Connell, how many staff had you in your economic section of the Central Bank?

Mr. Tom O'Connell: I think we had about 25 economists, I think. About six in each of the each of the four departments and there would have been support staff, statisticians and so on. So I would say, you know, depending on what year you are talking about, probably around 50 or 60 maybe. Something of that order, I think.

Deputy Joe Higgins: Fifty or 60. During the bubble period, you had that number?

Mr. Tom O'Connell: I would've ... that's a bit of a guesstimate you know just-----

Deputy Joe Higgins: Yes.

Mr. Tom O'Connell: -----from memory-----

Deputy Joe Higgins: And, did you have ... did the staff meet regularly or ... in relation to the issues of the day?

Mr. Tom O'Connell: Yes, we would've done. Yes, yes.

Deputy Joe Higgins: And what would've been the main subject of the meetings?

Mr. Tom O'Connell: Well, you could talk about the financial stability committee ... there would be a lot of informal meetings too, you know, maybe involving two or three people. There would have been the progress of the economy, inflationary pressures. There would have been a fair focus on particular topics in the stability area ... financial stability area, and they would've ... the result of those considerations would be special articles and boxes, as they call them, in the stability reports and in the bulletins. Yes.

Deputy Joe Higgins: In relation to ... I mean, the talk of the day up to 2007 was really the property bubble. The massive increase in lending and the price of a home for an ordinary person that was just going crazy by any standards. Was ... did that feature prominently in your meetings and discussions?

Mr. Tom O'Connell: Yes, it did. And that's reflected in the special articles, I think, in the stability reports and also in the research papers which would have been done trying to assess overvaluations, as one.

Deputy Joe Higgins: Was there general agreement among the economists in your section that this was an extremely dangerous development?

Mr. Tom O'Connell: Well, by virtue of the results of some of the studies, you can take it that that was the case, yes.

Deputy Joe Higgins: And, can you just clarify then, what's ... what reporting ... the most senior person in the Central Bank was the Governor, then you had the deputy governor. Can you just take me down a little bit from there and put yourself then, in the position of reportage?

Mr. Tom O'Connell: Yes. Well actually the ... you've the Governor, you've the director general - who is effectively the CEO - and below that you have the deputy director general. Now, the deputy director general was really focused on markets, you know, providing liquidity to the banks, the payment system. His reasonability was the markets, liquidity provision, and the target payment system. So he ... while he would get sight of the economics article and so on, but he wouldn't really ... well he wasn't an economist, but he wouldn't really have had that much input into the economic side of it. So the Governor and director general were the key people as far as we were concerned, you know.

Deputy Joe Higgins: As far as you were concerned?

Mr. Tom O'Connell: As our part of the bank was concerned, yes.

Deputy Joe Higgins: So, for example, in order to get ... in order to get, say, a serious issue onto the board of the bank, who did you have to convince?

Mr. Tom O'Connell: I would have to ... well, the deputy director general at the time, he was also secretary to the board. So to get something to the board you would have had to convince the director general and the deputy director general, because he was secretary of the board too, yes.

Deputy Joe Higgins: And were you on a equal status with those people?

Mr. Tom O'Connell: No, I was below them.

Deputy Joe Higgins: Okay-----

Mr. Tom O'Connell: I was a rank below that.

Deputy Joe Higgins: Were you on the seventh floor as-----

Mr. Tom O'Connell: I was, yes, yes.

Deputy Joe Higgins: Does that mean that you had regular, almost daily, weekly certainly, access to the Governor, the deputy governor and those-----

Mr. Tom O'Connell: Yes, I'd encountered them quite a lot. You know, informally and at meetings as well, yes.

Deputy Joe Higgins: And these really serious issues that you say you had with the price of property, and the scale of lending, did you discuss that regularly with the Governor then?

Mr. Tom O'Connell: I would've mentioned it ... I think I said there ... it wouldn't be daily, but I certainly would've mentioned it weekly I would've thought. If I meet them-----

Deputy Joe Higgins: But sorry, Mr. O'Connell, there's a difference if you ... if I may say so, between mentioning something and having a really serious discussion.

Mr. Tom O'Connell: Well, various papers were done, you know, which went up the line on the overvaluation ... is one. One thing I forgot, actually, when I mentioned about the high house price levels in Ireland by comparison with Europe, I saw from the papers that were sent to me, in actual fact there was a board paper sent in 2003, based on the date on which I had got myself, from my colleagues I had come across in European central banks, pointing out or illustrating that house price levels here in 2003 were high ... were the highest in Europe. Amongst all the capitals, and-----

Deputy Joe Higgins: Okay, yes-----

Mr. Tom O'Connell: -----that went ... that went to the board and to the Governor.

Deputy Joe Higgins: Yes. Mr. O'Connell, we've had evidence here in relation to house prices, which, by any standards, we can say were horrific. But you had the same access to the chief executive officer of IFSRA as you had to the Governor, in the sense that he was on the seventh floor as well, or the chairperson, I'm sure, of the board came in.

Mr. Tom O'Connell: Yes.

Deputy Joe Higgins: I mean, these issues were so serious in your view, did you really ... did you ever consider asking those people for a special meeting to sit down and to say "Look, this is going beyond the beyonds." If you were stopped, as you said, formally from getting something onto the board but the danger was so acute, and the price of a home for an ordinary person was obviously going off the radar, did you ever take an approach of saying "Look, this has really gone beyond the beyonds. I want to sit down with you the two ... three of you together and go through this"?

Mr. Tom O'Connell: It wasn't a big complex issue, you know, as I'd see it. I mean, all ... all you were facing was massive increases in lending and a massive increase in property prices and there wasn't an awful lot of analysis required to, sort of, persuade anybody. So, I would've conveyed it to them orally but also papers would have gone up in writing about the ... I think they were mentioned earlier there, about overvaluations and-----

Deputy Joe Higgins: Yes, but it was urgent that something should be done, wasn't it?

Mr. Tom O'Connell: Yes, well-----

Deputy Joe Higgins: The papers and all the rest of it ... you said there was a realisation but no action was taken. Wasn't that ... was that really the fall down?

Mr. Tom O'Connell: You're dead right. In fact, as Nyberg said to me, and he repeated it several times to me, he said "Why did nobody do anything?" I mean, that's the question. They didn't want to do anything. That's the point.

Chairman: I'll give you a bit of time. And when that question was put to you, and specifically to you, when Mr. Nyberg was talking to you - I would assume that he was saying "What were you doing, Mr. O'Connell?" - what did you reply?

Mr. Tom O'Connell: Well, no, he didn't actually say ... put it to me personally. I can ... I mean, I've had it verbatim in my opening statement. He said to me "Why did nobody do anything?" Well, he may have known that I was on-----

Chairman: Well, I'll put the question to you so this afternoon if Mr. Nyberg hasn't. Why were you not doing something, if that's the type of question that Mr. Nyberg was putting to you?

Mr. Tom O'Connell: Well, on the bank side, certainly at my level there was no action I could take, you know. It was a matter for the regulatory side. The regulatory people were dealing with the individual banks who were ... whose lending was increasing, I think, as you said at various sessions, 30%, 35%, 40% per year, and ... and ... I mean, to give you an example of what I did when ... when I saw the quarterly data on sectoral credit and I saw the sectoral credit, the property-construction sector going ... increasing at 65%, I went to a leading person in the regulator and said "Something has to be done." They said "No, it's okay. It's secured on property."

Chairman: Have you put that in writing?

Mr. Tom O'Connell: I have it in my opening statement. No, I didn't put it in writing to the person. No, it was orally.

Chairman: Okay. Thank you.

Deputy Joe Higgins: So, is it the case, Mr. O'Connell, that you were informally talking about these things but, in retrospect, could it be said ... or ... that you should really have taken much stronger action to bring home to people what was necessary?

Mr. Tom O'Connell: Well, you could ask: should I have done more? But, I mean, as I pointed out to you, even in 2003 that paper on house price levels, which went to the board, I mean, that would be an example. And if ... I remember when ... the Chairman asked me did I appear at the board. Yes, I used to go to the board for certain parts of the agenda and, invariably, the top items on the agenda would be the increase in bank lending, property prices and lending to the property sector. And-----

Deputy Joe Higgins: I understand you to say this, but I'll ask you the question: do you ... do you believe that the board was conflicted, or members of the board were conflicted, because of political and property allegiances, etc.?

Mr. Tom O'Connell: I would only be surmising if I said "Yea" or "Nay". I just don't know. But-----

Deputy Joe Higgins: But you said it in your opening statement.

Mr. Tom O'Connell: No, I said that what I put to my superiors was prevented from going to the board, in my view because of political or property interests on the board. That was my opinion for that being blocked. But I don't know whether the board themselves, the individual people there, would have had issues. You know, I can't speak for them. I don't know.

Deputy Joe Higgins: But did you ever consider approaching a person or a number of persons on the board that you knew would not be conflicted, either politically or in relation to property interests, and say "Look, this is really urgent; this needs to be discussed at the highest level on the board"?

Mr. Tom O'Connell: I wouldn't have done it formally but I would certainly, I think, from my recollection, have done it informally with individual directors. But they would have been aware anyway, you know, through the material they would get and the briefing they'd get from me and the Governor, that property prices and bank lending was getting completely out of hand and had been for many years.

Deputy Joe Higgins: You referred to the ... hang on ... just very briefly ... were you ... what involvement did you have in ... or, if any, in preparation for stress testing?

Mr. Tom O'Connell: Yes, that was mainly done by the stability department and ... I would have had some involvement in it, not a major amount, yes, but-----

Deputy Joe Higgins: Who was responsible for creating and updating the scenarios?

Mr. Tom O'Connell: It would have been the ... the scenarios ... well, the top-down scenarios would have been set by ... the economic modelling area, if you like. They were trying to come up with a consistent picture - for example, if growth fell ... if GDP fell 4%, would unemployment go up by 8% or whatever. And, you know, that scenario ... sorry, a consistent scenario would be set out and that applied then to the banks balance sheets.

Deputy Joe Higgins: And do you know if external advice from consultants or from European system of central banks or the International Monetary Fund ... was there an involvement of those in the drawing up of the model?

Mr. Tom O'Connell: My recollection is that the stress tests, when they were being drawn up, were applied. They were ... there was significant reference made to the so-called best international standards at the time, you know.

Deputy Joe Higgins: And last point, Chairman. You refer to the ... the ... the crises and the crashes in a number of ... many countries, even in the Nordic countries in Finland and Sweden and that. Did ... did you ... and then what happened in Ireland in some senses was quite repetitive of what happened there. Did you ever try ... or your group of 60 economists try, in any really structured way, to learn the lessons of that and put it in front of the board or the Governor, the regulator?

Mr. Tom O'Connell: Well, actually there were 25 economists - maybe 60 altogether say in the thing ... in the group. But, no, actually one of our ... two of our team went to Sweden to actually review their case at the time and I think there were some even simulation exercises which might have been done in conjunction with the Swedes. So, we tried to learn something from them. But, you know, my view, as I said in the opening statement, was that the ... the view ... or the implicit view amongst the senior people was that crashes elsewhere weren't relevant to Ireland. In fact, I know for a fact, if I may add, there was an IMF study done of one particular crisis which was handed to a senior person in the Central Bank and it was declined on the grounds that it wasn't relevant to Ireland.

Deputy Joe Higgins: Thank you.

Chairman: Senator O'Keeffe.

Senator Susan O'Keeffe: Thank you, Chair. Mr. O'Connell, do you take any share of responsibility for ... for what happened? You personally?

Mr. Tom O'Connell: Well I suppose anyone in a senior position in the Central Bank, yes, has to take some responsibility, you know, even though I felt we were headed for big trouble ... 2001-2002. And, in fact, I wouldn't have been the only one because the Government had requested the three papers from Peter Bacon to look into what could be done about the ... the property price boom. Yes, so, anybody in a senior position in ... in the regulator or the Central Bank has to take responsibility. So, I mean, the whole thing was wholly avoidable in my view. It was unnecessary.

Senator Susan O'Keeffe: I'll ... I'll come back to that. Specifically, the Financial Regulator was in the habit of holding round-table meetings with banks. Did you ever take part in those meetings and, if so, could you tell us a little bit about it?

Mr. Tom O'Connell: Yes, they were actually in conjunction with the financial stability report. In fact, the ... the people who chaired it really were the director general and, yes, I think the Financial Regulator was there too. So, up to a certain point ... to a certain year, we used to have the round table with the banks prior to doing the stability report to see what issues were there, you know. And the ... that would feed in then to the stability report in a broad sense. Beyond a certain year ... I can't remember the year, but the round tables were held after the stability reports were produced. I think the main point really was to get over the message that these risks were out there and the banks should be aware of them, you know.

Senator Susan O'Keeffe: And what would you ... how would you describe those meetings? Were they confrontational, cosy? You know, what went on? Was it a pure exchange of information? Just tell us what it was like because we don't know.

Mr. Tom O'Connell: Well, they tended to be ... a bit of a monologue, sort of, in a way, you know. So, the ... the bank side ... my colleague Frank Browne would make the presentation about the issues and so on, based on the stability report, and, you know, we tried to have a conversation then amongst on the banks. Now, maybe the banks were a little reticent because there were maybe seven or eight or nine of them there and they weren't going to be that forthcoming themselves. So the interaction was probably a bit inhibited, I think, really, you know. But it was ... the main objective, I suppose, was to get over the message to them of the risks that ... as we saw them.

Senator Susan O'Keeffe: Okay, so this was the opportunity on the part of the Financial Regulator to communicate the risks that were out there, personally, to the banks? Would that be a fair assessment?

Mr. Tom O'Connell: Yes, but two people said.

Senator Susan O'Keeffe: Okay. And so then the banks would then leave the room knowing that this is what your shared view was of the risks?

Mr. Tom O'Connell: Yes.

Senator Susan O'Keeffe: That would be a fair ... and would it be followed up in writing with notes that would then be circulated to all the banks or was that the end of it when they went home?

Mr. Tom O'Connell: Well, on the bank side, we didn't have communication with the banks individually, you know.

Senator Susan O'Keeffe: Sure, but would ... I'm sorry ... would a note be made of what had happened at the meeting and that note be circulated to those who had attended?

Mr. Tom O'Connell: Well, certainly, notes were taken ... records were taken of the meetings. Whether they were sent out to the banks or not, I couldn't say offhand, you know.

Senator Susan O'Keeffe: On ... in your own statement, you make a reference to the two main banks deciding to sell off their headquarter buildings. I'm asking whether you know or whether you were surmising what you ... what you go on to say was that "the case that their lending colleagues in the banks were at the same time even financing in whole or in part the acquisition of these premises." Do you know that that happened, or are you surmising that it happened?

Mr. Tom O'Connell: No, I'm just asking a question. I don't know. In fact, the amount was so-----

Senator Susan O'Keeffe: Because if you don't know-----

Mr. Tom O'Connell: Sorry-----

Senator Susan O'Keeffe: Yes-----

Mr. Tom O'Connell: The amounts were so large that obviously it had to be funded by ...

from either private venture capital, or whatever you call it, or banks. It was quite clear. But actually, at that time, in fact, I think the banks themselves, when they were pressed, maybe at an AGM to explain it, they said “Oh, it’s to generate more capital for ourselves.” But when you think of it, in that itself, is bizarre, because they wanted more capital to engage in more lending ... to make the bubble worse, you know. So the thing was ... that’s an issue, I think, that should be looked into.

Senator Susan O’Keeffe: Okay. What is the strength of your feeling about things going wrong and so on? Did you ever write to anyone outside of your own circle, if you like ... of your own superiors ... so to the Department of Finance, to the Minister, to anybody?

Mr. Tom O’Connell: I didn’t write, but I would go to some European meetings with the second secretary of the Department of Finance and I certainly would’ve said it to him, that things were going crazy ... we had to rein in things, but-----

Senator Susan O’Keeffe: And what response would you have had?

Mr. Tom O’Connell: Nothing significant, I think. Just noting it really, you know. Probably at that time, the general view seemed to be that we were on a roll and things were different here, you know, this is-----

Senator Susan O’Keeffe: Did people use that language, or are you using it as you look back?

Mr. Tom O’Connell: Sorry, what?

Senator Susan O’Keeffe: Are you using the expression “on a roll”, because people used it to you at the time or are you just using it now as a common parlance?

Mr. Tom O’Connell: No, I’m ... you’re asking why did people not respond to me, and I just presume that they think that things were going so well-----

Senator Susan O’Keeffe: Okay, you presume-----

Mr. Tom O’Connell: -----we didn’t have to do anything.

Senator Susan O’Keeffe: Okay, that’s fine. All right. I mean, you were with the Central Bank and the Financial Regulator for your professional career, is that correct?

Mr. Tom O’Connell: I was with the ESRI before that, yes.

Senator Susan O’Keeffe: So generally speaking ... public servants, people working in that sector, generally tend to put things in writing ... tend to be quite formal. And yet we’ve asked about a number of things that you’ve raised and you have said to us that on each occasion that you did it informally, that you might’ve said it rather than written it. Why? Was there a reason why you didn’t write all those things down? Because that’s generally what happens.

Mr. Tom O’Connell: It would’ve been ... I mean, issues about the overvaluation of property and that sort of that thing and the mad lending of the banks ... that would’ve been ... there would’ve been all sorts of memos and things flying around the place, but I’m talking about, you know, encountering somebody on the seventh floor going to lunch and I might say ... I would say to them “The banks are going crazy”, you know, that something has to be done.

Senator Susan O’Keeffe: Deputy Higgins particularly asked, he said, you know, would you not ... was it ever the case that you might've called a meeting together of those people because you felt so strongly and that would've, if you like, given it formal intent, rather than, as you say, an informal thing which we're all ... we all do all the time ... people might pay attention. So, I'm just wondering why there was such a level of informality in the way that you approached what you clearly thought was very serious.

Mr. Tom O'Connell: Well------

Chairman: You want to stop there, just-----

Senator Susan O'Keeffe: I'm sorry.

Mr. Tom O'Connell: Sorry. Yes ... no, the issue would've arisen in any event at the financial stability committee, you know.

Senator Susan O'Keeffe: You were a member ...

Mr. Tom O'Connell: I was that, yes. So, I mean, they would've ... the financial stability committee would've processed all the material, say, going into the stability reports, so that would've covered overvaluation, commercial property, property prices and so on. So there would've been formal discussions there, that would be the forum where ... and I'm sure I would've expressed those views, you know.

Senator Susan O'Keeffe: Yes, but, at the same time, you've said that while you may have been expressing these views, they didn't have ... they didn't have an impact or they were not listened to. So I'm just trying to work out-----

Mr. Tom O'Connell: Yes, yes.

Senator Susan O'Keeffe: -----at what level was the formality?

Mr. Tom O'Connell: Yes. No, well, the papers that would have come forward to the financial stability committee would have been from my departments, you know.

Senator Susan O'Keeffe: Yes.

Mr. Tom O'Connell: So I would have had some ownership, if you like. I mightn't be the direct author of that, but I would have had input into that.

Senator Susan O'Keeffe: Yes?

Mr. Tom O'Connell: So there were formal papers that certainly went to the financial stability committee, and some of them ended up in the stability report, except for the 2007 one, which was withdrawn. So there would have been many formal written documents there.

Senator Susan O'Keeffe: So you did have that channel to present some of more of the robust thoughts that you had. Some of them would have made it all the way up, and some not?

Mr. Tom O'Connell: Yes, yes. Well, they would have been considered at the financial stability committee. Now, what would go further from that into ... I mean, the financial ... financial stability committee items often ended up in the financial stability report, but some of them might not though. Yes, that's true.

Senator Susan O'Keeffe: Mary Burke, in her evidence here, talked about informal meetings that took place on the seventh floor where ... where senior bankers came in and would meet various senior members in your offices. Were you ever part of the meetings that took place?

Mr. Tom O'Connell: Not with ... not from the regulatory side but, I think, as I said in the statement, my ... the impression I got was that the Governor was not ... didn't have much contact with the banks, because that was all done by the regulatory people, if you like. So at a particular point I can recollect he evidently felt that he would need to get to know the chief executives and the chairmen and so on. And that might have been probably around ... it would have been obviously after 2003 when the structures were set up. Maybe around 2005. So he would have had regular meetings then, maybe six-monthly, say, with the chief executives and the chairmen and maybe some credit officers of the banks. So I would have met a lot of those with him and the director general as well, you know, so that was the forum where the big issues, if you like, were discussed, including, of course, the first thing put to the banks would be, "Your lending is increasing massively, property lending too"; and they sort of invariably said things were okay, you know.

Senator Susan O'Keeffe: So the banks would be saying things are okay. The Central Bank would be saying to them "Things are not great, you're lending too much". What would happen then? I mean, that's two diametrically opposed points of view.

Mr. Tom O'Connell: Yes. Well, with a ... yes, we would probably have ... the Governor would have been putting it to them, I think, that we're sceptical about things, you know. "Are you getting out of hand, are you going over the top?" So we wouldn't have sort of said, "You're absolutely going bananas." But they would invariably tend, to my recollection, would, at the time, would ... their point would have been, "Yes, we have everything under control", you know.

Senator Susan O'Keeffe: And was that then as a reassurance to the Central Bank?

Mr. Tom O'Connell: Yes. Well, see we were the bank side then. I presume it was probably the view that the regulator then, who was the regulator of individual banks, should follow on from there, or was following on from there, I should say.

Senator Susan O'Keeffe: Did you know that, that he was, that the regulator was?

Mr. Tom O'Connell: I didn't know. I mean, in fact, we sort of operated in silos. I think I have to put that, you know, the ... we didn't, as I said earlier, I never knew the large exposures of the banks. So what they were doing on the ground in their inspections and themed examinations and so on, we were out of the picture, we didn't know.

Senator Susan O'Keeffe: Thank you, Chair.

Chairman: Thank you very much. Deputy Doherty.

Deputy Pearse Doherty: Go raibh maith agat, a Cathaoirligh agus fáilte romhat, tUasal O'Connell. Can I ask you first, after the 2004 we had the IMF, the OECD and ECOFIN all clearly recommended a tighter fiscal stance, and the building of a "cushion" for the time when income from property-related transactions would fall. Can you tell us why, in your opinion, the Central Bank's recommendations to the Minister did not more forcibly alert the Minister to this issue?

Mr. Tom O'Connell: Well, I would have, again from my recollection, I know I was sent ... I was sent some of the letters from the Governor to the Minister. I think he tended to be ... the letters tended to be, sort of, conservative for the most part, you know. It may not have gone so far as to build ... recommend building up a cushion, but you must remember the pension reserve fund was there at the time, you know, and certain amounts were being set aside. But it probably wasn't appreciated at the time that the extent to which property-related taxes, in the round, were contributing to the overall tax revenue.

Deputy Pearse Doherty: And did you appreciate that?

Mr. Tom O'Connell: Well, I knew that things like stamp duties and so on were very high, incomes were very high. I mean, I think I saw some graphics there to the effect that property taxes were 30% of total tax revenue. I wouldn't have ... I wouldn't have assumed at the time that they were that high, no, I wouldn't.

Deputy Pearse Doherty: It's interesting that you talk about assumptions. Can you ... can you clarify maybe your role. As chief economist of the Central Bank of Ireland, would it be a case where they, you know ... these types of statistics are available to the public, they're published by the Revenue. I'm not sure if they were at that time but I know at this stage they're published by the Revenue quarterly. Anybody with a calculator can figure out what type of proportion of taxes make up such and such. How would the chief economist of the Central Bank of Ireland have to assume these matters back at that time in 2004-2005?

Mr. Tom O'Connell: Yes, well, the 30%, I think, probably came later, Deputy. But, no, well, I think at the time things like VAT, you know, VAT on construction ... that wouldn't have been separated out, so people wouldn't have known that. Now, we did a few studies late in the day, I think, admittedly, maybe around 2006-2007, trying to focus in on the ... the property-related taxes. The main one, I think, was the stamp duty, you know. But you'd have to go behind the whole picture to get the VAT thing and that certainly wasn't upfront at the time. But, yes, we were informally well aware, of course, that ... I mean, the construction sector - I think as maybe the Chairman was saying earlier on - directly employed one in seven in the economy. If you take a broader view, you-----

Deputy Pearse Doherty: I'm interested in just what the ESRI and ... sorry, the IMF, OECD and ECOFIN was saying in relation to property-related transactions. And when you were chief economist ... obviously, under your position of chief economist, you had the number of divisions, one of them would have been statistics - wouldn't that be ... that'd be correct - economic analysis and monetary policy and fiscal stability. When ... when these agencies, external agencies, were talking about a cushion to build up for the time when property transactions would fall, did you commission ... or ask any of the divisions below to actually ... "Let's actually look at what proportion of the State's revenue is made up of property transaction", or can you recall when, if any, that you actually asked for that type of research to be done?

Mr. Tom O'Connell: I think it was done later, actually, you know, maybe ... probably around 2006-'7, I think. So, I have to admit it wasn't done early in the day, you know, maybe about 2002-2003. It was done later, I think, yes.

Deputy Pearse Doherty: And why, given that these bodies were asking for a cushion, did you ... did you decide not to look into this issue?

Mr. Tom O'Connell: Well, we would've been aware of it but, I mean, we mightn't have been aware of the precise magnitude involved. But we were obviously aware of the fact that, yes, I mean, construction activity in the round was generating was a lot of tax revenue, which could fall away in due course. So, we may not have quantified it, you know, at that early stage, but it was done later, yes.

Deputy Pearse Doherty: Is this not a kind of ... a kind of core area of financial stability if there's a threat to a major source of income to the State being ... being evaporated over a short period of time?

Mr. Tom O'Connell: No. I ... I wouldn't regard it as a financial stability issue. I mean, if consumption falls away, you know, VAT and excise duty will fall away, as they do from time to time, so, I mean, it might have had a effect. Unless you got a massive collapse in the construction sector, as we had ... that did have a big effect. But if construction were to fall back from say, one in seven in the economy being employed to one in eight, it wasn't going to be a big issue, you know. You may as well, sort of, look at other tax headings and ask "If something were to happen there [you know] should we look into that carefully?"

Deputy Pearse Doherty: Yes. I'm not sure if the IMF, the OECD and ECOFIN were all warning about property-related transactions or, for example, VAT-related transactions. I think the question really is ... is what did you do after being prompted by external agencies in relation to this matter? But you're confirming that you didn't carry out any research, or you didn't ask for any research to be carried out, until a later stage, until about 2007.

Mr. Tom O'Connell: I think it was later actually, yes, I have to say, yes. But, I mean-----

Deputy Pearse Doherty: Can I ask-----

Mr. Tom O'Connell: Sorry, the IMF and these ... they would have many recommendation or many points in their analysis, you know, that you would ... might pick up or not as the case may be.

Deputy Pearse Doherty: Okay. In your statement you mention that at least one person on the board who was seriously concerned about the financial crisis ... and I'm not asking you ... and I'm asking you not to name the individual, but can you elaborate on the events that you remember in relation to that case?

Mr. Tom O'Connell: It would be the ... it would be in the context of the part of the board agenda where I would have been present, and that would have entailed giving indicators of ... in relation to economic ... current economic activity and prospective economic activity. So I ... that comment would probably have derived from a presentation about bank lending ... bank lending to the property sector and property prices. So, you know, there would have been discussion around the board table then and people talking to and fro and this chap-----

Deputy Pearse Doherty: What year are we talking about?

Mr. Tom O'Connell: I would say about 2002 or 2003, early on-----

Deputy Pearse Doherty: And you were at the meeting?

Mr. Tom O'Connell: Because I heard it, I was there, yes.

Deputy Pearse Doherty: Did you offer an opinion at the meeting?

Mr. Tom O'Connell: Well, my opinion would have been embodied in the presentation which was that the bank lending was very ... enormously increasing and property prices and so on.

Deputy Pearse Doherty: When we have a board member saying that this was going to collapse like a house of cards, is that not your prompt? As you were saying, that you were trying to get this message out for such a long time ... you're at the board meeting, one of the board members has said "This is going to collapse like a house of cards" ... is this not like the doors opened?

Mr. Tom O'Connell: The convention was that staff members in the bank don't speak at the board, you know, the secretary certainly doesn't, who would be the deputy director general. The director general tended to keep a low profile too, so it was sort of left to the board ... it was deference, let's put it like that, to the board members, you know. So, for a staff member to be leading the agenda while evidently we presented the data and so on and the implicit problems, it was there for the board to tease it out and to come to a conclusion and he was in a minority of one or two, you know.

Deputy Pearse Doherty: Are you aware of any other contrarian voices inside the Central Bank or IFSRA and can you outline some examples? Again without mentioning names.

Mr. Tom O'Connell: You're not talking about the board. No, I think my economist colleagues would certainly have been ... some of them on a par with me ... well, the head of stability was on a par with me and other economists. In fact, I can recollect almost every ... we'd have say coffee or whatever the hell brought around at - for a ten minute break - around 11 o'clock and invariably property prices and bank lending to the property sector came up, you know, somebody may-----

Deputy Pearse Doherty: Who had the authority to issue papers on the board? Like, one of the divisions under you is the publications division, when you were chief economist, who had the authority to sanction research papers? Did it have ... was it the Governor or the board or could you do that?

Mr. Tom O'Connell: Well, the research papers ... I mean if they were particular technical ones with a lot of statistical analysis and econometrics and so on, unless it was a very sensitive topic, I can recollect going back, for example, on analysis of devaluations ... that wouldn't be allowed go out. But if it was, for example, the research-----

Deputy Pearse Doherty: Property sector, property sector------

Mr. Tom O'Connell: Yes, there were papers on overvaluation which would have gone out. Yes.

Deputy Pearse Doherty: The question is did you have the power to authorise research papers on commercial property, for example?

Mr. Tom O'Connell: I think I probably would have. It might depend on the message at the conclusion at the end of it.

Deputy Pearse Doherty: The research ... it would be researched, so you can't predetermine what the conclusion is----

Mr. Tom O'Connell: I know, yes-----

Deputy Pearse Doherty: -----on a piece of research.

Mr. Tom O'Connell: No, but normally the research would go through a lot of econometric statistical analysis and, you know, that would be out there. Then, there would be a concluding section in the paper saying things are sound or things are not sound. So, depending on ... my recollection is ... depending on what the conclusion would be pointing to, if it was pointing to a big problem, it might be withdrawn or sort of ...

Deputy Pearse Doherty: No, the question is, sorry, sorry-----

Mr. Tom O'Connell: But in general we-----

Deputy Pearse Doherty: Sorry, just to ... just here ... the question is did you have the authority to commission the research? At that stage, you would have no idea what the conclusion would be, it's a piece of research.

Mr. Tom O'Connell: Of course, yes, I mean-----

Deputy Pearse Doherty: Okay. What ... can I ask you, I'll make a quote because Mr. Dan McLaughlin came before the committee and he said and I'll quote him:

> The other thing I would point out is the major losses in Irish banks were not in residential property, they were in commercial property ... in commercial property. Not many people, if I recall, wrote anything about commercial property, and that was what caused the damage for Irish banks' profitability and caused them to require significant capital inflow.

I'd ask you two things. Do you concur with that statement? The second thing is, as chief economist, who had the ability to commission papers on commercial property, what did you do, when did you do it and what did you do with those papers if they were commissioned?

Mr. Tom O'Connell: Yes, I'd agree with the statement by Dan McLaughlin, yes, and it's true in most countries, including the countries you mentioned ... the banking crashes. We didn't specifically commission research on commercial property for a separate paper but, I think, if you look back at the stability reports, they would have dealt with commercial property, you know. For example ... I'm reminded the material sent to me pointed out that, say around 2003-'04, lending to the commercial property sector was rising at 40% to 45%, so there would have been commentary on that including vacancy rates, rental incomes and so on, embedded in the stability reports. Now, I think, later on then, there were special articles, if you like, in the stability report but that came late, I think. Now, I think, later on then, there were special articles, if you like, in the stability reports but that came ... came late, I think.

Deputy Pearse Doherty: Can I finally make this point? You've been informing our committee and we thank you for that-----

Chairman: Last question now, Deputy.

Deputy Pearse Doherty: This is the last question. You've been informing the committee - and we thank you for that - about the difficulties you had in trying to get your message out. You now inform us that you had the ability to commission papers on behalf of the Central Bank and you did not commission any paper in relation to commercial property, which, you agree, was the reason that caused the banks to collapse eventually.

Mr. Tom O'Connell: Yes, well, we did analyses on commercial property. But I mean, if you're talking about a paper with separate covers, if you like, as research papers that I've done and issued from time to time, was there one on commercial property? That didn't happen, I think, until about 2006 but we did have certainly commentary on commercial property developments - vacancy rates, rental, capital values of commercial property so they were all there and we knew that, you know. So the commentary was there. Maybe they weren't as highlighted as they might have been in special research papers until late, yes.

Chairman: Can I just maybe round that off with you there, Mr. O'Connell? Back in the day, you'd wake up in the morning property would be on the radio, it would be on the television. You'd go for a pint that night and it would be the conversation at the table that you'd be drinking at and it would be at the table that I was having a pint at. So talking to your colleagues about property you didn't have to be in the Central Bank. You could have been working in a slaughterhouse or down making yo-yos or whatever. Everybody was talking about property. So I'm not ... I'm trying to get a quantification in my head from you as to as to how much general chit-chat you had on property in the Central Bank and on the seventh floor and how many documents you actually put your name to the end of that expressed concerns.

Mr. Tom O'Connell: There would have been a lot of chit-chat.

Chairman: I know that.

Mr. Tom O'Connell: Yes, okay.

Chairman: We were all chit-chatting. That's ... what I want to get at is a quantity of documents and research materials like Deputy Doherty indicated. Presentations that had your name at the end of them that were reflecting the type of concerns that you're expressing here that you had many, many informal conversations about this over in ... in the building. But I am trying to get a quantification as to how many documents you put your name to the end of that actually substantiated that position.

Mr. Tom O'Connell: Well, in the publications area, the quarterly bulletin I would have always done the comment, if you like, the editorial and that would have ... that would have featured there quite prominently but, as I say, in a watered down way if you like. Now, every month-----

Chairman: Now, you are saying there's documents there, are you?

Mr. Tom O'Connell: Yes, My ... sorry, Chairman, my name mightn't be attached to them, nor would it be in the board papers where I would attend. The material would be sent to the Governor and he would make the presentation. I'd be there. So there would be a monthly assessment, if you like, of the situation with property and bank lending figuring very prominently.

Chairman: But are you ... in fairness these composited documents and what I mean by that they work as a team, a presentation is made, everybody has an input. What I'm looking for is specifically something and it's not that you went out to *The Irish Times* and wrote an article or to the *Irish Independent* or the *Cork Examiner* for that matter or it's not that you would were going to do a Morgan Kelly issue but an internal memo, some correspondence that went into a formal structure. Could you be ... give us some quantification of that because my next question will be very specific to this? So can you give us some specification?

Mr. Tom O'Connell: I'm sort of recollecting. Well, the one I would have been certainly responsible for was the one dealing with ... again, my name mightn't be on it because board papers didn't usually have ... often have the name on it, the data on house price levels throughout Europe where we were the highest by far in 2003 and, of course, it went higher.

Chairman: Okay.

Mr. Tom O'Connell: As I say, the monthly material for the board would have come from me, essentially. But my name wouldn't be on it. And the-----

Chairman: Maybe if I can invite you, because I ... it would be unfair to be able to ask someone maybe to recall a whole load of information all at once. But could I invite you maybe to correspond in writing to this inquiry ... to this inquiry after today's hearing because we have gathered tens of thousands of documents at this stage and we will be going through stuff trying to locate stuff with people's names at the end of it in terms of our evidence books and all the rest of it. And bearing in mind that there is section 33AK rulings where we wouldn't be getting that explicit. But it would be very insightful for us if you could write back to us and maybe tell us where some of that documentation is that could assist us in locating it where your name is specifically at the end of it, rather than a composited document that was done as part of a team. Could you that do that please?

Mr. Tom O'Connell: I will, yes.

Chairman: Thank you very much.

Mr. Tom O'Connell: Actually, can I just say before doing that, some of the economists who would have prepared papers, say, on overvaluation, I mean, they would have been done, say, under my overview or my colleague on the stability side. Their names would be on it but our inputs would be into it, so, you know, there is that.

Chairman: All right. Maybe that may match with the documentation that we already have to hand and if not, we may have to go looking for it. Okay, Deputy John Paul Phelan. Sorry, can I just make a break for two minutes there please, just for a comfort break so that people can just use the bathroom very quickly and we will return, okay. No excitement or drama, it's just simply a comfort break. We'll suspend for about four minutes, okay? Or five minutes, say.

Sitting suspended at 6.21 p.m. and resumed at 6.26 p.m.

Chairman: We'll go into public session, so, please. Okay. So I'll just allow members there to get settled in before we formally propose we go back into public session. And if that's now agreed, I just want to clear up one matter and then I'll bring in Deputy John Paul Phelan. Further to my earlier request there, for correspondence, Mr. O'Connell, what I would be looking for there is specifically material in which the key issues go beyond what was already in the public domain, not the general chit-chat that we were talking about earlier, but specific issues that you were feeding up the line. Deputy John Paul Phelan.

Deputy John Paul Phelan: Thank you, Chair. Good afternoon.

Chairman: -----you might get that corrected.

Deputy John Paul Phelan: Well, some similarities perhaps. Mr. O'Connell, can I first ask you, and this, I think, was touched on earlier, if you were regularly taking part in the ... in the monthly board meetings of the Central Bank and financial services authority on recent financial and economic developments, and how rigorous or challenging those particular meetings would have been?

Mr. Tom O'Connell: Yes ... yes, I ... I would have been there for those particular items on the agenda, for the most part, and they were really just a recounting of what was happening.

You know, bank lending, property prices, that sort of thing, economic growth, prices and so on, so there ... there would have been graphics, and so on, shown to people, and-----

Deputy John Paul Phelan: Was it a historical analysis then, kind of, effectively?

Mr. Tom O'Connell: Well, it was an up-to-date one, yes. Yes, and, it ... it was, sort of ... a running ... a run down on current developments, if you like, as the name implies, I think. And it would have been open to the board then, and to ... they would discuss the, you know-----

Deputy John Paul Phelan: Would you have been offered for your own ... asked for your own view directly?

Mr. Tom O'Connell: Not usually, unless the Governor asked me to come in on something, say, some point of detail. You know, it would be left to ... the board members would be discussing it amongst themselves for the most part, and I'd be there just as a back-up to be called on if ... if there was a ... if somebody had a query which wasn't already addressed.

Deputy John Paul Phelan: Did you get an opportunity to raise some of the concerns which you have expressed in evidence here at any of those monthly meetings?

Mr. Tom O'Connell: I ... I wouldn't really have probably contributed that much, as a rule, unless I was asked. I mean, that was the expectation, you know. The staff member would come forward or the paper would be presented by the Governor for the discussion there, and it would be, sort of, supplementaries as you'd be asked. I mean, it ... it would be not the norm for me to come in and say "Well, things were ... were in a very bad way, you know, and let me elaborate on that", but it was pretty obvious though from all ... all the indicators that were presented to the board that things were ... were going ... were bad, you know.

Deputy John Paul Phelan: In hindsight, do you think you should have used the opportunity differently at least?

Mr. Tom O'Connell: Possibly, but, I mean, as I said, I think, earlier, I would have had mentioned it informally to board members, you know, say, at the coffee break or whatever, I think. And, occasionally then I'd be asked to ... to join them for a board lunch. They rotated that amongst the seventh floor people. I certainly would have mentioned that to the person I was sitting beside.

Deputy John Paul Phelan: Did you feel that all of the members of the board, for the various years that you would have been coming to those meetings, were sufficiently well prepared or understood the analysis of the reports and the discussions which were taking place? I am not asking you to name any names.

Mr. Tom O'Connell: Sure, yes. I would have thought so because Ireland's collapse has not been a complicated one. It is not like ... the Irish banks did not get involved in the sub-prime mortgage assets in the States, some of which were divided up and they got credit ratings on. People have called it a common-or-garden, plain vanilla property crash. So it did not require any sophistication to figure out what was happening, if you saw the data in front of you relating to property prices and bank lending. I think I said in the opening statement you had about ten other banking crashes similar to that in the previous 20 years. So it did not require any sophisticated sort of simplification for the board members to figure out what was happening.

Deputy John Paul Phelan: Why do you believe then that they didn't take action if it was that straightforward?

Mr. Tom O'Connell: I think like everybody else in the country, for some reason, there was the assumption that things were going wonderfully well and they would continue. Anybody who questioned what was happening was derided like Morgan Kelly was. You must remember Morgan Kelly came at it very late in the day. I think his article, was it in the ESRI in 2007, in fact the die was cast way before that. We were going to have a crash, it was inevitable from about 2004.

Deputy John Paul Phelan: Just dealing with that issue, you mentioned Morgan Kelly's appearance in Kenmare earlier on in answer to some questions. Were you there yourself at that particular-----

Mr. Tom O'Connell: No, I was not there.

Deputy John Paul Phelan: Would there have been representatives from the Central Bank?

Mr. Tom O'Connell: I would have thought so, from the Central Bank yes.

Deputy John Paul Phelan: Did they become involved in anything to do with that discussion, can you recall?

Mr. Tom O'Connell: I would doubt it because when people went from the bank to these conferences outside, the expectation was you kept your head down on any controversial issues. You were expected to. In fact I remember famously a chap made a presentation at a conference. It was about the money markets, money market interest rates, there was sort of a sophisticated econometrics. He was told by the then Governor at the time "When you go to that conference I don't want to see anything in the paper and I don't believe in econometrics." They were the two points made to him.

Deputy John Paul Phelan: Okay. I will change briefly then to the OECD reviews from 2006 and 2008, noting that house prices had overshot their fundamentals. In 2006 they did not rule out a hard landing but predicted that a soft landing was more likely. In both 2006 and 2008 it concluded that the banks were sufficiently well capitalised to be able to absorb any likely shocks. In your opinion, was the OECD's conclusions the result of data that they had obtained from the Central Bank or financial services regulator, or was it as a result of any independent analysis that they conducted themselves?

Mr. Tom O'Connell: Their analysis would be done on data they had themselves. In fact my reading of the OECD, people have been saying that the IMF and OECD got it wrong totally, they missed it. But actually if you look at the technical stuff in the IMF papers, I think there was annex 1 in maybe IMF 1999. It was pretty clear that they were looking at overvaluations. I think the OECD, this chap van den Noord and somebody else did a special article. They made the point that if ... people were talking about fundamentals in relation to the property market here. But when you think of it, the fundamentals would have been things like peoples' incomes and population and so on. That is fair enough. That drives the demand for housing, but that should not drive the price of housing. If the demand for televisions goes up, for example, you don't expect the price of televisions to go through the roof. In the case of housing, a house can't be produced as quickly as a television set. That is where the zoning issue comes in, because housing has to be somewhat elastic in supply. If it is not, you have got a big price increase when demand increases.

The OECD analysis, I think it was van den Noord and somebody else who wrote the article, I will glance at it again, they pointed out that if you look at the demand for housing and the fundamentals, if in the estimation period for your demand function, if the determining factors are actually themselves influenced by the boom, you are explaining boom prices in terms of boom explanatory factors, but that is not correct. So they went back, because you are explaining boom in terms of booms which is circular. They went back and said if you abstract from the boom period and you look at the econometric analysis up to, whatever it was, 1998, and you extrapolate further on from that, then, they said, the overvaluation is 50% and I wouldn't disagree with that.

Deputy John Paul Phelan: How did they come to the conclusion of soft ... like, I accept what you're saying about their underlying analysis but their final diagnosis-----

Mr. Tom O'Connell: Well that ... yes.

Deputy John Paul Phelan: -----was contrasting to it.

Mr. Tom O'Connell: Yes, well that's where the puzzle arises because just as the IMF ... if you look at the detailed ... the annex, annex 1, where the technocrats would be doing this sophisticated exercise. I mean, the overall assessment, maybe in both the OECD and the IMF, tended to differ from what the technical analysis projected and in fact you could ... that can only be explained, I suppose, in terms of the people who are doing the overall assessment reckoned that "Oh, this is a special, technical exercise, you know, it's a little bit ... okay, we can't be sure about it. It's interesting, but it doesn't carry over to the main message."

Deputy John Paul Phelan: Okay.

Mr. Tom O'Connell: That's the only way I can understand it.

Deputy John Paul Phelan: My time is nearly up. One final area that I want to cover ... in your opening statement - and again without naming any names - but you stated that in the Central Bank, this is a direct quote: "In the Central Bank it was difficult to get views through that might impinge on vested interests." I just want you to maybe briefly outline for the inquiry what those vested interests were and how they manifested themselves, really, in the operations of the Central Bank.

Mr. Tom O'Connell: Well, I think the bank's message ... my view was that you should put a gloss on most things, you know, and it goes back to the independence issue again, you know, is a Central Bank ... maybe in a small country like Ireland, while we're legally independent, is the Central Bank actually independent and ... so there was an overall view that you don't call a spade a spade, you know, even if it's staring you in the face. You try to put a gloss on things and that carried over, as I said earlier, to IMF and OECD assessments too. If they were coming up with a negative message, you tried to twist their arms or at least various people tried to twist their arms, to put a gloss on things and not to put a negative picture forward.

Deputy John Paul Phelan: How did that ... you gave a couple of examples of outside bodies where some twisting of arms, or other expressions, might have happened or tried to happen, but how did it manifest itself in the operations of the Central Bank itself and in terms of your role as the chief economist?

Mr. Tom O'Connell: Yes, well, for example, I mean, I usually did the editorial for the quarterly bulletins or whatever and, you know, you try to paint a picture as you saw it, a realistic picture, but if that didn't pan out to be a pretty positive picture, there was a view that you sort of ... you bend it a little bit to make it more positive, you know? That was pretty pervasive, in fact.

Deputy John Paul Phelan: Okay, thanks.

Chairman: Okay, thank you, Deputy. Senator Michael D'Arcy.

Senator Michael D'Arcy: Thank you, Chairman. Mr. O'Connell, on page 4 of your written statement, you state, about halfway down through the second paragraph:

> Around that time, a memo was sent from the economics function in the bank to the then Governor recommending that bank lending to the property sector needed to be reined in; for many years in the past the Central Bank imposed credit ceilings on banks in the interests of prudence. The response to the note was that the Governor would have to consider bringing the proposal to the board. However, at the top of the note were the words, evidently added subsequent to the first comment, "That is out of the question". (I have a copy of that memo.)

Could you provide that memo to the committee, please?

Mr. Tom O'Connell: I can do that.

Senator Michael D'Arcy: Yes. Could I just ask-----

Chairman: Give him a moment just to make a note of it.

Senator Michael D'Arcy: Okay, sorry.

Chairman: Yes.

Senator Michael D'Arcy: Yes. In your statement, you suggest that the authorities were well aware of the dangerous developing situation in terms of the property bubble. When did you realise that there was a bubble forming? When did it start in your own mind?

Mr. Tom O'Connell: I would have ... I would have thought probably around the time when the Bacon reports were called for, that was around 1999. In fact, I remember the Central Bank, in its commentaries at the time, would have been flagging, significantly, property price issues because I can ... I can recollect actually Shane Ross, in the *Sunday Independent,* talking about the Cassandras in the Central Bank, you know, which sort of means that they're whinging about ... they're crying wolf, if you like. So, back then, I mean, the ... in fact, yes, back then, even before the year 2000, there was a property bubble emerging.

Senator Michael D'Arcy: And, tell me, when did you believe that it moved on from an ordinary property bubble to a very serious, significant property bubble; that it had become really excessive?

Mr. Tom O'Connell: Well, at that time ... but even going on further ... in fact, I can recollect you, Chairman, saying at one of the sessions here property prices had risen to eight to ten times incomes. In fact, when I went to a Dáil ... an Oireachtas committee, I think it was to do with SME lending, which was an issue there a few years back - still is, I suppose - but I remember saying to them that property prices in Dublin were actually 12 times average national incomes. When you come to think of it, the traditional benchmark, I think, as you, Chairman, said, was two and half times income.

Senator Michael D'Arcy: I asked you when did it become really excessive?

Mr. Tom O'Connell: When? It was massively excessive around 2000, and ... I mean there was a dip around ... property prices dipped around 2002-2003 you may recollect, when the budget took interest expenses away from buy-to-let people, to try to get them out of the market.

Senator Michael D'Arcy: It was massively excessive around 2000. And what term would you use for the subsequent growth, as we've seen in previous evidence from AIB, Bank of Ireland and Anglo in the region of 30% per annum growth year-on-year compound-----

Mr. Tom O'Connell: In credit?

Senator Michael D'Arcy: In the balance sheet, yes, of the banks?

Mr. Tom O'Connell: Yes, it was-----

Senator Michael D'Arcy: I mean, in mind ... keeping in mind that you said in 2000 it was massively excessive.

Mr. Tom O'Connell: Well, I mightn't use the word "massively"-----

Senator Michael D'Arcy: Okay-----

Mr. Tom O'Connell: -----in 2000-----

Senator Michael D'Arcy: Excessive?

Mr. Tom O'Connell: But it was excessive-----

Senator Michael D'Arcy: Okay.

Mr. Tom O'Connell: Yes, it ... which explains why the Bacon reports were requested, you know.

Senator Michael D'Arcy: What term would you use where ... where it eventually got to where it got to ... what ... what was ... what was the one term that you would use?

Mr. Tom O'Connell: Well, you ... yes, I think you've mentioned that it's been mentioned at earlier sessions here, that bank lending was rising at 30, 35%, etc. I mean, I mentioned 65%, you know.

Senator Michael D'Arcy: Those are the figures that we've quoted here.

Mr. Tom O'Connell: Yes, yes. But I mean that was enormous. That was-----

Senator Michael D'Arcy: What term would you use for that?

Mr. Tom O'Connell: Horrendous, I would say.

Senator Michael D'Arcy: Horrendous, okay. And can ... what did you ... what was the role that you used? What was your role within the Central Bank as the most senior economist that straddled both the Central Bank and IFSRA in terms of what you did to prevent that year-on-year horrendous growth? Unsustainable, in your own terms.

Mr. Tom O'Connell: I didn't actually have a role in the regulatory side, you know, we were sort of divided. But at the financial stability committee-----

Senator Michael D'Arcy: Did you have access to the consolidated data?

Mr. Tom O'Connell: Oh yes, yes. We knew ... we had the data coming in-----

Senator Michael D'Arcy: Yes.

Mr. Tom O'Connell: -----from the individual banks. So when even when I said the 65% for example, there was ... there would've been banks around that. So some of them were at 45% and others were probably at 85%, you know. So the thing was completely out of the ball park. No, I had to try to persuade people. I may not have too much written evidence of it, but it was self-evident that things were keep ... going completely crazy. You didn't have to have a research paper to convince people. I mean it was staring you in the face.

Senator Michael D'Arcy: Yes, and you made the point earlier to Deputy O'Doherty, I think it was, that the bubble was a standard bubble, same as previous bubbles.

Mr. Tom O'Connell: Pardon?

Senator Michael D'Arcy: The bubble was a standard bubble-----

Mr. Tom O'Connell: Oh yes.

Senator Michael D'Arcy: -----and that it was commercial-----

Mr. Tom O'Connell: Yes.

Senator Michael D'Arcy: -----commercial property that eventually ... and if it was a standard bubble and you had awareness of it, why was there not reports conducted previously in terms of the commercial sector which was the sector that eventually broke the Irish banks?

Mr. Tom O'Connell: Well, as I said earlier ... well, I ... there was a political element to it as well. I mean, the bank was very political, let's be honest about it, I mean, to the extent that they were concerned about residential mortgages because they are very important for you guys politically, even though residential mortgages don't generally bring down banks. It's commercial property that brings down banks. So the focus ... I mean, what the origins of the focus on the residential mortgage market was I can't quite recollect but, I mean, it would be pretty obvious the indicators for house prices are out there, you know, or were out there. Commercial property prices there's ... I don't think there's an official CSO statistic or series for that. And if you look back at the stability reports you'll see, for example, CBRE indicators or Lisney's or whatever were used. So they were private ones, you couldn't ... I'm sure they were well complied but, there weren't official data there which by ... so there was the political importance of the housing sector and the fact that the official statistics related more to the private housing sector than commercial ... that probably explained why the focus tended to be on the housing sector, even though, I mean, history is replete with cases where-----

Senator Michael D'Arcy: Sorry-----

Mr. Tom O'Connell: -----commercial property brings down the banks.

Senator Michael D'Arcy: Why then, you as the most senior economist, within the Central Bank, did you not insist that it is the commercial real estate sector that is the more dangerous of the two sectors? And that went unchecked until 2006.

Mr. Tom O'Connell: Well, there were commentaries done on the commercial property sector. Now, I think if you look at the stability report, there isn't a huge section dealing with commercial property. You know, it'd be sort of ... there. It was covered all right, but it was beneath the ... what would you call it-----

Senator Michael D'Arcy: Perhaps if you could provide those documents as well in relation to the ... for the committee, it would be helpful.

Mr. Tom O'Connell: Okay.

Senator Michael D'Arcy: Could I just move on, please? You were a member of the domestic standing group on behalf of the Central Bank.

Mr. Tom O'Connell: Yes.

Senator Michael D'Arcy: The simulations ... the simulation of the exercise in light of the crisis that eventually emerged, there were two standards applied, a stress test and a higher stress test. Were you ... were you consulted in relation to the simulation exercise by the domestic standing group?

Mr. Tom O'Connell: Yes, I would have been part of the group that, sort of, conducted that, if you like.

Senator Michael D'Arcy: Can I ask you ... a term that you used earlier with me was "horrendous and unsustainable". Why was there not a much, much higher - potentially a doomsday scenario - stress test if you knew that the growth of the balance sheet was horrendous, unsustainable ... why would you just have a standard stress test and then a higher stress test?

Mr. Tom O'Connell: Well, the stress tests are just a ... one tool and, in fact, I think I jotted down somewhere where ... they're not the be all and end all. There's a whole lot of qualifications to do with it. In fact, one of the most relevant deficiencies, if you like, of it in Irish ... in Ireland's case was that it's a sort ... the stress tests are sort of based on the assumption that the collateral can be realised at reasonable prices. In other words, so there's not a big crash. And ... but, of course, that didn't happen here. You know, it was the collateral, when people got ... went to ... when the banks went to seize security they ... the fields ... the green fields out in the countryside were worth nothing. But, in fact-----

Senator Michael D'Arcy: Mr. O'Connell, can I just-----

Mr. Tom O'Connell: Yes.

Senator Michael D'Arcy: -----can I just hold you there, please, for a moment? You've presented evidence here that ... the term you used was "horrendous", "unsustainable," and yet if the ... if a much higher - potential doomsday - stress test had been implemented, potentially the decisions made by others coming closer to the guarantee might have been different if a much higher stress test had been applied, much higher.

Mr. Tom O'Connell: I'm not sure about that. In fact, can I quote you something from Regling and Watson? They talked about stress tests. They said-----

Senator Michael D'Arcy: I'd prefer if you'd stay with the-----

Mr. Tom O'Connell: Okay.

Senator Michael D'Arcy: -----please.

Mr. Tom O'Connell: Would a much more significant stress test have-----

Senator Michael D'Arcy: Could a different decision have been arrived at?

Mr. Tom O'Connell: I'm not sure because the stress tests ... the bottom-up ones entailed going out to the banks, sending them a scenario and they would come back. Now, we know the banks had no real basis for calculating the losses. You know, they ... they were back of the envelopes and that's probably flattering them a bit on it. They didn't have-----

Senator Michael D'Arcy: Were yours on the back of an envelope?

Mr. Tom O'Connell: Well ... sorry, we did the top-down ones and they were based on econometric models and, I mean, I wouldn't go as far as the former Governor who said "I don't believe in econometrics" but, you know, they're not perfect either. So, no, you didn't need stress tests to see that things were going bananas. It was obvious from the data.

Chairman: Final question, Senator, and we're moving on.

Senator Michael D'Arcy: Things were going bananas. Why then would ... was you ... would ... did you not, as a member of the domestic standing group, not insist, as potentially the most senior non-academic economist in the State ... certainly as the senior economist within Central Bank ... why did you not insist on a much, much more rigorous stress test?

Mr. Tom O'Connell: Well, the domestic standing group only was set up in 2007, you know, so that was-----

Senator Michael D'Arcy: I know. I'm not-----

Mr. Tom O'Connell: -----that was way past ... we were dead set on a bubble bursting at that point. Earlier ... no, I don't believe myself that the stress tests are the be all and end all of anything. Even if you had a big one, if you had a massive stress test, God knows what would have come back from the banks. In fact, I think if you read the two articles in the ... I think it's one of the bulletins in 2006 about the stress tests, I think, that the various scenarios put to the banks, in only one case, I think, did the banks come back with a small hit to their profits or capital, and that was sort of an extreme scenario, so-----

Senator Michael D'Arcy: I was asking about the domestic standing group, yes.

Mr. Tom O'Connell: Yes, sorry.

Chairman: Deputy McGrath.

Deputy Michael McGrath: Thank you very much, Chair. Mr. O'Connell, you're very welcome. Can I start by asking you about the crisis simulation exercise conducted by the Central Bank? You're familiar with that. Feedback from staff involved in the crisis simulation exercise cited suggests, for example, too much information, too many voices. Concerns were expressed by the Department of Finance regarding confusion over the roles of the Central Bank and the regulator and other comments. Based on these comments, in your opinion can the simulation exercise have been deemed to meet the expectations?

Mr. Tom O'Connell: Well ... well I think part of the rationale for the simulation exercise was really to find out, you know, what problems exist in relation to a possible crisis that might occur. So ... I think that maybe the material you sent to me there points out, you know, what the three different parties, how they, how they viewed this simulation exercise and what deficiencies they saw in it. So ... did it serve its purpose? That one did, I suppose, in the sense that it did uncover problem areas. I can remember I think at the time the Department of Finance, for example, they were in a room on the seventh floor and they were there for a long time and nobody came near them for about 20 minutes or half an hour and they wondering what it's all about. So there was sort of lack of communication, things like prioritisation of data was necessary. There was just too much data flying around, it wasn't clear which was important or whatever.

Deputy Michael McGrath: Thank you. Given the parties comprising the domestic standing group, can you outline the possibility that there was a deficiency in the DSG operating model which may have resulted in the group's failure to identify early signs of the crisis? I know that's in light of the comment you said there that by 2007 the goose was cooked, as such.

Mr. Tom O'Connell: Yes. I think the first meeting was probably middle 2007 and at that point the liquidity problem had arisen straightaway. I think it was 9 August. BNP, I think, had a problem, a liquidity problem. In fact the governors across the eurosystem had to come back from their holidays to look at things. So, they were straight in ... the DSG was straight in to monitoring liquidity and, in fact, if you look I think at the material, the minutes and so on and the reports on the DSG for quite a while beyond that, it was very much focused on liquidity and the fact that the Irish banks were finding it more difficult to get access to funds and ... particularly to short-term funds, sorry to longer-term funds. They couldn't roll over longer-term funds, so the Department needed to be kept apprised of that ... on a continuing basis, just to see, you know, how things were developing.

Deputy Michael McGrath: Mr. O'Connell, you've used a lot of strong language today, as regards the views that you held during the years leading up to the crisis. Things were going bananas you said, that was obvious from the data, that you told your superiors things were going crazy, the banks had to be reigned in, that a crash was inevitable, since 2004 there was mad lending, overvalued assets. So, can I interpret from that, that you saw the crash coming?

Mr. Tom O'Connell: It was unavoidable in my view from around that point. And if I can go back to ... house prices were 12 times average incomes. In fact, I remember at that time, I said that to a Dáil committee, an Oireachtas committee. At that time *The Financial Times*, funnily enough, had a report by the Bank of England that house prices were seven times incomes in the UK, and the Bank of England said it was extremely worried about that. So, Irish house prices had to fall by about half, clearly. Or if you look at the ratio between house prices to incomes ... the dominator incomes, I mean if we had good times, per capita incomes in real times might increase by 3% and 4% a year. So there was no way you were going to get that ratio down to four, five, six without a massive crash in property prices, so it was inevitable. And in fact the Government itself, by its action in calling for the Bacon reports, as early as 1999, was clearly concerned about what happened. But, subsequently, post I think the budget in 2002, tweaked things a little bit, after that house prices really took off.

Deputy Michael McGrath: And, in light of the impact of asset values on the balance sheets of the banks, and you say that you foresaw there would be a crash in asset values, then around the time of the bank guarantee, in the autumn of 2008, you must have in ... as a logical extension, did you foresee the impact on the balance sheets of the banks and the capital base of guaranteeing all the liabilities of the banks for example?

Mr. Tom O'Connell: Well, I wasn't brought into the loop, in fact in the domestic standing group ... you know, kept going for a while at my level, say in the Department of Finance and the regulator and so on. But when the, when the Lehman's thing hit, and the shock to the credit markets really hit in September 2008, the whole thing was escalated to a higher level. You know, the Governor, the Financial Regulator and the secretary of the Department of Finance came into the picture then, because you know, taxpayers money was at stake. But ... I certainly wasn't in the loop on the guarantee at all, you know.

Deputy Michael McGrath: You asserted that asset values were dramatically over-priced.

Mr. Tom O'Connell: I would have thought so. Yes, yes.

Deputy Michael McGrath: So then, clearly you would have realised the impact on the balance sheets of the banks, of a collapse in asset values which you predicted, and by extension the impact that would have on their capital and when the State stepped into guarantee the banks then ... did you predict it?

Mr. Tom O'Connell: Yes. I mean, that sequence of events was certainly going to happen, but, I mean, I've been saying for years to people in the bank, that we had to rein in the banks. You saw the answer I got ... I think I said it there ... even when the property lending was increasing at 65% year on year, that's 16 times what the ECB said the appropriate growth in money and credit should be. Yet, there was no response.

Deputy Michael McGrath: At that time, or even in the period preceding that, did you bring to the attention of anyone more senior than you, the direct link, as you saw it, between assets which were overvalued and the impact of the inevitable crash, as you saw it, that would have on the balance sheets of the banks and therefore would blow a huge hole in their capital base, which was going to result in the collapse of banks ... our taxpayers having to step in to recapitalise them? I mean-----

Mr. Tom O'Connell: Well-----

Deputy Michael McGrath: Did you bring that-----

Mr. Tom O'Connell: Well-----

Deputy Michael McGrath: Did you bring that link to anyone's attention?

Mr. Tom O'Connell: Well, that was the implication I thought I was saying, I think.

Deputy Michael McGrath: But did you spell it out?

Mr. Tom O'Connell: Maybe I didn't spell it out as much as possible, but ... and ... I mean, I certainly wasn't asked for my opinion around the time of the guarantee, but-----

Deputy Michael McGrath: Okay.

Mr. Tom O'Connell: You know, I mean, obviously if ... if asset values collapsed, clearly that was going to impinge on the capital of the banks, yes. I mean, I don't think that needed to be spelled out.

Deputy Michael McGrath: You said that you wrote the editorial of the quarterly economic bulletin, is that correct?

Mr. Tom O'Connell: Normally, yes.

Deputy Michael McGrath: Is that the part at the very beginning of the quarterly economic bulletin, under "Comment"?

Mr. Tom O'Connell: Yes.

Deputy Michael McGrath: And would have written those editorials throughout 2007, for example?

Mr. Tom O'Connell: Probably, I would think, yes.

Deputy Michael McGrath: Okay. So can you just square for us what you had been saying all day today, and what you have said to me just now, with an extract for example, from the quarter 4 2007 economic bulletin, where you talk about property and prices, you said "Developments in residential output and property prices this year indicate a move towards a more sustainable position." There's no hint there of an imminent collapse. You said "Prices have eased somewhat and the supply of new houses is also adjusting to meet new market conditions." You refer to:

> ... the underlying demand for housing in the economy [remaining] strong reflecting continuing income and employment growth. In addition, the performance of the rest of the construction sector should help to ease the impact of the adjustment in the housing sector [etc, etc].

And there is a lot more like that. There's no sense from that-----

Mr. Tom O'Connell: Well-----

Deputy Michael McGrath: -----that the construction sector is about to collapse ... that there's going to be a collapse in asset values, which you say was inevitable, going back for six years prior to that, and you wrote this.

Mr. Tom O'Connell: Yes, well, actually, the views in the comment, at the end of the day, didn't ... don't reflect my views. In fact, I remember my predecessor used to say, he has his own personal views, but, I mean, at these fora, meeting the press and so on, you're given the bank view. Now, quarter 4, 2007 ... I would think that, as I said earlier, property prices peaked in February 2007, and you are, sort of, getting a gradual decrease at that point. So, it was probably a hope or expectation that that sort of gradual decline, if you like, would continue.

Deputy Michael McGrath: But, Mr. O'Connell, that's in marked contrast with the absolute certainty that you have described today as regards your views on asset values, the inevitably of a crash ... there's no sense whatsoever from reading that bulletin, and I haven't read the other bulletins, as to what you predicted. So you're saying that on the one hand, you could hardly have a coffee break without issuing a stark warning to someone more senior than you about what was going to happen, and yet, you wrote this.

Mr. Tom O'Connell: Well, that's what came out in the event. I've forgotten what I've said myself. But I probably ... the gist of what is there was probably originally written down by me, but ... no, I can only see ... well ... I mean, a central bank can't in any case, as I've said earlier, they can't ... you can't talk about a crash happening, because you'll have it in the morning. So, it was that comment I would suggest, as I say, probably reflected an extrapolation of what was happening since the previous February and the hope that that would continue. I mean, it was clear that with one in seven in the workforce working in the construction sector, that had to fall to one in 14, which was the average in Europe. So there had to be some adjustment, and I can recollect some outside commentators, the OECD and so on, saying that, you know, you'd have to move a large part of the construction workforce into the other sectors of the economy or else you'd have big difficulties. So it was ... yes, that was probably an optimistic assessment of what the fallout would be, and, I mean, I wouldn't deny it that the timing of the Lehman's thing precipitated a big adjustment, but that is just what was going to come anyway.

Deputy Michael McGrath: Can I clear up two other matters very quickly? One is this inference that you make on page 2 of your witness statement that the need to consider the issues of rezoning more land to increase housing supply was blocked from reaching a higher level in the bank in light, in your view, of political and property interests of the bank's board. The political side I think we can understand to mean that people were directly appointed by politicians. But can you clarify, the property interests of the bank board; are you referring to the ownership of property by individuals on the board, just in general terms, if you can clarify that, what you mean by that?

Mr. Tom O'Connell: No, no, actually there was a director who was a leading light or chairman, I think, of a major property company on the board, and yes, but, I mean, from chit-chat to the other directors, quite a few of them, I think, would have had properties as well. But, I mean, I think the aversion to mentioning zoning, even though it was a terribly low-key reference which I had in the draft, you know, I think the aversion to carrying it through into the final document was because zoning was a controversial area. I mean, we had ... didn't we have the tribunal going on down below, you know, about the planning and so on? Was it the-----

Deputy Michael McGrath: But you referred to property interests and the implication being somebody had a direct vested interest in property?

Mr. Tom O'Connell: No, no, actually, no, what I meant was there were-----

Deputy Michael McGrath: That's not what you're saying, okay.

Mr. Tom O'Connell: No, no, but, I mean, I've no doubt they probably owned property, but no, what I was referring to was a person who was a very significant figure in the property world, if you like. But I'm not suggesting anything improper at all. But my seniors, I felt, didn't want to grapple with this, or even touch on this issue, because it gets into this controversial area of the Mahon tribunal and all sorts of carry-on.

Deputy Michael McGrath: Okay. And very finally, Chair, you refer, Mr. O'Connell, on page 4 of your witness statement that around 2002, 2003, a memo from the economics function in the bank sent to the then Governor essentially recommending that lending to the property sector needed to be reined in, and you refer to a memo coming back, and you said you have a copy of that memo where there's a note added that it's out of the question, it would have to go to the board, but that is out of the question. And I need direction from you, Chair. Can we ask Mr. O'Connell to provide such a memo?

Chairman: Yes, we can.

Deputy Michael McGrath: Okay, can we get that for-----

Mr. Tom O'Connell: Sorry, I've been asked for it already, yes.

Chairman: So thank you.

Deputy Michael McGrath: Thank you.

Chairman: Okay. I'm just going to wrap up on just a number of items so. One was an issue touched on Deputy McGrath there, and it's the housing report that you published in 2003. There's a footnote, I think, where ... that specifically relates to yourself in terms of further information, if it's required. It would indicate at that time that there was still time to take action to cool down house prices. You referred earlier to the Bacon report, okay, the measures were in place, they were then removed, but the graph hadn't, and evidence earlier to this committee would show that the graph increased significantly 2003 onwards. But in 2003, there was still time. So can I ask you what action did you take, if any, regarding to the findings of this report, and if no actions were actually taken, and what I mean by specific actions is that you go in and you put a tight position on something, what actions, if any, were taken? And if they weren't, why not?

Mr. Tom O'Connell: Yes, well, I mean, that paper went up to highlight to people that our property prices here were very high. And, I mean, I felt it wasn't really for me to sort of suggest actions, you know, because the ... I put the issues forward to the board and the Governor and in fact, actions could or would be taken only by the regulator and the actions taken would be as highlighted by Patrick Honohan's report. You know, credit ceilings, or sectoral limits, moral suasion. I mean, some of these things may have been tried with ... by the regulator. But, in fact, I remember Con Horan saying to you folks here that in 2005 he suggested moving to take some actions, and he said to you that the CEO of the Financial Regulator took it up with the director general of the Central Bank, and to Con Horan's disquiet, that was put off until 2006.

Chairman: Thank you for reminding us of Con Horan's action. I'd like to return to what action you may have taken, Mr. O'Connell?

Mr. Tom O'Connell: Yes. Well I ... I was on the bank side. I couldn't take any actions *vis-à-vis* the banks. It was up to the Governor.

Chairman: Outline the number of us ... the number of them there, concentration levels and other matters of-----

Mr. Tom O'Connell: Oh yes, well, they could be done. But, I mean, the regulator was the person who dealt with the banks, the individual banks, you know.

Chairman: But you would have put the report together so ... there wouldn't be any suggestion that that report didn't have recommendations and actions on it.

Mr. Tom O'Connell: Yes, and actually ... yes actually I think it might be of interest ... I think it might be of interest, Chairman, too, because one of my former colleagues who has a legal background said to me that - I think the question of the Governor's guidelines arose at some point and he ... my colleague, my former colleague, informed me that in actual fact the financial stability report constituted the Governor's guidelines because if the Governor had issued guidelines he was required, in accordance with section 33(d) of the 2003 Act, to put the guidelines in *Iris Oifigiúil*. So for example, in the crisis situation he would have had to say "We're raising the capital ratios for all the banks, or putting sectoral limits on them." And of course, in a crisis situation that would cause panic.

Chairman: That's a long distance, Mr. O'Connell, from the question I asked you, which was a report that you published that had significant concerns in it and what actions that you might have considered to put in place or did you take any actions and if you didn't, why didn't you?

Mr. Tom O'Connell: Well I would have thought, if you go back to the memo that Deputy McGrath talked about, we actually had in there a recommendation that credit guidelines, or credit ceilings be put on the banks. That was not accepted. So, that was .. that's an example.

Chairman: That was not accepted.

Mr. Tom O'Connell: Not accepted, no.

Chairman: Okay, thank you, just two last ones so. In ... as a senior economist and in your opinion and given that the role of the Central Bank is to maintain financial stability and that is what your No. 1 duty of care as a member of the Central Bank would have actually been, at what point did a micro-prudential issues with banks become macro-prudential in terms of financial stability?

Mr. Tom O'Connell: At what point did the individual banks create problems for financial stability? At the point where, I suppose, their ... the loan deposit ratio began to get out of hand, and I mean, that was ... if the ... when the loan deposit ratio began to exceed 1, or go beyond that, that effectively meant the banks were overtrading and they were relying on wholesale funding at that point. So that should have been a warning indicator. But even more simple-----

Chairman: When did it become an issue for the Central Bank?

Mr. Tom O'Connell: Pardon me?

Chairman: When did that become an issue for the Central Bank?

Mr. Tom O'Connell: Well it became an issue, or it was an issue, in the financial stability reports year in, year out.

Chairman: When?

Mr. Tom O'Connell: When? I-----

Chairman: There was a time that the banks', kind of, strong road changed into funded patterns, as you mentioned yourself, and this gave rise to becoming an issue for the Financial Regulator, and so forth. But when did it become an issue for the Central Bank? When was this on your radar that there was a very significant concern there that the macro-prudential system now was actually in danger of stability, or instability?

Mr. Tom O'Connell: It would have been in the early 2000s, and ... and probably even before that, or in fact when we sent our memo to the then Governor asking for credit limits to be put in, I mean, that was when we felt that there were major problems.

Chairman: Okay. And just to finalise, you can add whatever you wish then by means of conclusion as well, Mr. O'Connell. You began your statement to the inquiry today with the remark that Ireland's banking and economic crash should never have been allowed to happen. So, without getting into specific personalities - we're maybe dealing now in an institutional level - do you think that it shouldn't have been allowed to happen at an institutional level, and can you maybe identify which institutions were predominantly to take responsibility for this? Is it the Central Bank, the Financial Regulator, the Government, the Department of Finance? Who is it?

Mr. Tom O'Connell: I think there are lots of parties at fault in ... the first line is clearly the commercial banks' boards and management. I mean Greenspan famously said he believed, with the light regulation, he believed that bank executives wouldn't run their banks into the ground. So the banks' boards and senior management were in the first line. The second line, which not many people have focused on, is the institutional shareholders who had their funds at stake, investment management funds and so on - life companies. They had large shareholdings in the banks. I mean, why did they not rein in the banks? And then behind that, you had the authorities - the Central Bank and the Financial Regulator. So, they all had their part to play. Now, unfortunately, with the principles-based regulation the authorities were sort of behind the curve on that, but the primary responsibility was clearly with the banks' boards and their senior management.

Chairman: Thank you, Mr. O'Connell. Is there anything else you would like to add by means of final comment?

Mr. Tom O'Connell: No. Thank you very much, Chairman, and thank you for inviting me to the meeting. In fact, I asked to be called myself and maybe I would have been called anyway. I wish you well in your work, and come up with some lessons that we should hope to avoid any problem like this in the future.

Chairman: Thank you very much and you have included those in your opening comments as well and they will be taken into consideration when we come to the conclusions process.

Mr. Tom O'Connell: Oh, yes. Thanks, Chairman.

Chairman: So, with that said, I'd like to thank for Mr. O'Connell for his participation here and for his engagement with the inquiry. The witness is now excused and I propose that we adjourn the meeting until 9.30 a.m. tomorrow morning, Thursday, 11 June 2015. Is that agreed?

Mr. Tom O'Connell: Thanks, Chair.

The joint committee adjourned at 7.10 p.m. until 9.30 a.m. on Thursday, 11 June 2015.