EUROPEAN CENTRAL BANK

EUROSYSTEM

Mario DRAGHI
President

Mr Luke Ming Flanagan
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 3 March 2015

L/MD/15/119

Re: Your letters (QZ 4-QZ 7)

Honourable Member of the European Parliament, dear Mr Flanagan,

Thank you for your letters, which were passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 16 January 2015.

My response to questions Z55-Z60 submitted by your colleague MEP Matt Carthy[1] contains replies to a large number of the important questions raised in your letter, in particular those regarding financial stability in Ireland. In that reply, I explained in particular the role of the ECB in the design of the EU/IMF programme and why the ECB was, and still is, of the view that the decision of the Irish government not to "burn" senior bondholders at the time was the right decision, a matter to which you also referred. I would therefore ask you to consult this document.

As regards the liquidation of Irish Bank Resolution Corporation (IBRC) Ltd. on 7 February 2013, the Governing Council of the ECB was informed of this by the Governor of the Central Bank of Ireland on that same day. In the opinion of the ECB, the liquidation of IBRC raises serious monetary financing concerns. Monetary financing by the Eurosystem is, as you know, prohibited by Article 123 of the Treaty on the Functioning of the European Union. The ECB already stated in its Annual Report for 2013 that the disposal strategy of the Central Bank of Ireland could go some way towards mitigating these concerns.

Turning to another matter you raised, as you rightly point out, the strong concentration of employment growth in one sector was indeed a significant symptom of the growing vulnerability of the Irish economy in the pre-crisis period. These developments were not appropriately detected ahead of the crisis, despite the fact that a

[1] http://www.ecb.europa.eu/pub/pdf/other/150218letter_carthy.en.pdf

few observers and institutions had expressed concerns about the sustainability of the Irish asset bubble. However, the single monetary policy for the euro area would not have been the policy tool with which to effectively correct these imbalances in an individual euro area country. Among the instruments available at the time, domestic policies (e.g. adequate tax policies, macro-prudential measures and banking supervision) would have been best placed to address such developments.

In the meantime, the Macroeconomic Imbalances Procedure was established in 2011 with a view to preventing and correcting imbalances such as those that developed in Ireland ahead of the crisis. Furthermore, the banking union and in particular the adoption of the Bank Recovery and Resolution Directive have provided national and EU institutions with a new set of tools to deal with bank failures. Unfortunately, neither of these tools was available at the time when the property bubble was developing in Ireland or at the beginning of the crisis.

Finally, as you are aware, the ECB was not at the time, and is still not, the authority responsible for adopting or implementing adequate national prudential regulations, tax policies and structural reforms, and only took over a number of micro- and macro-prudential supervisory tasks on 4 November 2014. Your questions pertaining to these policy areas, therefore, could also be addressed to the relevant national and/or other European authorities.

Yours sincerely,
[signed]

Mario Draghi

Address
European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address
European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu