Tithe an Oireachtais
Houses of the Oireachtas

Joint Committee of Inquiry into the Banking Crisis

Section 25 Statement of

Thomas O'Connell

Strictly Private & Confidential

As indicated on its cover page, the document(s) contained within are confidential unless and until the Joint Committee decides otherwise including where the Joint Committee publishes such document(s). For the avoidance of doubt, "documents" include witness statements in this context. Further to section 37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013 ("the Act"), while the documents remain confidential, you must not disclose the document(s) or divulge in any way that you have been given the document(s), other than:

> "(a) with the prior consent in writing of the committee,
>
> (b) to the extent necessary for the purposes of an application to the Court, or in any proceedings of the Part 2 inquiry, or
>
> (c) to his or her legal practitioner."[1]

Serious sanctions apply for breach of this section. In particular, your attention is drawn to section 41(4) of the Act, which makes breach of section 37(1) a criminal offence.

[1] *See s.37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013*

Observations on References to Tom O' Connell at
Committee on Banking Inquiry

Proceedings of 11 June

Page 27 (Exchange between Senator Mc Sharry and Liam O'Reilly): My point in regard to 'political and property interests' on the Central Bank Board related to my view that the top management in the Bank, i.e., the Governor and Director General, did not wish to raise in the Bank's Comment in the Quarterly Bulletin the need for more re-zoning of land to increase housing supply because that was a very controversial matter at that time. The Flood / Mahon Tribunal on corruption in the planning process was then in progress. The Comment would have had to be approved by the Board. I specifically stated to the Committee that I was in no way implying any impropriety on the part of the Board, although there were Board Directors with clear political and property connections.

Page 42 (Exchange between Senator O' Keeffe and Liam O' Reilly) I find it extraordinary that Liam O' Reilly could find it not credible that I could have been asked to call the ESRI to influence their public comments. That certainly happened, as I said under oath. Any of my colleagues could confirm that that would have been wholly consistent with the culture of the Bank.

Page 96 /97 (Exchange between Senator Mc Sharry and Brian Patterson): My point, as stated to the Committee, is that my interaction upwards was with the Governor and the Director General. My only interaction with the Board was at the behest of the Governor and DG; I did not have direct access to Directors except at Board meetings and on terms prescribed by the Governor and DG.

Page 114 (Exchange between Senator O' Keeffe and Brian Patterson): I would not say that I 'was shouting and screaming' to get my concerns across – at least not literally so. However, I did try to persuade top management that action was required to halt the reckless lending of the banks.

<u>Proceedings of 17 June</u>

Page 50 (Exchange between Senator Barrett and Tom Considine): I reaffirm, as I did under oath, that I was instructed – actually by Governor Hurley – to telephone Frances Ruane, the Director of the ESRI, to request that Prof. Alan Barrett desist from commenting on the fragile state of the banks, as he had done in the context of an ESRI Quarterly Commentary.

Page 118 / 119 (Exchange between David Doyle and Senator Mc Sharry / Deputy Eoghan Murphy): My point in evidence to the Committee was that my main upward points of contact in the Central Bank were with the Governor and the Director General. People at my level did not have independent contact with the Board; this was always exercised through the Governor and the Director General. Papers for the Board had to be approved and modified as they saw fit, and, equally, presentations to the Board were subject to prior approval / modification / censorship.

'Soft Landing'(page 119) I acknowledged in my evidence that there was no scientific study undertaken of whether there would be a soft landing or otherwise. In fact, financial theory and past experience would suggest that asset price adjustments are much more likely to be of an abrupt or sharp nature – a hard landing. Having said that, as Brian Patterson noted in his evidence, a central bank could hardly suggest that a hard landing was in prospect; to do so would risk financial chaos and a bank run.

Proceedings of 25 June

Page 27 (Exchange between Senator Mc Sharry and Governor Honohan): I think that I made it clear in my appearance at the Committee that my contacts upwards in the Central Bank were primarily with the Governor and the Director General. Any substantive contact that I had with the Board was filtered through those two people. Further, any presentations that I made to the Board had to be approved by the Governor and the DG, so that such presentations were modified as they saw fit. In general, the convention was for executives of the Bank, including the Director General, not to take the initiative at the Board; there was always a practice of deference to Directors. The chief economist in the Central Bank was an advisory one to senior management and to take matters to the Board only if they saw that as appropriate. The chief economist had no authority whatever to take actions to rein in the banks – through enforcing sectoral lending limits or higher capital requirements, etc. I did try to persuade the Governor and DG to take actions to restrain the banks. In my appearance at the Committee, I informed the Commitee under oath of the negative response that I received to those initiatives.

In fact, Con Horan in his evidence stated that he had urged Patrick Neary in 2005 to take action to limit bank lending. However, he stated that, Mr. Neary having consulted with Mr. Barron (the Director General of the Central Bank), it was decided not to take any action. In actual fact, of course, it was far too late in 2005 for any action to have avoided the bursting of the property bubble and the related banking crash.

It should also be remembered in this regard that Governor Honohan has frequently described the Irish property market in the early 2000s as ‘ a world-beating property bubble’ and Mr. Nyberg in his evidence to the Committee stated that it was ‘obvious’ that we were experiencing a property mania. My point to the Committee was essentially that the decision-making levels in the Bank – the Governor / DG and the Board – simply did not want to know that the country was facing major risks. As has been said many times, it is the duty of central banks to ‘take away the punch bowl before the party gets out of hand’ (first stated by a former Fed Chairman William Mc Chesney Martin).