HOUSES OF THE OIREACHTAS

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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 10 Meán Fómhair 2015

Thursday, 10 September 2015

The Committee met at 9 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.

Nexus Phase

International Monetary Fund - Mr. Ajai Chopra

Chairman: The Committee of Inquiry into the Banking Crisis is now in public session. Is that agreed? Agreed. Can I ask members and those in the public Gallery to ensure that their mobile devices are now switched off. We begin today's first session - one of three sessions of public hearings - and we commence with Mr. Ajai Chopra, former deputy director of the IMF and in doing so, I would like to welcome everyone to the final day of the public hearings of the Joint Committee of Inquiry into the Banking Crisis. Before we hear from our witness I would like to say a few words about the inquiry to date and what lies ahead.

Today is the final day of public hearings of the banking inquiry - an inquiry that was established to serve the Irish people, to get the answers to questions about the banking crisis and to ensure that a crisis of this nature is never visited upon the Irish people again.

The banking crisis was, and remains, one of the most traumatic events in modern Irish history - it has impacted on homes, families and communities throughout our country. Few were spared its effects and many are still suffering from them today. Many people have rightfully asked - "How did this happen?" While much has been written about the crisis, gaps have remained in our knowledge of that time. The Irish people want and deserve the fullest and most comprehensive understanding of how the crisis enveloped our country.

It is right and fitting that in a parliamentary democracy, our Parliament, people elected on behalf of the people, should seek to provide answers to questions about the crisis on its people's behalf. These past months of hearings have demonstrated that the Irish Parliament can hold a fair and impartial public inquiry. The inquiry has been held in an open and transparent manner with proceedings broadcast on the Internet and on television for all to see and hear. It has portrayed our Parliament in a positive light with members from all parties and no party working together on behalf of the Irish people.

For those members of the public watching today, I want to say that this inquiry was served and set up to serve you, the Irish people, to provide the fullest understanding, to ensure we learn the lessons from our past so that it is not repeated in the future. You have had the opportunity to hear, at first hand, from those who were involved in one of the major events in the history of our country. You were able to see and hear from them as they were questioned and gave their evidence to this committee.

The committee is now embarking on the final phase of its work leading to its final report. This involves the analysis and review of evidence, obtaining clarification of material evidence from witnesses, and the compilation of books of core documents for publication with the final report. When the public hearings conclude this afternoon, the committee will have heard oral evidence from 128 witnesses over 49 days since last December.

These witnesses, representing all the key institutions and relevant stakeholders, along with

relevant experts, have brought a wide range of perspectives to bear on the committee's comprehensive examination of Ireland's banking crisis.

I'd like to take this opportunity to thank all the committee members for their hard work and their commitment during our public hearings and the entire process. However, the taking of oral evidence is only a part of the work of this inquiry.

The inquiry has sought and received nearly 50,000 documents to date, amounting to hundreds of thousands of pages. This is the first time that the key documents over the period, 1 January 1992 to 31 December 2013, have been collated and examined in one place at one time.

The real strength of the inquiry is its ability not just to look at one document in isolation, but to draw together the different strands from various sources, along with the key public testimony, to get a better picture of what happened, to put in place the pieces of the jigsaw which made up the banking crisis. Over the coming months, the committee and its team will work on bringing together all the ingredients for its final report.

While public hearings with witnesses are televised and webcast live, these are only part of the process. Much of the joint committee's work is less visible to the public. A parliamentary inquiry is a complex project, requiring a dedicated and expert team working behind the scenes to support the work of the joint committee.

In this regard, I would like to thank the secretariat and the investigators for the work that they have done to date and will continue to do so on behalf of the inquiry, as we work together to complete our final report.

Every hour of public hearings requires hours of backroom work and support. Without this support, the committee would not be successfully completing its public hearings today and be able to deal with the challenges it has faced to date and the challenges it faces into the future.

And I would also like to thank the wider Oireachtas staff - in particular the debates staff who ensured that transcripts of each day's public hearings were made available in a timely and efficient manner; and the parliamentary ushers and restaurant staff who were on hand, despite many early mornings and very late nights - and one which I hope we do not have this evening and that we finish on time.

So with that said, I would now like to commence today's proceedings and in doing so, I'd like to welcome Mr. Ajai Chopra before the committee. Our first session today is with Mr. Chopra and we will hear from him. He is a former deputy director of the IMF. Mr. Chopra worked for three decades at the International Monetary Fund, where his career focused upon country surveillance and IMF lending programmes, primarily in Europe and Asia but also into Latin America and Africa. He was responsible for the design and monitoring of Ireland's financial rescue plan from 2010 to 2013. His final position in the IMF... as deputy director of the IMF's European department. Mr. Chopra, you're very welcome, and I would like to acknowledge that you're appearing here today as a voluntary witness.

Before hearing from you, I'd like to advise you that, as 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're directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to so do, 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. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room, but 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 confidential and they should not publish any of the documents so displayed. So with that said, if I can now ask the clerk to administer the affirmation to Mr. Chopra, please.

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

Mr. Ajai Chopra, former Deputy Director, International Monetary Fund.

Chairman: Once again, Mr. Chopra, welcome before the committee this morning and if I can invite you to make your opening remarks please.

Mr. Ajai Chopra: Thank you, Chairman. Good morning, members of the committee. I've been quite fulsome in my written statement. In the interest of brevity, I will make just a few points to provide perspective. First, I reiterate that I no longer work for the IMF and hence speak in a personal capacity. I do not represent the IMF at this hearing. I also remain bound by the IMF's rules on confidentiality. Second, a few words about the counterparts I worked with on the external assistance programme. On the Irish side, the counterparts at both the technocratic and political level were uniformly superb. They were knowledgeable, dedicated, smart, funny and committed to tackling Ireland's difficult situation. There are too many individuals for me to mention by name and it's invidious to single out just a few so I won't do so. These Irish public servants were true heroes in how they dealt with the crisis in Ireland and Europe. The nation should be proud of them and they should be proud of what they achieved under difficult circumstances.

Teams from Europe and partner institutions, namely, the European Commission and the European Central Bank were also high calibre. They came to Ireland with the genuine intention to be helpful and supportive within the constraints imposed by their institutional rules and structures. Staff from the IMF, the Commission and the ECB established an effective and collegial working relationship although this required a big investment of time and effort, including agreeing first time positions among external partners before discussing them with the Irish authorities. I would be amiss if I did not also pay tribute to the marvellous IMF teams I had the good fortune to lead. I may have become the public face of the EU-IMF programme - certainly not by design and I guess today's appearance before this committee ironically perpetuates that – but this was a team effort, with a fabulous group of IMF professionals backing me up all the time.

Third, I now turn to the central theme put to me by the committee, namely, the crisis response and the role of external partners. As my statement covers specifics on this matter, I limit myself now to the broader point that IMF support for a member of the monetary union introduces an unusual set of challenges. This has a number of dimensions and I'll touch on only a couple of them.

One dimension is divergent interests of the IMF and European institutions where objectives may not necessarily always be aligned. The IMF tends to focus primarily on supporting its member country, encouraging policies that are suitable for the country that at the same time do

not undermine global stability or increase global imbalances. The EC and ECB often put euro area-wide rules and concerns above what is appropriate for the individual member. The obvious example is the issue of burden-sharing with senior unsecured bondholders, where European institutions focused on wider euro area concerns even if this resulted in a higher burden for Irish taxpayers and higher Irish public debt.

The issue of ECB liquidity support, a crucial complement to bank recapitalisation and restructuring plans, is another example. No doubt the ECB was an enormous creditor to Ireland through its liquidity support. Indeed, at the time no other euro area country received as much support from the euro system relative to the size of the economy. But this support appeared to be only grudgingly provided and its availability and stability did not seem assured. As I pointed out in my written statement, although critical to the programme there was no *ex ante* commitment of liquidity support from the ECB. More supportive public statements by the ECB about ensuring the provision and stability of liquidity support, as needed, would have helped restore confidence in the banking system.

Another dimension is the importance of greater euro area solidarity to help address adverse feedback loops between banks, the sovereign and the real economy, which were terribly damaging for Ireland and other countries. Europe's decision to require each country to solve its own banking problems individually rather than in a mutualised manner worsened the crisis. Even the relatively modest step of euro area bank recapitalisation instrument, despite being on the books, has hit a stone wall. Similarly, low-risk approaches to mobilise European support such as credit enhancement schemes to lower the funding costs of banks' tracker mortgages would have helped bolster bank profitability and simultaneously support lending capacity, but these did not get much traction. Such additional support for a country such as Ireland would have had a positive pay-off, making it an investment worth undertaking.

The broader point is that Europe does not seem ready to create a genuine fiscal and financial union, but without such solidarity, the monetary union will remain fragile. Common regulation and supervision, including through the implementation of the Single Supervisory Mechanism, is now well advanced and is a good thing. It should help address regulatory capture, which was an issue in Ireland before the crisis.

A legal framework for common bank resolution is in place but its funding is woefully inadequate. However, common deposit insurance is a distant prospect at this stage, but without common deposit insurance, there will be no homogeneity of bank deposits across the euro area and no pan-European financial system. Moreover, the threat of euro exit has been used as a negotiating tool, which changes the monetary union into a system of fixed exchange rates, forever changing the nature of the euro.

I do not want to end my opening statement on this sombre note about Europe's fragile future unless radical changes are made in the functioning of the monetary union. I'll, therefore, end on a different note. Ireland's successful completion of its external assistance programme was a significant achievement and deserves much praise. Yes, some crisis legacies still loom large and there are risks but, as I said in my written statement, the economy is growing at a rapid clip and is creating jobs, the banking sector is healing, the fiscal deficit is small and public debt is declining. A key reason for this success is country ownership of the programme. The policy package under the external assistance programme was home-grown, designed by the Irish themselves. Ireland had an excellent record of policy implementation and compliance with the conditions set under the programme. There were 12 quarterly reviews of the programme, and each one was completed like clockwork. This is rare and is no small accomplishment. The

Irish authorities also persisted, despite uncertainty and some dark moments. Social cohesion was maintained. These are all essential ingredients to make the external assistance programme a success. Thank you.

Chairman: Thank you very much, Mr. Chopra, for your opening comments and if I can commence questioning and in doing so invite Deputy John Paul Phelan. Deputy, you've 15 minutes.

Deputy John Paul Phelan: Thank you, Chairman. Good morning, Mr. Chopra. I've a lot of questions so we'll get into it. In your opening statement you state the following:

> Ashoka Mody made an informal visit to Dublin in February 2009. That visit was the first time the staff raised the question of whether an IMF-supported financial arrangement might be useful to help smooth the inevitable adjustment facing the Irish economy.

When you refer to staff in the statement are you speaking just about the IMF? And with whom did they raise the question of whether an IMF-supported financial arrangement might be useful? And can you describe actually also what the reaction from the Irish side was?

Mr. Ajai Chopra: Okay. I think it's best to talk in terms of who are the typical senior counterparts in IMF discussions. The typical senior counterparts are the Governor of the Central Bank and his main deputies, and in the Department of Finance, it tends to be the Secretary General and his main assistant secretary generals. So those were the interlocutors when these matters were discussed. I'm not in a position to talk about the precise nature of those discussions but what I can say is, obviously, the counterparts listened carefully, asked questions but in the end we know what the result was - and the result was that they did not pursue programme discussions.

Deputy John Paul Phelan: Okay, that's fair enough. Can I ask you about the process then rather than maybe specifics? What is the process within the IMF, you know, when that initial type of consultation takes place? Is it somebody such as yourself who brings it, kind of, up the chain of command in the IMF to see whether ... or what actions are necessary on a political level ... that a programme would actually happen?

Mr. Ajai Chopra: The way the IMF works is that before contacts are made with country authorities on a formal mission or even on an informal staff visit, the IMF staff prepare its terms of reference for that discussion. So the staff makes a proposal in these terms of reference, it prepares a memorandum - a short paper - and that paper needs to be approved by IMF management. So whatever the staff says in a country has usually been cleared by IMF management. So that's the critical part of the process. So it is not just an IMF staff position; it has been endorsed by the IMF senior management.

Deputy John Paul Phelan: Okay. I want to put to you a statement. Mr. Cardiff, the former Secretary General of the Department of Finance, in evidence to the inquiry stated the following, "Then, in 2009, I believe there were hints in Washington, possibly also in Dublin, that, you know, IMF would be available if we wanted them." Would I be correct in understanding from your statement that what you're saying is that there were more than hints ... that in February of 2009 there was an actual beginning of a process?

Mr. Ajai Chopra: I would not say that there was a beginning of a process to talk about a programme. There was the beginning of a process to inform the Irish authorities as to how the IMF could help, and there was also a beginning of the process of ... of telling the Irish authori-

ties that the right time to enter into a programme is when a country is vulnerable and not when it is in a full-blown crisis.

Deputy John Paul Phelan: Okay. I also want to put another quote from Mr. Cardiff, from his evidence to the inquiry. He said ... in referring to getting an understanding as to how Ireland might make an application or enter an IMF programme, he said, should the need arise around September 2008 ... the quote is, he had "asked a colleague to make a discreet inquiry as to how you get into these things." Were you aware in ... at the start of 2009 of that initial inquiry as far back as September 2008 from the Irish side?

Mr. Ajai Chopra: As I said in my written statement, the first discussion of this was in the context of Mr. Mody's visit to Ireland in February 2009.

Deputy John Paul Phelan: So you weren't aware of any initial noises from Ireland at the end of 2008?

Mr. Ajai Chopra: I'm not personally aware of it.

Deputy John Paul Phelan: Okay. On page 3 of your statement, you refer to the infamous Trichet-Lenihan letters and you state, and I quote, that "the demands in the ECB letters went beyond that institution's mandate", which is-----

Chairman: Deputy, if you maybe just desist from giving some adjective or pronouns or descriptives to the letters. They're just letters; whether they're infamous or not will be decided at another time, okay? Mr. Chopra.

Deputy John Paul Phelan: Indeed. From the letters, then, between Mr. Trichet and Mr. Lenihan ... can you elaborate on the statement - that's really what I'm ... the point I'm trying to get at - and how, in your view, they were going beyond their mandate?

Mr. Ajai Chopra: Okay. Remember, the ECB is the lender of last resort for the euro area. So, it is perfectly within the rights of a creditor such as the ECB as ... in its lender of last resort function to ask about the viability and solvency of the banks that it is supporting, and it is perfectly within the rights of the ECB to ask about how the problems of these banks are going to be addressed. In addition, I think it is fine for the ECB and its senior management to say that if the sovereign cannot borrow on the market to recapitalise banks, then the sovereign, in this case Ireland, should seek international support from the EU and the IMF. So those things, I think, are perfectly within the rights of a lender of last resort.

But, in my view, ultimatums are not the right way to conduct business amongst euro area members and institutions, and we've seen that such ultimatums were delivered in the case of Ireland, through the letters that you've mentioned, and also we've seen them recently in the case of Greece. Furthermore, and I'm coming back to the letters, discussing fiscal policy and structural reforms, in my view, goes beyond the ECB's mandate and is not appropriate. There's a broader issue over here in my view. The ECB during this crisis - the first several years of this crisis - were central in pushing the agenda of deflationary structural reforms as the solution to the eurozone crisis, instead of demand stimulus. This resulted in asymmetric adjustment. What I mean is that it resulted in excessive emphasis on deflationary internal devaluation while the ECB chronically failed to meet its 2% inflation target.

The eurozone, and the ECB was ... as a key institution in this regard, emphasised supply side policies when the real problem in the eurozone was deficient demand. It took a long time before

the policy mix changed. The policy mix is now improved but, in my view, it's not enough. Too much of a burden is being put on monetary policy, and a neutral fiscal stance for the euro area, which it now is - for a while it was contractionary - is not appropriate. So I think you need to see my comments about this letter in this broader context of whether ultimatums are appropriate in discussions amongst euro area members and in the context of the macroeconomic policy mix and the ECB not meeting its own inflation mandate.

Deputy John Paul Phelan: Can I ask you then, as a brief supplementary: did you get an opportunity, or did you feel it was appropriate, to raise those concerns about the nature of the ultimatum, as you said, in those letters?

Mr. Ajai Chopra: I did not see the letters until they were published in November 2014.

Deputy John Paul Phelan: So you had no opportunity, I suppose, at the time to raise those concerns.

Mr. Ajai Chopra: That's correct.

Deputy John Paul Phelan: Mr. Ahearne was here yesterday, the former adviser to Minister ... the late Minister Lenihan, and he spoke about a meeting between ... when himself and Mr. Lenihan went to Washington D.C. in early October 2010 to meet the IMF, including you, he believed, and that there was a discussion about senior bondholders in Anglo Irish Bank at that particular meeting. Do you recall the meeting and can you elaborate maybe a little bit more on that discussion?

Mr. Ajai Chopra: I do recall the meeting. The issues that you refer to did arise, but I'm not at liberty to go into precise deliberations.

Deputy John Paul Phelan: As you note in your witness statement, Mr. Ó Ríordáin from Arthur Cox, a legal adviser to the Department of Finance, gave evidence to the inquiry where he detailed meetings with the IMF in November 2008 where Lee Buchheit was present. Was ... who asked Mr. Buchheit to become involved in the Irish issue or asked him, indeed, to come to Ireland? And are you aware did he meet with Governor Honohan and Minister Lenihan at the time?

Mr. Ajai Chopra: I think, picking up on what Mr. Ó Ríordáin said, this was at the initiative of the IMF staff. Beyond that, I'm not at liberty to say any more.

Deputy John Paul Phelan: Okay. Was his advice asked about restructuring Irish sovereign debt, as in Greece where he was heavily involved, or was his presence exclusively related to senior bondholders?

Mr. Ajai Chopra: The issue of Irish sovereign debt was never on the table because the Irish authorities were adamant that they would meet their sovereign obligations.

Deputy John Paul Phelan: Okay. Can you advise if the IMF view on burden-sharing ... can you advise us on the IMF view on burden-sharing and if it was materially different from the EU institutions and, if so, can you outline that?

Mr. Ajai Chopra: Deputy, I have been, as I said earlier, very fulsome in my written statement. If you want I can sort of walk you through that but the key point is that the IMF staff viewed certain ... was of the view that imposing losses on just junior bondholders was not sufficient and that the issue of imposing losses on senior, unguaranteed, unsecured bondholders

should also be explored and I listed criteria for this, which is: look at the overall magnitude of banks' losses, to look at the issue of returning the banks to a more stable funding structure and also to look at the issue of potential knock-on effects on others. And as I said in the statement, this needs to be done within a robust legal and institutional framework that strikes a reasonable balance between creditor safeguards and flexibility.

The key issue became the issue of contagion. Again, as I said in my statement, this was ... this was ... in ... this was obviously something that needed to be taken into account. European institutions put an enormous weight on this ... on the issue of contagion and they were very concerned that moving on imposing losses on senior bondholders in Ireland would adversely affect euro area banks and their funding markets. The view of the IMF staff was, this does need to be taken into account but that this was something that was anticipated by markets and if it was done within the context of a programme where the sovereign has already lost access to markets, it is something that the markets should have been able to absorb and even if they were not able to absorb it, there were mechanisms to help address that contagion.

Deputy John Paul Phelan: Was there an ongoing discussion then, during your time here, with the counterparties of the ... from the European institutions as to ... or how long was that discussion going on for? You can't really tell us, I suspect, of the detail of it but ... what was the nature of it?

Mr. Ajai Chopra: These issues were discussed amongst the various parties. I think that's about all I can say.

Deputy John Paul Phelan: Okay, one final question. Do you feel yourself, from your time in Ireland, that you became the presentable face of the troika and that perhaps, others might observe from the outside that other members of the troika hid behind your affability and presentability in terms of being that -----

Chairman: Mr. Chopra is a very nice man-----

Deputy John Paul Phelan: -----face?

Chairman: -----but I'd ask you maybe, just to deal with the facts.

Deputy John Paul Phelan: It's a fact.

Mr. Ajai Chopra: As I said in my opening remarks this morning, I think it was entirely accidental that I became the public face. This was never by design. I think the ... what I will say is that right from the outset - and this is a lesson we'd learnt dealing with previous crises - the IMF staff had learned that it is very important to be able to communicate transparently and honestly about the nature of a programme, so I think we were ahead of other institutions on our communications policy.

Chairman: Okay.

Deputy John Paul Phelan: Thanks.

Chairman: Senator Marc MacSharry.

Senator Marc MacSharry: Thank you Chairman and welcome Mr. Chopra. Thank you for taking the time. What were the most contentious issues that emerged during the discussions with the troika and the Irish Government and the Irish side in the formulation of the bailout

programme?

Mr. Ajai Chopra: I think I've touched on several of these. We have talked already a little bit about the issue of burden-sharing going beyond just junior bondholders. I have also talked a little bit about the issue of trying to seek greater stability of ECB liquidity support. In my written statement, I also touched on the issue of the pace of fiscal adjustment and the timetable for achieving the 3% deficit target under the excessive deficit procedure, so that was another issue. The issue of how to deal with the promissory notes and emergency liquidity assistance was recognised early on ... that this would have to be addressed, but it was not addressed at the start of the programme. That took some time to achieve, so in a sense that was parked for a while. There was the issue of, you know, how much should be set aside to support the banks, and we can ... I'd be happy to elaborate on that if you want. So there were a host of issues that were debated and discussed.

Senator Marc MacSharry: What was the issue around the promissory notes?

Mr. Ajai Chopra: Well, the issue around the promissory notes was that there was a very large outstanding stock of emergency liquidity assistance. There was the issue of how to deal with Anglo Irish. There was the issue of the amortisation schedule for the promissory notes. On the European side, there was the issue that this needed to be dealt with in a way that did not give rise to the perception of monetary financing. So a workable solution needed to be found that addressed all these issues, and that took some time.

Senator Marc MacSharry: In the operation of the troika, did you feel that the IMF were an equal player or did you feel that the ECB or the Irish Government or others were proportionately stronger in promoting their point of view?

Mr. Ajai Chopra: Okay. I think it's important to step back and recall why the European institutions, and European politicians especially - more the politicians, not really the institutions - were very keen to bring in the IMF into this process. I think the IMF was brought in to provide credibility on economic policies, given its extensive experience on crisis management. Remember, the IMF had been in the business of crisis management for many decades and had built deep and broad experience on this front. For European partners, however, crisis management was a relatively new task and they were less experienced in programme design. I think it's fair to say that some European politicians also saw the IMF as a counterweight to the Commission, which some creditor countries viewed as being somewhat feckless in this area. But the IMF did end up being a junior partner to the European institutions, and key decisions were taken by the Eurogroup. And, hence, I do think that overall - and I'm talking about the euro area in general, not so much in Ireland - I think this ... that this did affect the IMF's ability to enhance the credibility of euro area programmes. I do think in Ireland, though, we were influential with our partners. We may not have won every battle, but we were influential and we did manage to steer things in a way that, I think, was right for Ireland and the euro area. I think I should also say that, you know, even though the European partners may not have had the crisis management experience to start with, they learned very fast. And they quickly developed the necessary skills and they gained the experience through hiring practices and also setting up new institutions such as the European Stability Mechanism. So I believe that now, in 2015, the IMF has no particular advantage on programme design and monitoring for a euro area member.

Senator Marc MacSharry: You rightly pointed out the extensive experience and that this was not new territory to the IMF. The ECB in particular would not have had the lifetime experience and expertise in circumstances of crises such as these. Bearing in mind that, by your own

admission, you feel that you steered things in the right direction but didn't win every battle, what alternatives should have been contemplated that, had the ECB and the EU sufficient experience in crises management, should have been followed?

Mr. Ajai Chopra: I think more equitable burden-sharing is certainly one of those. I also said in my written statement that I would have been personally in favour of an even more gradual fiscal adjustment, because I think Ireland had already developed a great deal of credibility in addressing its fiscal problems even before the programme started and the European institutions were much too focused on their SGP rules and the excessive deficit procedures and so on. So, it's issues of those nature.

Senator Marc MacSharry: You were wholesome in your praise for all of the people that you worked with through the programme, elected people, people on the technical side, officials and so on. Obviously the fallout from this has seen a contribution from the Irish people that is second to none and indeed without any civil unrest that I'm sure your own organisation would be very familiar with. Would you say that because of the actions of the ECB and the IMF - in not following a line that you yourself would have seen as more preferable given your experience, as a more gradual fiscal adjustment, perhaps more equitable burden-sharing - is it fair to say, or not, that the Irish people paid an unfair price and an unnecessary, unfair price in this regard?

Mr. Ajai Chopra: I think I would limit that statement just to the issue of burden-sharing with senior bank creditors. I would not ... I would not widen that too much. But as I also said in my opening remarks this morning, I think there were better ways to deal with this crisis overall for the eurozone. A greater degree of mutualisation of the problems that banks were facing would have been very helpful. Instead, as the issue ... the way it was approached was a co-ordinated mechanism for each country to address its own problems. So I think the issue of greater eurozone solidarity would have been helpful, not just in the Irish context but in the broader eurozone context.

Senator Marc MacSharry: Just a couple of quick points just specifically on the burden-sharing. We had Kevin Cardiff who was here with us and in his opening statement he said about these issues and I quote:

> There had even been early indications of a positive hearing from US Treasury Secretary Geithner. We heard back, however, via the IMF team in Dublin, that instead of a positive response, there had been a strong negative reaction from the ECB and from Geithner and others

This was against a background here too where ... Cardiff had said that they were led to believe that Mr. Strauss-Kahn, head of the IMF at the time, was not only in favour of this approach but believed he could and would undertake to persuade other major players in world finance, such as ECB head Trichet and Geithner and others. Would you agree with that?

Mr. Ajai Chopra: Senator, I am not in a position to talk about specific deliberations within the IMF or also discussions between the IMF managing director and other G7 partners. I know that the ... that Secretary Geithner's book has been referred to in evidence in front of this committee and I would also just point to what Mr. Geithner said in his book.

Senator Marc MacSharry: You mentioned earlier, while you were in a position to recall certain meetings and confirm they took place, and even the content of some meetings, you

couldn't go into the specific deliberations, and we fully understand that. Was there ever discussions, to your knowledge, at the G10 ... sorry, at the G20 in 2010 conference in South Korea about Ireland entering a programme?

Mr. Ajai Chopra: My knowledge of this is simply through what's in the public domain. I was not at the G20 meetings in Korea.

Senator Marc MacSharry: Would you have any comment on the ECB's refusal to co-operate with this committee?

Mr. Ajai Chopra: No comment.

Senator Marc MacSharry: Did it surprise you?

Mr. Ajai Chopra: Each institution has its own procedures and ways of operating. As you know, my current ... my former colleagues from the IMF are not appearing in front of this committee either. So, you know, I think this goes to the procedures of each institution and their rules for dealing with national parliaments.

Senator Marc MacSharry: And the rules, of course, of the IMF, didn't prohibit you in your private capacity from coming in. We're all very grateful for that. Did you find it unusual that, given the same rules apply to the ECB, that Jean-Claude Trichet didn't take a similar opportunity to attend and-----

Mr. Ajai Chopra: My decision to come here was very much a personal decision.

Senator Marc MacSharry: And we're very grateful for it indeed. Thank you, we'll move on from that. Can you ... you mentioned earlier that, that a programme was under way, almost, before the formal IMF programme, troika programme was entered into. Are you satisfied that the programme, designed I suppose under the stewardship of the late Brian Lenihan and the previous Government, and continued to a great extent by the current Government, has worked as you would have hoped it might have and indeed may have been designed by the ECB and Commission and yourselves?

Mr. Ajai Chopra: I think if I look back to how I thought things might unfold back in November 2010 ... a couple of observations. One is I don't think any of us realised that things would actually get quite a bit worse for a while, and they did get quite a bit worse. And this was not related to what Ireland was doing; this was related to what was happening in the broader eurozone. So that part was a surprise. I mean I think, as you said, the former Government and the current Government were doing their utmost to deal with the situation but what they were doing was being swamped by what was ... by conditions in the broader eurozone. But once some of those broader eurozone concerns and problems began to be addressed, I think Ireland ended up doing better than I thought it would. You know, in my written statement I talked about some of the issues about public debt sustainability and how that turned out to be better than we had anticipated. I don't think any of us foresaw that growth would rebound in quite as solid a way but, you know, whenever I talk about growth, I think it's very important to move away also from the headline growth numbers and think in terms of levels. In terms of levels, it's only now in 2015 that *per capita* GDP in Ireland is returning to its level in 2007, and that's a long time.

So, you know, there have been a number of upside surprises but I think things could have gone even better if the overall macroeconomic approach in the eurozone had been stronger, and I've talked a little bit about that already, and if there had been even greater eurozone solidarity

and mutualisation.

Senator Marc MacSharry: And just before I give you my very final question, can I ask you, can you identify the fundamental changes in policy that occurred in the change in Administration here in election 2011?

Mr. Ajai Chopra: I think ... I wouldn't say there were fundamental changes. There were a number of small changes, and actually not a very large number. There was the issue of the minimum wage, which was taken ... which the new Government did not continue with, with the proposed policy of the previous Government. There was a little bit more ... there was more emphasis ... there was some switch in some fiscal measures geared a little bit more towards job creation. So I wouldn't say there were any fundamental changes-----

Senator Marc MacSharry: -----or differences. So, and then, and ... on the 12 quarterly reviews, if there was a suggestion from a government that we wanted to adjust the process of getting to the bottom line, were governments free to do that? So were they free to generate revenue from X or Y or was that prescribed by yourselves?

Mr. Ajai Chopra: Typically, the choice of measures is left to the government itself.

Senator Marc MacSharry: Finally then, can I ask were the social consequences of the bailout programme considered during the programme discussions and how were these consequences considered? And what was the nature of the discussion?

Mr. Ajai Chopra: Of course they were considered because I think, you know, the social consequences was something that was very much in the minds of both the previous Government and the current Government. I mean, you know, the national recovery plan was drawn up with the social consequences in mind. The new Government also had social consequences in mind. I've gone through some of the details in my written statement but I come back to the point that what we could do was to advise and try to steer the Government towards measures that mitigated some of the social consequences as they chose the revenue and the expenditure measures to undertake. And I think, you know, the data suggest that this was largely achieved. I don't ... you know, the ESRI, of course are the real gurus on this but my impression is that the distributional consequences of this programme, when one looks in terms of disposable income that takes into account taxes and welfare payments and so on, has not been of any great significance.

Senator Marc MacSharry: Thank you very much.

Chairman: Thank you very much. I just want to stay with that for a moment, if you don't mind, before I bring in the next questioners, Mr. Chopra? And in that regard, Senator MacSharry was talking about the social consequences. You mentioned earlier the SGP, that is the Stability and Growth Pact, and the rules that come with that. Was there a balancing or a sort of conflict of needs there between meeting the requirements of the Stability and Growth Pact and being mindful of the social implications of the adjustments that were required?

Mr. Ajai Chopra: I think it is important to keep in mind that Ireland had no choice but to undertake a fiscal consolidation.

Chairman: Okay.

Mr. Ajai Chopra: The structure of the budget had changed very fundamentally after the crisis. Sources of revenue had been lost. The Government had to take on a very large amount

of public debt to support the banking system and, you know, expenditures had been ramped up during the boom. So addressing fiscal problems was going to be central to the programme.

Chairman: Okay.

Mr. Ajai Chopra: The issue is that ... that, you know, to superimpose the SGP on that obvious requirement was an additional complication.

Chairman: Okay. So in that regard, we can go into the choreography and the structure of the bailout programme. But you are saying that a structured programme of one nature was required or another? Yes?

Mr. Ajai Chopra: Yes.

Chairman: And would it be more correct, or not, to describe the crisis in Ireland not just as a banking crisis, but as a banking crisis and a very serious fiscal structural crisis as well?

Mr. Ajai Chopra: The way I see it is that Ireland had a classic boom-bust situation, driven by a property cycle, that had very serious consequences for the banks, which then had consequences for the public accounts, and both together had consequences for the real economy. So, they were very much intertwined, but the core of the crisis was very much a banking property boom-type crisis.

Chairman: Okay, and in that regard when you came into the Irish environment and the initial examination of where the structure programme was going to go, I would've assumed that you would have had to familiarise yourself with what was actually happening in the middle of this period, yes?

Mr. Ajai Chopra: Yes, of course.

Chairman: And in that regard, did you take any examination of the banking guarantee and how it was structured and its duration and that it was going to expire two years after it was set up, and that seemed to have coincided with the arrival of yourself into town? So, is there a relationship between the design of the banking guarantee and Ireland requiring a structured programme two years, two months afterwards?

Mr. Ajai Chopra: I think the way ... the design of the guarantee did lead to a funding cliff, and that funding cliff did have consequences for the amount of liquidity support that was needed and perceptions of Ireland in the sovereign bond markets. So that's how the link played out.

Chairman: Okay. So, in that regard, and we ... you mentioned ... Mr. Trichet was mentioned earlier and the letters that were going back and forth. And when Kevin Cardiff was before this committee, he said in many ways, the letter was entirely superfluous since it was already clear by the time of the letter that the Government was going to opt into a programme? Would you concur with that?

Mr. Ajai Chopra: I absolutely concur with that, and I think in my written statement, I also-----

Chairman: Okay.

Mr. Ajai Chopra: -----recognised the word that Governor Honohan used - that it was "gratuitous" - and I agree very much with that.

Chairman: Putting aside the detail of the programme, would it be accurate or inaccurate to say that Ireland was bounced into a programme, or it was going into a programme of one design or another?

Mr. Ajai Chopra: I think Ireland had pretty much lost access to sovereign bond markets, and to me that was the primary reason-----

Chairman: Okay.

Mr. Ajai Chopra: -----to enter into a programme.

Chairman: Okay. In that regard, should Ireland have sought to go into a programme at an earlier time, and if it had done so, would its negotiating position have been stronger?

Mr. Ajai Chopra: Now, as I said in my written statement, the right time for a country to enter into a programme is when it's vulnerable but not in a full-blown crisis. Now, within that, there's a continuum. At one end of the continuum, you have a situation where a country can ask for help at the very first sign of some trouble, or it could wait, and the other end of the continuum would be that it cannot pay next week's wages, pensions and debt service. So within that, there's a number of other possibilities. Now, it's most unusual for a country to come right at the beginning, at the first sign of trouble, because there is an enormous amount of stigma. That's something that the IMF has not been able to address in its programmes. It's well known that there's stigma about entering into an IMF programme. And also there's always the hope that you can ride out the troubles. But it's equally disadvantageous to come at the very end, and Ireland did not do that. It did still have a bit of a cash buffer. It had lost access, but it still had a cash buffer. So a judgment has to be made, and, on balance, the IMF favoured coming earlier rather than later. Now, the precise consequences of when it came in, versus having come in even earlier, you know, one cannot be definitive about that. One can only speculate, and in my written answers I talked about, you know, the possible ... that one can easily paint a plausible scenario where if it had come in earlier, there might've been a more robust and credible bank recapitalisation and, you know, the economy might not have contracted as much and, you know, property prices may not have overshot. So, all these are plausible. I can paint that scenario; you can paint that scenario. But can I, sort of, say with a very high degree of confidence that that's exactly how it would've played out? No, I can't say that.

Chairman: Okay. Mr. Trichet, when this committee engaged with him - and the requirements for meeting Mr. Trichet would be that his engagement with us would be seen as testimony, would be seen as evidence and it would be useable with other witnesses and also useable in terms of the committee's final report. And when he was asked about the crisis period in around the timing of his letters between himself and the late Minister Lenihan, particularly the letter of 19 November, he said at the hearing in Kilmainham:

> And, you know, we could also have continued on our side after having gone up to 100% of the GDP go to 200% of the GDP, and why not 300% of the GDP? Then what would be the Commission inquiry [referring to this committee] asking for? You would say, "Were you totally crazy at the ECB to continue, when we were going in the wall at 100 mph, to continue to provide liquidity and liquidity and liquidity?

So, Mr. Chopra, given your involvement with the process, is Mr. Trichet right or wrong in this regard? That if the situation hadn't been named in terms of the crisis that was evolving, and if action hadn't been taken, and the entry into the programme didn't commence in or around

November, would the delay have actually cost Ireland more in the long term? And would it have required a more severe adjustment programme?

Mr. Ajai Chopra: Two points that I want to make. As I said earlier in my ... in an answer to a question, I think as the lender of last resort, Mr. Trichet was very much within his rights to ask about the viability and solvency of Irish banks and how the ... how their viability and solvency could be ensured so that the ECB could continue to provide liquidity support. So I think there should be no question on that front. I think the ECB had to do that as the lender of last resort. As I've said earlier, it's the issue of ultimatums that, I think, becomes problematic. Now, if Ireland had come much later ... as I said, you know, you don't want to be at that point in that continuum where you just cannot pay next week's wages, pensions and debt service. I think, you know, designing a programme under those circumstances is very difficult and very complicated, so coming earlier is better.

Chairman: Okay, thank you. Deputy Michael McGrath.

Deputy Michael McGrath: Thank you, Chair. Good morning, Mr. Chopra, and thank you for your attendance and co-operation. In relation to the design of the bailout programme itself, Ireland contributed €17.5 billion from the National Pensions Reserve Fund, and you addressed that issue in your witness statement. Can you comment on discussions between the troika members on this contribution? And was it a precondition of the programme that Ireland would contribute such an amount from the pension fund?

Mr. Ajai Chopra: When the IMF puts together a financing package, our experience ... the experience has been that it is best to have a sufficiently large package so that it gives confidence that financing will not be a problem during the course of the programme, that there's some certainty as to the amount of financing that can be provided, and that ... it's better not to have to come back later and augment it. You know, there have been programmes where an augmentation has been necessary, so, you know, we wanted to avoid that. We then, sort of, thought in terms of, you know, how much should we set aside for the banks, how much needs to be set aside for the requirements of the Exchequer, which come from the path for the fiscal deficit, comes from, you know, the debts ... the gross debt service payments that need to be made and when you expect the country to re-enter the markets. That part is reasonably, you know ... well, there's always uncertainty as to when you re-enter the markets, but the other parts I think ... you know, the numbers work, you can get to something. So, that's how we, sort of, got to the total number. Now, Ireland did have, it was in the good position to have a sovereign wealth fund, I mean the NPRF is actually a misnomer in my view but it is a sovereign wealth fund and, you know, when you have that, I think it behoves the country to actually use that and, as I said in my witness statement, that was a sign of strength so it was that perspective that we took when we... when we designed the financing package. The IMF, in terms of its financing, was... it was pretty much at a limit as to what it could give.

Deputy Michael McGrath: Sure, okay, that's fine. Going back to the autumn of 2010, September, October 2010, if the European Commission had made a strong public statement of support for the fiscal programme under way in Ireland, if the ECB had made a statement of support and a commitment to provide ongoing liquidity, could a formal bailout programme have been avoided or was it absolutely inevitable at that point?

Mr. Ajai Chopra: You know I don't think one can answer that question in a very definitive way, but... because I think... I think the situation was... was already quite dire. But maybe... maybe Ireland might have... might have not lost market access right at the point that it did. But

I don't think it would have made a very, very material difference.

Deputy Michael McGrath: And do you think that in October, November 2010 that the European institutions, namely, the ECB, had come to the view that in an effort to contain the eurozone crisis that Ireland had to be ring-fenced, put into a programme and try to cap the crisis there? Do you think that corporate view was arrived at?

Mr. Ajai Chopra: Yes, I do.

Deputy Michael McGrath: And do you think there was an element of engineering involved then, to arrive at the conclusion whereby Ireland ended up in that programme which the institutions desired?

Mr. Ajai Chopra: That... that requires some speculation and I... I think I'd rather-----

Deputy Michael McGrath: Okay, but if I can move on to the issue of burden sharing which you've addressed in detail in your witness statement and in some of the questioning so far. In supporting burden sharing with senior bondholders, do you draw a distinction between the failed institutions which were being wound down, Anglo and Irish Nationwide, and the other institutions in your analysis and your support for burden sharing?

Mr. Ajai Chopra: Yes, I think that distinction is a very important distinction because if you look at the criteria that I mention - the magnitude of the banks' overall losses, the need to return the banks to a more stable funding structure and the potential knock-on effects on others - those criteria were met much more easily in the context of Anglo Irish and INBS. Those were failed banks whose losses were many multiples their... of their capital. They did not need to worry about counterparty relations in the future so I think the case for those banks was a very strong one and I think the... the issue of contagion for those banks would have also been much, much less.

Deputy Michael McGrath: Sure. As you know in March 2011 the new Government did try again to impose losses on senior bondholders. You may not be aware of a paper from the National Treasury Management Agency at the end of March 2011 and they provided some indicative numbers whereby haircuts were proposed in respect of all the banks with total savings of over €9 billion on the remaining senior debt which was outstanding. How much do you believe could have potentially been saved if losses were imposed on senior bondholders?

Mr. Ajai Chopra: I am not familiar with that NTMA paper. But I think, you know, in... in my statement I mention that you know... I can't remember the precise date but you know... around the time the programme started there may have been about €16 billion outstanding on the senior bonds, unsecured... unsecured, unguaranteed. You know, as a rule of thumb, if you... if you discount those by half, you get about €8 billion which is several percent of GDP.

Deputy Michael McGrath: So do you believe that, with the support of the ECB, Ireland could potentially have saved up to €8 billion through burning bondholders?

Mr. Ajai Chopra: As I said, that's a rule of thumb that you know maybe you can... you can... you can get that amount through some sort of an exchange mechanism but one cannot be sure what... what price would have been struck at the end.

Deputy Michael McGrath: But that would have been a very significant contribution?

Mr. Ajai Chopra: I think it would have been a sizeable contribution, yes.

Deputy Michael McGrath: And then going back to the bailout negotiations themselves when the issue was discussed as well. We heard evidence from former Taoiseach, Mr. Cowen, and yesterday from the late Brian Lenihan's adviser, Alan Ahearne, that in the final analysis it had become clear there would not be a programme if the Government had insisted on proceeding with burning bondholders in the absence of support from the ECB in particular. Is that your understanding of the position at that time?

Mr. Ajai Chopra: Absolutely, yes.

Deputy Michael McGrath: There would not have been a programme?

Mr. Ajai Chopra: It would... it would have not been possible to agree a... well... I think it's best to go back to the quote from the late Minister Lenihan in his statement to Parliament on December 1.

Deputy Michael McGrath: Okay, thank you.

Chairman: Thank you very much. The next questioner is Deputy Kieran O'Donnell, Deputy.

Deputy Kieran O'Donnell: Welcome back to Ireland Mr. Chopra. I hope you enjoy your stay. Just going back, if Ireland had sought a bailout programme earlier than it did, would it have provided a better climate for negotiations and burden sharing?

Mr. Ajai Chopra: I think, you know again I come back to the broad principle that I've stated. It's better to come earlier and address vulnerabilities before those vulnerabilities really manifest themselves-----

Deputy Kieran O'Donnell: I am doing it in the context, Mr. Chopra, that - the Chairman has already alluded to it – but that by the time it came we were bounced into a bailout. So if we had-----

Chairman: We have to be correct on it. Mr. Chopra did not say we were bounced into a programme-----

Deputy Kieran O'Donnell: No, I'm saying that you posed the question, Chairman. So posing it in that light, if we had gone earlier and gone voluntarily to the troika-----

Mr. Ajai Chopra: You know, I think ... your previous question, the way, if I understood correctly, you were asking could this have had a material impact on the issue of burden sharing?

Deputy Kieran O'Donnell: Correct.

Mr. Ajai Chopra: I very much doubt that.

Deputy Kieran O'Donnell: Okay, and if the Irish Government had sought, at the time, to unilaterally impose burden sharing on bondholders on failed banks, Anglo Irish and Irish Nationwide Building Society, what would have been the implications? Would the world have fallen in?

Mr. Ajai Chopra: As I said, I think the case for imposing losses for the failed banks was a very strong one and I do not think the knock-on effects from that would have been serious.

Deputy Kieran O'Donnell: So if the Irish Government had unilaterally imposed, we'll

say, burden sharing on failed banks, do you believe that a programme would still have been put in place?

Mr. Ajai Chopra: It depends on what stage that was done, I mean... again, this is requiring... requires me to speculate on something. It's a hypothetical that I don't feel that I'm in a position to be... to make any statements on it.

Deputy Kieran O'Donnell: Did ... in your ... when you arrived in Ireland, you were required obviously to study the guarantee that was put in place. Did the guarantee put in place put constraints on the possibility of burden sharing? What type of guarantee would you have had a preference to have seen in place at the time?

Mr. Ajai Chopra: You know I think it's best to think of this in the following terms. When pre-programme discussions about the elements of a programme, when those started, the guarantee was in place, its structure was well known, it had been replaced by the ELG whose structure was also well known. So these were taken as given. They were taken as a starting point. So I think it's best to think in terms of those that have, you know, having been sort of baked in the cake already, and we just have to take that into account in the discussions and how that had consequences on when certain payments would fall due and so that's how it was taken into account.

Deputy Kieran O'Donnell: I suppose more particularly, Mr. Chopra, in terms of Anglo Irish Bank, if Anglo Irish Bank at the time of the guarantee had been separated from the herd, do you think it would have created possibilities for burden sharing at the time?

Mr. Ajai Chopra: You know, that is not something that I have studied in any great detail, so I think it's best that I refrain from answering rather than shooting from the hip.

Deputy Kieran O'Donnell: You made a comment in your opening statement ... just two aspects I want to take up ... do you believe that it's within the gift of the ECB at this moment in time to put in place measures to alleviate the tracker book burden on the Irish banks? What would be the benefit of that?

And, secondly, you made reference that the current construct around bank bailout funds in Europe is woefully inadequate.

Mr. Ajai Chopra: Right.

Deputy Kieran O'Donnell: You might just comment on both of those.

Mr. Ajai Chopra: Okay, yes. Again, I think on the tracker mortgages, I don't want to leave you with the impression that, you know, the ECB is the one ... the institution that is best positioned to handle this. Because, you know, the ECB could adjust its collateral requirements and some other aspects of its support, but I don't think those would make a very material difference and that could also affect perceptions about the health of the bank concerned, which in this case is primarily PTSB.

Deputy Kieran O'Donnell: Yes.

Mr. Ajai Chopra: But, you know, the point I was trying to make is that there are broader euro area wide credit enhancement schemes that should be considered, where, you know, an institution is ... that has low yield assets such as tracker mortgages on its books, where it can get lower cost funding by "borrowing" the balance sheet of a much stronger eurozone institution to lower its funding costs and these things could make a difference.

Deputy Kieran O'Donnell: Okay.

Mr. Ajai Chopra: If I remember right, one of the last IMF reports for one of our reviews looked at this issue and had some thoughts on what might happen.

Deputy Kieran O'Donnell: I have one final question - your thoughts on ... just one. Your thoughts on the ... I asked you about the funding that's there in terms of bank bailouts in Europe. You said it was woefully inadequate.

Mr. Ajai Chopra: Right. The common resolution fund ... I mean there's ... the single resolution board is in place. This relies on small contributions from banks. That is going to be built up over time. I don't have the precise details with me, but I don't see in the next several years at least if there was a very serious bank failure, I do not see how the funds that have been amassed within this resolution fund could make any material difference.

Deputy Kieran O'Donnell: And the final question, I suppose. You've spent the last four years in and out of Ireland.

Mr. Ajai Chopra: Yes.

Deputy Kieran O'Donnell: And looking into your crystal ball - and you spoke about boom and bust - what do you believe are ... where do you see Ireland going over the next number of years and what are the red and amber lights that should be, we'll say, avoided?

Mr. Ajai Chopra: Again, I think some of this I've touched on in my written statement. I talked about the risks that have been identified. I think Ireland is right now in a pretty strong position. You know, it's growing; it's creating jobs; its funding requirements, fiscal funding requirements are small; but, at the same time, the balance sheets are still stretched, especially household balance sheets. Again that's something that still needs to be addressed. Banks are healing, but are they completely healed? Not yet. So, you know, I think there is still more work to be done.

You know, in my opening statement and also my written statement, my bigger worry would be the wider eurozone issues right now. But I think you have to be careful that you don't, you know ... property prices are rising and you have to be ready to use macro-prudential tools, be more, more ... fiscal policy should lean ... should be there to lean against the wind if there's more ... if there's significant overheating. So, I think you have the policy tools now and they should be used.

Chairman: Thank you very much. Deputy Eoghan Murphy, Deputy.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Chopra. You are very welcome. I want to clarify something from ... its the terminology you use. When you talk about the view of IMF staff and you say things like "IMF staff" when you talk about imposing burden-sharing, are you talking about the view of the IMF representatives here on the ground or the view of the organisation, or is there a difference?

Mr. Ajai Chopra: There can be a difference.

Deputy Eoghan Murphy: Okay.

Mr. Ajai Chopra: As I said very early on in today's session, when I talked about the IMF's *modus operandi*, when you take a certain position, that's usually cleared by top management.

So we, typically, when we take a position, we have the blessings of top management. So, I think, on burden-sharing, those were cleared positions.

Deputy Eoghan Murphy: The view of the IMF institutions?

Mr. Ajai Chopra: That those were the view. I wouldn't say that they were necessarily the views of the IMF board. I think, again, you've got many layers. You've got the IMF staff, you've got the IMF management - by "management", what we mean here is the managing director primarily, who is the head of the staff - and then you've got the executive board, which has representatives from the membership, the 24 executive directors. And I would not say that the IMF board was fully behind the management and the staff on burden-sharing. And you will see this in the context of the summing up of the *ex post* assessment that was done by the IMF on Ireland. The *ex post* assessment took a position on burden sharing very similar to what I've been saying, but if you look at the summing up of the executive board, that is much more lukewarm.

Deputy Eoghan Murphy: Okay, but it is fair to say that the management had a view in favour of burden-sharing.

Mr. Ajai Chopra: The IMF staff would not have been in a position to take the view ... positions that it did if it did not have the support of IMF management.

Deputy Eoghan Murphy: Okay. You say in your opening statement that you provided Ireland with a specialist lawyer to advise on burden-sharing. When was this?

Mr. Ajai Chopra: As Mr. Ó Ríordáin said in his statement in his evidence to this committee, this was in November 2010.

Deputy Eoghan Murphy: Yes, and how long did they remain?

Mr. Ajai Chopra: It was not long; it was just a matter of days.

Deputy Eoghan Murphy: It was just a matter of days, it was not through until March 2011. Okay, thank you.

You also say in the opening statement about the memorandum of understanding and how it intentionally leaves open the possibility for burden-sharing.

Mr. Ajai Chopra: Yes.

Deputy Eoghan Murphy: Did you communicate this to Fine Gael and Labour around the time of the agreement of the programme?

Mr. Ajai Chopra: I ... specifically, I cannot remember. And even if I did remember, I think that then gets into deliberations between us and the authorities and your Government.

Deputy Eoghan Murphy: Okay. But can you confirm that you were meeting with Opposition parties around the time of the agreement of the programme?

Mr. Ajai Chopra: Oh, absolutely, yes, that's very much in the public domain. We met with the Labour Party, we met with representatives of Sinn Féin and we met with representatives of Fine Gael as well.

Deputy Eoghan Murphy: Okay. Can you comment on whether or not you advised as to

the possibility of burden-sharing at a later date - after an election, for example?

Mr. Ajai Chopra: I am not in a position to say anything on that matter.

Deputy Eoghan Murphy: Did you speak to ... after the actual election, it's been reported that you met with advisers from Fine Gael and Labour before a national coalition government was agreed and formed.

Mr. Ajai Chopra: You know, I met with advisers from both those parties many times, you know, starting in November. We made ... and I've also had some contacts either on the phone or again ... so ... this was a part of normal practice.

Deputy Eoghan Murphy: But you don't recall specifically seeking to brief Fine Gael and Labour advisers after the election and before the Government was formed?

Mr. Ajai Chopra: I cannot remember spec ...

Chairman: Excuse me, Deputy Murphy, maybe just clarify that a little bit - with an agenda, with regard to those parties being in government, going into government. If you'd maybe give some context to that. They would have had many meetings.

Deputy Eoghan Murphy: Sorry. Just to clarify, it has been written that after the election, prior to an actual coalition government being arranged, that you, on behalf of the IMF, sought out the coalition advisers on financial and economic issues -----

Mr. Ajai Chopra: Again -----

Deputy Eoghan Murphy: ----- to brief them and it's also been characterised that the IMF was a third partner, or the troika was a third partner in those negotiations.

Mr. Ajai Chopra: No. I think that is ... to say that the external partners were a third partner in the negotiation between coalition partners would be absolutely false. We would never do that, but I think it is fair to say - and you know this is just not in the case of Ireland, this is after an election when a new government is being formed - when a programme is already in place, it is incumbent on the IMF and its partners, as creditors, to understand what the platform and policy position of an incoming government might be because then we need to start thinking about, "Do we need to modify this programme"? "Where might we need to modify it?" And you know it's best to have the information, to understand what the new government might be thinking. So ... so having discussions of that nature, not just in the case of Ireland but in other countries as well, would be a part of the normal *modus operandi* but, again, without interfering in the political process. The issue here is understanding what position ... what the platform of an incoming government might be.

Deputy Eoghan Murphy: So, quite soon after the new Government was formed, the Government thinking ... Government understanding on burden-sharing was that it was going to attempt it again at the end of March 2011. So what was the IMF position at the time?

Mr. Ajai Chopra: Again, in my written statement I talk about what we understood to be the new Government's position as it was preparing to announce the results of the asset quality review and the stress tests at the end of March, which was a programme requirement, and, in that context, the new Government was thinking about making a distinction between what it called the pillar banks and then Anglo and INBS. We thought that that made a great deal of sense.

Deputy Eoghan Murphy: Okay, so you were in agreement with that distinction and what followed from that in terms of burden-sharing.

Mr. Ajai Chopra: Yes.

Deputy Eoghan Murphy: Then, just to clarify two other things from your opening statement, one is in relation to the spillover risks which the-----

Chairman: Could you wrap up now, quickly, Deputy.

Deputy Eoghan Murphy: ----- thank you, Chair - which the ECB feared and you say that they were exaggerated. If you could comment just a little bit more on that, just so we can understand that because it's quite important in understanding why we didn't pursue burden-sharing but also, as well, you do give a figure in your opening statement of €16 billion around November 2010 but ... did the IMF make calculations prior to that period in time and what would that figure have been?

Mr. Ajai Chopra: Okay, let me answer the first part of your question. I think, you know, the best description of our thinking about contagion risks and how they might be handled was in the quote that I provided in my written statement. I quoted from a semi-independent, *ex post* evaluation of the programme, done by the IMF staff, where the basic point that they made was that Irish senior unsecured bank bonds traded at levels consistent with clear anticipations of the principal cut, reflecting that some burden-sharing was anticipated and that also went on to discuss other mitigating mechanisms if there did end up being some spill over. So I think I would draw your attention to that rather than reading it out again.

On the amounts, you know, look, people at the IMF, we are all number crunchers. We do this all the time. So, you know, if you're asking had we been trying to crunch the numbers on these things earlier, that would be a part of our job.

Deputy Eoghan Murphy: And is there a file or is there a note for that?

Chairman: Deputy, I am going to have to move on.

Mr. Chopra, can I ask you if you can advise on the discussions, advices and analysis to ascertain the amounts required for bank recapitalisation of €10 billion - that's banking support of €25 billion and financing the State of €50 billion, which is a total of €85 billion in total. How were they formulated with the troika?

Mr. Ajai Chopra: Okay. I think some of this I have talked about already. I think the real interest here is the issue of the €35 billion. Now, you know, you've got to recall that at that point the Irish ... the Central Bank had already done a number of exercises, PCAR 2010, that had certain ... that had come to certain conclusions about the recapitalisation needs of banks but the issue was that that still did not have credibility. Actually, I think this has given me a quick opportunity to correct something ... to at least ... something that I have been saying, that I have said in my written statement. In my written statement I use the term "stress tests" a lot. I shouldn't have. The correct term really is asset quality review and stress test. The stress tests themselves were a less important part of that exercise. The much more important part was doing this deep dive diagnostic about the true condition of the balance sheets - not about the capital needs, but the true condition of the balance sheets, the provisioning, the collateral, the quality of loans and so on, and not just the accounting of that. So, you know, so that was the real contribution, more than the stress test. So, as we thought about the financing needs the idea was to ... to be

on the safe side on the recapitalisation needs so that there was enough confidence. So the way we approached it at the time was what would be the capital ratio that would convince markets, right? And this was at the time where the transition to the Basel III capital requirements was under way. So the thinking was "Let's link this to the Basel III transition". So Basel III at the time was already being seen as the norm by financial markets and it was also what was being achieved by banking peers in other countries. So we started with, you know, the 12% core tier 1. So ... and what was already done under PCAR 2010. But then we knew that there was the asset quality review coming and that might ... you know, that itself might come up with some additional needs. We didn't know what that would be. So the division of the ten and the 25 was, "Let's get to 12% early in the programme, even before the asset quality review." So that was ... to the 12%, sorry, so that's where the €10 billion was notionally allocated. These are notional amounts.

The 35 ... the total 35, was seen as a ceiling on what might be required in a worst-case scenario, right? Because, as I said earlier, augmenting tends to be difficult and also, remember, by putting in this number, we ended up giving Ireland a cash buffer. So it ended up being beneficial, you didn't need as much. But it gave Ireland a cash buffer that put it in a much stronger position to end the programme with this cash buffer and not need any follow-on assistance.

Chairman: Thank you. Deputy Joe Higgins.

Deputy Joe Higgins: Mr. Chopra, it was said that financial regulation and supervision in Ireland leading up to the crash were deficient and you may have uttered similar sentiments. Can you say what would your view be as ... the major deficiencies leading up to the crisis?

Mr. Ajai Chopra: Again, as I said in my written statement, this was so well covered by the Nyberg report and the Honohan report that I have ... you know, I'd have very little value to add beyond that. But, you know, maybe if I ... maybe this is a good occasion to actually talk about the IMF's own failings at that time because, you know, even the IMF, whose job it is to warn countries about the risks that they face and to warn the global economy of the risks that it faces, have ... fell short in the delivery of those messages. So the IMF provided few clear warnings about the risks and vulnerabilities associated with the impending crisis, not just in Ireland but also . . . but also in other countries. So the banner message was one of continued optimism after more than a decade of good economic performance.

Deputy Joe Higgins: Okay. Thanks, Mr. Chopra. Mr. Chopra, on page 5 of your written statement to us, I quote, "For effective crisis management it is important to recognize past mistakes, identify and allocate losses quickly and equitably, and move on." Now the losses were certainly allocated quickly. Were the losses of the crash allocated equitably within Ireland?

Mr. Ajai Chopra: I think one needs to make a couple of points in this regard. Equity for many of the banks was wiped out. It was certainly wiped out for Anglo and a large portion, you know ... so you know, equity holders took substantial losses, right? And that's as needed. Sub-debt holders also took substantial losses and that was also entirely appropriate because they're next in line and sub-debt holders are risk ... you know, subordinated debt is risk-bearing. Where it might've fallen short, as we've said ... as I've said a number of times, is that there wasn't sufficient burden-sharing with senior bondholders.

Deputy Joe Higgins: Okay. And in that regard, Mr. Chopra, why ... can I ask you why do you use the word "might"? Is it the case that international banks and financial speculators and bondholders operate in the capitalist financial marketplace, that the rules are that they make

fabulous profits at times but if they gamble and the gamble goes down, they take the losses? But, in this case, is it true that the Irish people were burdened with those losses with terrible social consequences? How do you justify that as a part, and a leading member, of the troika?

Mr. Ajai Chopra: I think the important thing to keep in mind is that behind every profligate borrower, there's often a profligate lender as well, and I do think that profligate lenders should have to bear losses.

Deputy Joe Higgins: But the Irish people, the vast majority, were not profligate lenders nor borrowers, but they were the one that was saddled with paying for those who were profligate - that minority, that elite. Is that moral?

Mr. Ajai Chopra: I would say that there were a number of profligate Irish borrowers as well.

Deputy Joe Higgins: But would you say that the vast majority of ordinary people were profligate?

Mr. Ajai Chopra: No, in the aggregate.

Deputy Joe Higgins: What does that mean, Mr. Chopra?

Mr. Ajai Chopra: Look, I'm obviously not in a position to say, you know, was borrower A profligate and borrower B wasn't. The total tells you the aggregates.

Deputy Joe Higgins: Mr. Chopra, with respect, the evidence that we've taken here is of a number of banks giving massive and incredibly large loans to the tune of billions to individual land speculators and others. The evidence is that the majority of the Irish people were not involved, but they paid the price. I'm asking you is that morally justifiable.

Mr. Ajai Chopra: I have said... I've been on the record in saying that I think the Irish taxpayer did have to bear a disproportionate burden in the case ... in this case.

Deputy Joe Higgins: Mr. Chopra, when you arrived here to impose the troika programme, there was a widely used photograph which showed yourself and troika colleagues passing an obviously poor man who was begging and perhaps homeless. In the context of the programme that you implemented with the Irish Governments and in the five years since, are you aware that there has been a huge increase in families, especially mothers of young children, becoming homeless on a weekly basis? Can I ask you, Mr. Chopra, you presided over tens of billions going in to bail out the financial institutions and bondholders and, at the same time and consequently, the starvation of funds to social and affordable homes - is that justified?

Mr. Ajai Chopra: Deputy, as ... you know, we did meet with a wide range of social partners when we were here. We were very much aware of the distress being faced by many Irish households. You've got to understand that programme funding is not earmarked; even the earmarks that I talked about earlier between fiscal financing and the banks was a notional difference. The issue for us was to encourage the Government, as it was designing its fiscal consolidation measures, to be mindful of choosing measures that took equity and social hardship into account. Now, were we fully successful in getting them to implement more measures to ... to ameliorate social hardship, I ... you know, that's ... that's for you to judge. These were choices that were made by the sitting Irish Governments at the time.

Deputy Joe Higgins: Can I ask you, Mr. Chopra-----

Chairman: Your time is almost up, Deputy.

Deputy Joe Higgins: Well, at the same time, Mr. Chopra, you say on page 9 ... you refer to the €16 billion of unsecured senior bondholder exposure. And it was the diktat of the troika that they would be bailed out by the Irish people. Do you agree that that would have built a lot of social homes if the priorities had been different? And my last question, Mr. Chopra, because I'm ... my time is up, you say on page 7 that there were ill-advised calls from some other European creditors for Ireland to raise its corporation tax rate. Mr. Chopra, why is it advisable to pile taxes and cuts on working people and poor people who carry no responsibility for the crisis but ill-advised to demand that big business should pay more taxes on profits?

Chairman: Thank you, Deputy. Mr. Chopra, a final reply and then I'm moving on.

Mr. Ajai Chopra: Yes, okay. The issue of the corporate income tax was one of ensuring that growth would not be ... be harmed by more than necessary given the choice of measures. The corporate tax was a central feature of Ireland's business model at the time, to the extent that a country has a business model, and even though there may be a good case to address this over the medium term, we did not think that this needed to be a part of the programme at that time.

Chairman: Thank you very much, Deputy Higgins. I'm going to go maybe to a short comfort break there at 11 o'clock. Just like television, we'll break for the 11 o'clock news. But just before that, if I can maybe just ask you one question, Mr. Chopra, and that is, if you can comment on a quote attributed to you, which is, "And on the financial side, regulation and supervision, which were deficient in the run-up to the crisis, have also been revamped." What was your view on the major deficiencies in this area prior to the reforms?

Mr. Ajai Chopra: Chair, again, you know, as I've said a couple of times, I think the Honohan report and the Nyberg report addressed this much better than I could. What I can talk about is, you know, where the IMF has publicly acknowledged its own failings in this regard. And, you know, here I talked about this a little bit but I can give you a specific example. You know, even when the IMF staff identified some of the relevant risks, they did not provide a clear message about the need to address financial sector risks. This problem of mixed messages was very evident in our 2006 health check of Ireland's financial sector under the financial sector assessment programme, or FSAP for short. For example, the July 2006 IMF FSAP report said, "Irish banks' exposure to capital market funding at 30% of assets is amongst the highest in the EU." And it went on to point out that such funding is more sensitive to confidence than deposits and therefore is a less stable source of funding in times of stress. The report also highlighted risks to the Irish financial system arising from exposure to an overheated property market. But having pointed these things out, the IMF has been on record saying that the bottom-line conclusion - actually, it was really the top-line conclusion, because it was on page 1 of the report - was that, and again I quote, "The outlook for the financial system is positive, with financial institutions having sufficient cushions to cover a range of shocks and fighting the diversification of wholesale funding as a source of strength." So it should be no surprise that the IMF failed as well in this regard. So ... so I think this has been acknowledged in various IMF documents. So this was not just a failure in Ireland.

Chairman: Thank you. With that said, I'm proposing a five-minute short break and, in doing so, just to remind Mr. Chopra that he is under oath and to advise any person he might have with him. With that said, I propose that we return at 11.05 a.m. Is that agreed? Agreed.

Sitting suspended at 11 a.m. and resumed at 11.15 a.m.

Chairman: We will go back into public session, is that agreed? Agreed. And in continuing our questioning, I invite Senator Sean Barrett. Senator.

Senator Sean D. Barrett: Thank you, Chairman, and welcome again, of course, to Mr. Chopra. On burden-sharing, the Deauville declaration is the obstacle currently, is it? That the two big countries don't want to revisit these issues; they might do it in the future.

Mr. Ajai Chopra: I'm not quite sure what, exactly, you're getting out, Senator, but the Deauville declaration in, I believe, October ... I might not have the dates quite right. Although that, you know, there is a view that the declaration had very serious consequences for the way markets began to see sovereign debt. The empirical evidence on that is a little bit more muddied, so I'm not quite sure how, exactly, the Deauville declaration ... what precise role that it played. But I do think it's fair to say that, you know, following that, the design of the European Stability Mechanism tried to avoid the complications that might have arisen as a part of the Deauville declaration which focused on sovereign debt, not on bank debt.

Senator Sean D. Barrett: So is there scope for raising the burden sharing issue again at European level?

Mr. Ajai Chopra: Well, Senator, I think in the case of Ireland, these debts have been paid. But, you know, the issue of burden sharing is still very much a live issue in the context of the bank resolution and recovery directive that does include elements of burden sharing in the design of resolution. So that is now becoming a part of the European directives.

Senator Sean D. Barrett: In the evidence over the hearings here, Mr. Chopra, there were substantial skill deficits in banking, in bank auditing, bank regulation. How should those be addressed?

Mr. Ajai Chopra: I think those deficits were well identified in the Honohan and the Nyberg reports. You know, I don't think I'm in a good position to talk about how they should be addressed. What I can, sort of, make a brief remark about is that the Central Bank has certainly stepped up its own work on supervision by improving its staffing, by trying to change the culture within which bank supervisors operate. So I think there's been substantial progress on that front. And as I said in my opening statement, there is also now the Single Supervisory Mechanism at the euro area level which, I think, is a very positive step. It is one step but it's a very positive one. I think it begins to address issues of regulatory capture, which were quite evident in the Irish context.

Senator Sean D. Barrett: In the auditing of banks, how should that be changed to prevent a recurrence of what happened in Ireland?

Mr. Ajai Chopra: Senator, this is not an area that I am very familiar with. I think they are ... this is an ongoing issue on, you know, internationally, about the appropriate governance of banks, about compensation of bankers about what the regulatory structure should be, how much capital they should have, what the accounting standards should be. These are a part of the international debate and they are very much live issues. This is not something that I'm in a position to be very specific about.

Senator Sean D. Barrett: In your international experience, we examined here an interface between finance and construction, the two sectors at the core of our problem, where a house price went from two and a half times average income to about 12. Is the problem short-term finance for a long-term asset or how ... what kind of ratios would you expect in some of the

other countries you've examined?

Mr. Ajai Chopra: I think ... you've defined banking. Banking is raising short-term money and lending long term, and so that's what banks do. So, you know, that's why banks need to be regulated. Again, it comes back to having strong governance of banks, strong supervision, strong regulations. I am personally an advocate of leverage ratios which get around the problem of the risk rating of assets which can be gamed by bankers and accountants. So, by looking at leverage ratios you get rid of risk weighting and I'm an advocate of banks having much less leverage and much higher equity. I think that would be a very wise thing for banking systems around the world.

Senator Sean D. Barrett: Thank you very much, Mr. Chopra. Thank you, Chairman.

Chairman: Thank you very much. The next questioner is Senator Susan O'Keeffe.

Senator Susan O'Keeffe: Thank you, Chair. Mr. Chopra, you said that Ireland was adamant to repay its sovereign debt. Was that something unusual, and why were they so adamant?

Mr. Ajai Chopra: No, it's not unusual at all. I think when the IMF deals with countries, with a few exceptions, they typically do want to maintain ... no country wants to default on its sovereign debt or restructure its sovereign debt. Sometimes, they're forced by circumstances to do this, if you look at the current programme discussions in the case of the Ukraine, the IMF is having with the Ukraine, the debt restructuring there was something that, you know, even the country authorities feel was important, and that is something that is being supported by the IMF. So, it's ... we don't have good mechanisms for sovereign debt restructuring and this is something that the IMF is also working on. A few years ago, it floated the idea of a sovereign debt restructuring mechanism, SDRM, but it never really got off the ground. There are some other approaches that are being considered right now but I think, I think, you know, in hindsight, Ireland was certainly correct in wanting to, in wanting to meet its sovereign obligations.

Senator Susan O'Keeffe: When you talked about Mr. Mody's first phone call in February '09, and you say in your statement that there was further consultation or conversation, perhaps, later in 2009 and again in 2010. And, indeed, Professor Honohan told us here about a phone call he'd received when he was in Heathrow Airport from Mr. Mody asking him whether or not, and he said, "Well, yes, maybe you should try it." And Mr. Mody, I think, did - we are not clear entirely whether he phoned the Department of Finance or not. But the point I am making is not that you would necessarily know but was that something that was agreed by the IMF as an approach to take to Ireland and why was the IMF, if you like, so keen? You kept coming back and back.

Mr. Ajai Chopra: Firstly, just, Mr. Mody visited Dublin in February 2009 so it is during the visit that the issue was raised, so it is not just, you know, phone conversations. You know, the IMF is in the business of crisis management and our experience has been that it's better to try to handle a crisis from a position of strength and to be prepared for it so it's incumbent on the IMF to make a country aware of what ... how it sees the vulnerabilities that the country is facing and to make the country aware of how it could help.

Senator Susan O'Keeffe: Were you trying to get Ireland to face up to the seriousness of what was happening?

Mr. Ajai Chopra: I think the Irish knew what was happening was serious so I don't think there is a question over there. You know, it had been making ... you know, it had taken a number

of very assertive steps to try to deal with the situation so I don't think there's any issue about how serious the ... seriously the Irish were treating the situation. The issue was, was that the right time for them to seek external support or not.

Senator Susan O'Keeffe: And so, was the IMF disappointed that Ireland, if you like, you know, from 2009 all the way through to November 2010, before, because ... because Mr. Mody doesn't just get on a plane and calls don't keep being made unless there's good reason, surely.

Mr. Ajai Chopra: Again, you know, I don't want you to get the impression that we were out here, or on the phone or visiting Ireland to badger the authorities, no. You know, in my statement I cited three occasions. The three occasions are: the February visit by Mr. Mody, the Article IV consultation in 2009 which is a standard annual thing although it was missed in 2008 - so, again, that gives a natural opportunity to raise the issue - and then it was a whole year before the 2010 Article IV consultation for the issue to be raised yet again. So it is not like ... don't get the impression that we were out here badgering the authorities to get into a programme.

Senator Susan O'Keeffe: Well, in fairness, I didn't use the word "badger"; you did. I suppose "determined", I think, was possibly what I was thinking. Given the letter that Mr. Trichet wrote, and you said, I think, in earlier evidence, that you had not seen the letter 'til it was published, were you aware of the letter when it was written at the time because, obviously, it caused some consternation in the Irish camp?

Mr. Ajai Chopra: I was.

Senator Susan O'Keeffe: Okay. And can you tell us how you became aware and whether you raised it with the ECB at the time and made the very strong and firm views that you have made public now ... did you make those views known at the time?

Mr. Ajai Chopra: Look, the awareness of ... that a letter had been sent was just ... you know, was mentioned by the Irish authorities that they had received some ... a letter of this sort. No details were mentioned. Obviously, the ECB staff would have known the details. They would have been the ones drafting it for President Trichet. So we were aware and we were aware of its broad direction, but we were not aware of anything more than that. This was a confidential letter between two parties and it was not shared. You know, it was not revealed. It was not given to us by the ECB staff so there was ... there was no ... no discussion of it involving the external partners.

Senator Susan O'Keeffe: And that was prior to it being sent. Then after it was sent, when you had heard that it had been received, you, I assume, understood about the firmness of it. Did you then raise your concerns with anybody at the ECB and say, "Hoy, this is not the way to proceed"?

Mr. Ajai Chopra: At that point, we were not aware. I was ... I did not know the details of the letter. We knew of its existence but did not know. I mean, because ... on these sort of things you need to read them and see the tone. I was ... had not read it, did not know the tone ... did not know its substance either so ... again, obviously, not in a position to ... would not have ... again, would not have been a position to have any discussions about it at that time.

Senator Susan O'Keeffe: Given the firmness of that letter and the tone of it, as you saw, would you say that it was a troika of equals or was the European, the ECB, if you like, stronger and tougher and more assertive in what it wanted for Ireland, and did that leave the IMF trailing behind?

Mr. Ajai Chopra: I have already said to this committee that, you know, in many respects the IMF did end up being a junior partner, not just in the financing - there was much more financing from European institutions. So, yes, the IMF was a junior partner.

And, you know, I also think there are governance issues for the IMF in the way the three parties operate. Normally, the central bank of a member country would not be on the side ... same side of the table as the IMF; it would be on the other side of the table, being the member country's central bank. So, you know, there were a number of unusual features. Also, the way this ... you know, decisions are taken by the Eurogroup before they are taken by the IMF board. There was ... again, nobody wants to, sort of, come out in public with disagreements and we avoided that, and by taking that approach that does limit what the IMF can do. But, you know, having said all of that, I do believe that on some aspects the IMF staff were influential in the design of the Irish programme. We may not have won every battle but we won some significant ones.

Senator Susan O'Keeffe: Just a ... can I just-----

Chairman: Very quickly now, Senator, please.

Senator Susan O'Keeffe: On a ... if you like, on a scale of one to ten, but - it's an unfair thing - how serious was the crisis in Ireland, given you're own experience in the world and in the bank?

Mr. Ajai Chopra: This was a massive crisis. This was a massive crisis. Ireland had a banking system that was many multiples of its GDP. You know, as banking crises go, this was ... this ranks very high up there as one of the most expensive banking crises. So, you know, there's no avoiding that this was an enormous crisis.

Chairman: For the record, four times, Mr. Chopra. Okay, Deputy Pearse Doherty.

Deputy Pearse Doherty: Go raibh maith agat agus fáilte. Can I ask you just in relation to your own role, you have been cited as the person responsible for the design of Ireland's bailout programme? Is that accurate and, if not, then who designed Ireland's bailout programme?

Mr. Ajai Chopra: Look, you know, that is a phrase that is often used, and perhaps even by myself in my own biography, but I think it overstates things. As I said earlier, this was very much a team effort. But, I think, you know, the important thing is much of the programme was designed by the Irish authorities. The national recovery plan was put forward by the previous Government, and you know, as we have said, the subsequent Government modified a few elements of it but the fundamental structure remained.

I think, you know, even on the banking side, I think, we very much advocated doing an asset quality review because that's not something that had been done in the previous PCAR exercise but, you know, once we advocated that, the Irish authorities were full force behind that. And then, you know, the actual design of that exercise, hiring BlackRock, doing that exercise was purely Irish with us just, sort of, being on the sidelines. So I think a much more accurate description is that this was an Irish home-grown home-designed programme.

Deputy Pearse Doherty: Okay, thank you. Mr. Cardiff, when he came before the committee in relation to the troika negotiations, said:

> And for the most part it was [a] negotiation between people with a more or less common view of the world. We might have differences of view, for example, on fiscal policy or on

economic adjustments, but in truth the differences were small enough.

Would you agree or disagree with this statement from Kevin Cardiff?

Mr. Ajai Chopra: No, I ... I think Mr. Cardiff is spot on.

Deputy Pearse Doherty: Okay. I want to discuss the Government's four-year plan that you've referenced, which was published on 24 November 2010. If I can refer back to Mr. Cardiff's statement, he talks about this plan and the troika, and he says:

> When the Government finally agreed the text we handed it then to the Troika; one of the IMF team was told to work through the night to produce a report [of] the Plan by the next morning. As we expected, the Troika were not dissatisfied with the Plan – in some ways it was more ambitious than they might have expected in regard to structural reform[s]. Of course there remained differences arising from differences in the economic forecasts, but the basic thrust was generally acceptable to them

Was the Government's own plan more ambitious than some of the troika would have expected?

Mr. Ajai Chopra: The Government's plan was comprehensive. It was ambitious. It was detailed. I think ... again I can speak only, on ... personally, my own view is that it was more ... it, it had more front-loaded fiscal adjustment than I, you know, than would have been my personal preference. So in that sense it was quite ambitious. Ireland's problems were never structural problems, apart from the structural fiscal deficit. It already had a dynamic labour market. It was not a ... it's not a distorted economy with, with lots of government ownership, so structural reforms were never front and centre in our view, as a part of addressing this crisis. It goes back to some comments I made earlier about, in my view, too much emphasis on supply-side policies and not enough emphasis on demand management. So you know ... and I do remember quite clearly the individual who had to stay up that night. He's a good friend and he did an amazing job in going through that and then being able to discuss it with the Irish authorities.

Deputy Pearse Doherty: Mr. Chopra, we know that during the period of the implementation of the plan ... and you mention yourself, for example, that the plan didn't achieve the Government entering the markets on time, as it was expected, that the bank recapitalisation was in excess of what was initially expected, but a buffer was there. And also, the growth rates over the period of the implementation of the plan didn't materialise and the country went into a double-dip recession. You've also been critical of the austerity-only option in the plan. The austerity-only option, was that ... did that hamper Ireland's recovery and deepen some of the impacts that may not have needed to be taken in terms of other options which were bondholders or stimulus to try and stimulate demand?

Mr. Ajai Chopra: Okay, a couple of things on this. I think, and I've said this before, Ireland did not have the luxury of not pursuing fiscal consolidation. Fiscal consolidation had to be undertaken. The structural fiscal deficit had exploded as a result of the crisis and, having lost market access, Ireland did need to demonstrate to markets that it did have a medium-term fiscal plan to address these deep-seated new problems that had emerged in its public finances. So that had to be done. One can debate how quickly that had to be done and I've given you my view on that front but, you know, let's not, let's not avoid the issue that it had to be done. It was also well recognised that the fiscal consolidation would be a drag on growth. We may have underestimated that drag on growth. The IMF has come out with, you know, lots of analysis

on what we call the right ... the fiscal multipliers. I think, you know, the other issue that I've mentioned in the context of a monetary union is that, you know, there's the issue of the policy mix. Ireland might be doing a massive fiscal adjustment but it does not have its own individual country monetary policy offset. And let's not forget that, you know, in 2011 the ECB was actually raising interest rates, so you not only had a tighter fiscal policy but you also had a tighter, you know, a monetary policy that was too tight, given the conditions of the economy and again, so the drag on growth was significant.

Chairman: Final question, Deputy.

Deputy Pearse Doherty: Okay. In page 3 of your statement you succinctly put it in terms of what is crisis management and what needs to be done, and we have heard this from other witnesses, what is at the core of it, from other witnesses who appeared before ... or at least a witness who has appeared before this inquiry. And you say: "For effective crisis management it is important to recognize past mistakes, identify and allocate losses quickly and equitably, and move on." Now, many would say that the losses weren't allocated equitably. They were allocated on the shoulders of taxpayers. You talked about heroes of those that implemented the programme. I meet heroes every day. I meet parents who care for children with special needs, with less resources. I meet people working in the public sector - they're trying to care for individuals.

Chairman: Deputy, you're speechifying. A question.

Deputy Pearse Doherty: Can I ask you what role did you have? And do you believe it was fair that the allocated losses that were identified, which stemmed from the banking crisis were placed on the burden of the taxpayers of this country?

Mr. Ajai Chopra: I think one needs to put a sense of proportion on this point. Equity holders did bear significant losses, right? So bank equity was essentially wiped out and banks had to be nationalised. Sub-debt holders also suffered losses as they should have, as it was a risk-bearing debt. There's a small proportion of debt, at that point, that did not bear losses. In its quantitative magnitude, as I said, it looked pretty much the same as the amount of fiscal adjustment that had to be made, which made it very visible. So, in a given year, you know, if you're doing €3 billion or €4 billion of new fiscal measures and you're paying out €3 billion or €4 billion to the creditors, that complicates matters and deepens that sense of unfairness. And that was the situation that Ireland faced. But, you know, so that's serious, that's important, but it should not take away from the fact that equity holders and sub-debt holders did bear losses.

Deputy Pearse Doherty: So was it fair? That was the question.

Chairman: Senator Michael D'Arcy.

Senator Michael D'Arcy: You're very welcome. Thank you for coming. You said that the IMF were a junior partner. Who was the most senior partner of the troika?

Mr. Ajai Chopra: I would not distinguish between the two main European institutions in this regard. They were both working in concert.

Senator Michael D'Arcy: One wasn't more senior than the other.

Mr. Ajai Chopra: The, the ECB was a larger creditor. Now did that actually make it more senior? I don't ... you know, that might be a stretch, but-----

Senator Michael D'Arcy: Okay. Page 17 of your opening statement, "Pace of bank deleveraging versus disposal cost", Mr. Chopra. You state that:

> A central issue was almost €160 billion of ECB financing, of which more than a third was [ELA]. That size of funding simply could not be obtained by asset sales or credit enhancements using program resource.

Could you address the issue of the deleveraging ... the bank deleveraging versus disposal costs? Because there is a concern at the moment that assets are being sold ... assets are being sold and bundled and are being purchased by very large equity funds. They are keeping them for a short period and flipping them, and having their profits, and yet the Irish taxpayers - as other members of the committee - are the people who are effectively being short-changed. Could you address that matter for me please?

Chairman: I am sorry now. You are stepping outside the timeline of the inquiry as well, so come back into that space please, Mr. Chopra.

Senator Michael D'Arcy: This happened during the timeline of the inquiry, Chairman.

Mr. Ajai Chopra: Senator, you know, again, I'm not in a good position to talk about the current developments in deleveraging. I'm just not familiar with what exactly is happening. What I can talk about is the way the issue was being thought of at the launch of the programme. There was no question that the Irish banking system, which had grown too large, needed to be reduced in size to make it, so that the size of the banks' assets were better aligned with stable funding sources. That needed to happen. Our view was that, obviously, fire sales would have been very damaging. It would have actually been counterproductive and we were not in favour of that and, obviously, the Irish authorities were not in favour of that. There was this ... there was on the ECB side having been such ... having become such a large creditor, they were keen to see the deleveraging proceeds being used to reduce their own exposure. But as I did say in my written statement, fortunately, the ECB recognised that fire sales would have been counterproductive and they did not press for them, so the issue did get defused.

Senator Michael D'Arcy: Okay. Mr. Chopra, in Kevin Cardiff's evidence, he said he ... the Irish people, that you lauded great praise upon, who negotiated with yourselves felt that the plan would not work and he also said that IMF staff felt the plan also would not work. Did you feel it would work?

Mr. Ajai Chopra: The Irish authorities were correctly concerned that the interest rate being ... that Ireland had to pay for its financial support was, you know, not ... was itself, was very high and was something that was not aiding in making its public debt sustainable. So, in that context, I think the concern about attaining public debt sustainability was very front and centre on ... in the minds of the Irish authorities. Even on the IMF side, and I think I talk about this in my written evidence, the issue of public debt sustainability was something that was of great concern. I mean, we could not state at the outset of the programme that there was a high probability that Irish debt would be ... public debt would be sustainable. We were not in a position to do that and I go through the reasons for that: that there were uncertainties in the banks; there was uncertainty about growth; there were contingent liabilities and so on. So the objective of a programme is obviously to get growth and jobs going again, because once you get growth and jobs going, that helps bring down the debt over time. But we couldn't be sure that that would happen. In retrospect, it did happen and it happened quite smartly.

Senator Michael D'Arcy: At the time, did you think the plan would work?

Mr. Ajai Chopra: At the time, I was not ... we were not in a position to say that there was a high probability that Irish debt would be sustainable.

Chairman: In conclusion now, Senator.

Senator Michael D'Arcy: The Government paid off the IMF loans early because of the cost of the funds. Why did the troika not adjust the fiscal targets in line with the gains arising from the loan adjustments?

Mr. Ajai Chopra: Okay. Here, you know, my view is that the fiscal anchor under the programme was the nominal quantity of fiscal ... annual fiscal adjustment and adjustment over the four years. Right? This was €15 billion over four years; €6 billion in the first year and then phased after that. That, in my view, was the fiscal anchor under the programme. Now, what happens in the fiscal accounts, it gets hit by many different things, some that are beneficial, some that make things worse. The idea was that we would let automatic stabilisers work and that one would not seek offsetting adjustments on either side, you know, for positive shocks or negative shocks. And that was the principle that we applied and I think it was the right one. It gave stability to the amount of fiscal adjustment that needed to happen. It was transparent and to start trying to make adjustments and modifications to that because of various shocks, including the positive shock on the interest rates, I think would have been a mistake.

Senator Michael D'Arcy: And finally, Mr. Chopra, can I ask you was the Irish banking crisis home-grown or was it a ... as a result of international factors?

Mr. Ajai Chopra: I think it's always a combination, but predominantly home-grown.

Chairman: I'm going to start wrapping things up and I'm going to invite in two leads and then I'll make some concluding comments myself. So, Mr. Chopra, if there's anything else you want to add yourself, you're more than welcome to. But just on the earlier point there that Senator D'Arcy was pursuing with you on the way that the EFSF and the EFSM loans and the substantial extension of the maturities caused the IMF loans to become relatively expensive, would I be incorrect in assuming that the objective of a programme which - and there would be many obvious ones such as getting people back to work, stabilising the economy, dealing with structural deficits and so forth, but another part of the programme is that as the programme is being successfully worked through, that the burden would become lighter as well in that there is not a moral hazard that it gets tougher as you work through it, but that it would actually become easier? In that regard, was that a design flaw in the programme?

Mr. Ajai Chopra: Look, I can only speak to the IMF side of this and, again, I have given you the details in my written statement. The IMF has a very standard practice in how it sets the interest rates on its assistance and that applies to every country that borrows from the IMF. That's the ... it's an international institution; that's the way it works. If it feels that debt is not sustainable, that's when the possibility of debt restructuring does enter. In this case, it did not. Again, the Irish authorities did not want it and there was the systemic implication at the time. I think the way that IMF loans are structured, initially the European partners more or less copied that approach. Now that, you know, but they quickly realised that transplanting the IMF approach on its financial assistance to their ... to what's needed in a monetary union was not appropriate, so they adjusted the terms and I think they deserve full credit for doing that. The way that the IMF assistance was structured was to create incentives for repaying early, which

Ireland has done. So, you've got to recall that ... and as I've said in ... over the course of this evidence, the IMF's involvement in a monetary union does create complexities that I think the IMF needs to think through.

Chairman: We might visit that as we conclude finally, so I'm going to invite the two leads back in - Deputy Phelan first and then Senator MacSharry.

Deputy John Paul Phelan: Thank you, Chair. Mr. Chopra, three areas I want to cover. Firstly, briefly, the flexibility allowed to a state that's under an IMF programme to renegotiate that programme. You indicated earlier that IMF looks at the bottom line, but is there a credibility test or, you know, what type of constraints are on that flexibility to renegotiate?

Mr. Ajai Chopra: You know, under an IMF programme, one needs to set objectives. All right? So, one needs to set and agree on these objectives and I think, you know, in the Irish context this was quite clear. It was, like, you know, improved financial sector soundness, address fiscal problems, get growth growing because, you know, without that, the other problems would just continue to be amplified, and to return to market access. Right? Now within that, the specifics of, you know ... there might be different routes to meet those objectives and, typically, IMF programmes give quite a bit of leeway to the country authorities in choosing those specifics to be consistent with those objectives.

Deputy John Paul Phelan: Okay. Secondly, on the exit from the programme, in your view, now, where you're in a position ... removed, I suppose, from the IMF - or not removed, but no longer working for them - that came out kind of wrong - was Ireland right to exit the programme when it did? And the issue of a backstop, which became a big talking point here in this country at the time - were there negotiations around that and what would the implications of such a backstop have been?

Mr. Ajai Chopra: I think the reports for the last couple of reviews did talk about those backstops and what might be available and what the advantages might be. My personal view is that the Irish authorities made absolutely the right decision. There was no need for any continuation of the programme; there was no need for getting these backstops. So my personal view is that they were not necessary and the Irish made the right decision. What ... where I think the emphasis should have been around that time was on changing the broader policy mix within the euro area. That didn't come about right away, but it came about soon after that.

Deputy John Paul Phelan: Briefly, then, one final point-----

Chairman: What were the implications if a backstop had been used? What would be-----

Mr. Ajai Chopra: If the backstop had been used ... well, you know ... well, first the backstop would have to be granted. You know, the ... If there were negative shocks that ... at that point, having the backstop would be an advantage. You wouldn't have to negotiate a new programme. So from that context, you know, it's sort of like insurance. But what the Irish chose to do was more or less to self-insure by building up their cash buffers. This is not unusual for countries to do.

Chairman: Deputy Phelan.

Deputy John Paul Phelan: My final point. On page 13 of your own statement, you state:

> For its part, the IMF has acknowledged faults in IMF surveillance ahead of the crisis.

For example, the 2012 Article IV staff report said: "Regulators - and the IMF in its surveillance role - failed to issue proper warnings as a vast commercial and residential property bubble inflated and bank assets grew to some 500 percent of GDP".

Firstly, has that process for IMF country reports changed? Secondly, we had Mr. John Beggs, former chief economist with AIB, in before the inquiry and he said the following in relation to IMF and OECD country reports:

> There was a lot of influence brought to bear on those reports before the publication by the Irish side. I mean we all met the IMF and the OECD when their missions came to Ireland.

Mr. Ajai Chopra: Okay. I think I've already talked about the flaw. I've given you a specific example of where IMF surveillance fell short when I talked about the mixed message from the 2006 financial sector assessment, right? So I think the IMF has acknowledged that. Now, is there a political dimension to that? Because, you know, you've got to understand that we come here, we talk to a range of people, including the country authorities, and if we're hearing from the country authorities that "Yes, there are these risks but, you know, we're managing them", that did have ... that does and did have an impact. I do think, having learned from its previous mistakes, IMF staff have become much more questioning. There's no ... In the past, OECD reports, I know, were somewhat negotiated documents. IMF reports are not. I mean, if there's a change to an IMF report before its publication, there are very strict criteria. They have to be factual errors or something has to be market-sensitive or there has to be some evident ambiguity. So those reports were not watered down from that ... from that side, but what one was hearing from the Irish side naturally had an impact. I mean, there was groupthink - something identified in the Honohan and in the Nyberg reports. The IMF got captured in that groupthink.

Chairman: Senator Marc MacSharry.

Senator Marc MacSharry: Thanks very much. Just a quick one, Mr. ... to start there. You said about how you would have preferred a longer consolidation period on the fiscal adjustment. You said that this was being pushed from the Government. Maybe we were too optimistic in that regard. Were the ECB and the EU Commission prescriptive in their ... in their view of the length of time?

Mr. Ajai Chopra: I think I said in the ... my written statement that the ECB was particularly hawkish on the fiscal side. They would have liked much more fiscal adjustment up-front. The Commission was driven primarily by the constraints of the SGP rather than the economic requirements of the country, but to their credit, they did, you know ... just before programme discussions were concluded, they did give the green light to extend the excessive deficit procedure deadline to 2015, which was-----

Senator Marc MacSharry: By one year, isn't that right?

Mr. Ajai Chopra: By one year.

Senator Marc MacSharry: Yes, okay. So can you give us an example of ... I know you've said already this is the worst case in history or certainly up there. Can you give us an example of where burden-sharing was implemented and it had a positive outcome?

Mr. Ajai Chopra: It was implemented in Iceland. There's a debate about its positive outcome, but my view is that it did have a positive outcome.

Senator Marc MacSharry: Okay. While you weren't ... while you didn't have any involvement in what I'm about to ask now, we are interested in your view. In providing the guarantee to the banks in 2008, did this action by the Irish Government serve to stabilise the eurozone at the time?

Mr. Ajai Chopra: Senator, it's not something that I have studied in any detail so I don't want to venture an ... an answer.

Senator Marc MacSharry: Okay. We spoke about ... and you said to ... in answering, I think, to Deputy Doherty that the Irish taxpayer had to shoulder a ... a disproportionate amount of the burden, I think were your exact words. With this in mind, and in your personal capacity and your experience, rather than as a former IMF employee, would you say it is fair and reasonable that the EU apply concessions to alleviate the debt burden on the Irish people?

Mr. Ajai Chopra: The way I would put it is that ... I wish that the direct recap instrument that the euro area put together was something that could have been applied for Ireland retroactively.

Senator Marc MacSharry: And, of course, that option still exists, does it not?

Mr. Ajai Chopra: I guess in some dimensions yes, it might.

Senator Marc MacSharry: Thank you very much.

Chairman: I'm going to bring matters to a conclusion, Mr. Chopra, and maybe if I can just ask you one question and then we'll start looking towards the future. As an EU member, was Ireland ... which ... where Ireland was tied to the European Union and the European Central Bank for assistance, would you care to comment upon the suggestion that Ireland possibly suffered as a result of their inexperience in rescue programmes and, in that regard, did the IMF assist the European Union and European Central Bank in helping them establish themselves into this new role, which was very much virgin territory for them?

Mr. Ajai Chopra: I think that's a fair statement.

Chairman: Okay, and what was the processes and dynamics of the learning that they had to have in that regard?

Mr. Ajai Chopra: You know, this ... I would say this was primarily through observation. This was ... through need and ... you know, it sorted of happened in a sense by deliberate action by the ECB and the Commission by going out and hiring other people, by examining IMF procedures, by learning on the job.

Chairman: And, in that regard, because all organisations - yourselves, the ECB and the European Union and so forth - would have had, kind of, cultural histories as regard to what their priorities were, the European Central Bank's priority would have been the stabilisation - or the instability, or the threat of it - of the euro and the eurozone. Did that have an impact with regard to how they would then look at a single country, and in this situation, Ireland?

Mr. Ajai Chopra: Yes, I think that does have an impact. If I might just add one thing to my previous answer, and that is, I think, in terms of the programme technology for design and monitoring, the ... they're now at the point where the IMF has no particular advantage over eurozone institutions.

Chairman: And finally - because part of the work of this inquiry is not just about looking at the past but also looking into the future and making recommendations, whereby, to the best of our ability, we don't have this type of crisis revisited upon us, as a country and as citizens, again - in the European Commission's ex post evaluation of Ireland's bailout programme, it is stated that substantial fiscal consolidation efforts still need to be made in the post-programme period. And, in your opinion ... and there of kind of two key points here: what are the critical targets, being the one first, that should be set; and what are the principal measures, being the second one, still to be taken?

Mr. Ajai Chopra: This is, again, something that I addressed in some detail in the context of my written statement but just to summarise - firstly, I think it's ... kudos to Ireland for having strengthened its financial institutions. I think you've got a first-rate Fiscal Advisory Council, with very able people. They've established credibility quickly and they produce excellent reports, and I think they've improved the quality of the fiscal debate. Also, the Department of Finance, you know, its medium-term budgetary framework, I think is, you know, again an excellent document. So, the fiscal framework and fiscal institutions are much better. Ireland is now emerging from the excessive deficit procedure but it still has a structural deficit according to the IMF in their latest post-programme monitoring report. This is a deficit of ... a structural deficit of 1.5% of GDP. I would support my former colleagues in recommending that Ireland attempt to ... should aim to achieve structural fiscal balance, so fiscal balance over the cycle and if that is the goal - and your structural deficit right now is 1.5% of GDP - I think doing a 0.5% adjustment over, you know, the course of three years so that you get to balance by 2018, is a very reasonable target. Yes, it will have headwinds for growth but Ireland is growing strongly. This is the time to do the fiscal consolidation.

On the measures, I think, you know, again, all I will say is that, you know, it shouldn't be ... I think it needs a combination of revenue and spending measures. Capital expenditure and, maybe, social expenditure have been pushed down too much. So, you know, these should be looked at. I'm less familiar with the details on this but the general principle is both spending and revenue should be on the table.

Chairman: Thank you, Mr. Chopra. Is there anything you would like to add by means of closing comments or final remarks?

Mr. Ajai Chopra: The only thing I would want to add is that this committee, I think, is doing very important work and I think it is testimony to the seriousness with which the Irish people and ... take the experience of this banking crisis in wanting to learn from it. And I wish you well in your endeavours; I think it's very important what you are doing.

Chairman: Thank you very much, Mr. Chopra, for those very, very kind comments. Just to acknowledge a couple of items I said at the opening of this morning's session. First of all, you are here as a voluntary witness, being under oath, and you do have the engagement and the responsibilities that come with that. But there was a lot of work put into getting you here today and I very much appreciate your assistance in that regard, but I do think it is a reflection, as I said earlier, of whatever ... one hour of public hearings that we have here, there are hours and hours of work done behind the scenes and I'd like to particularly compliment the investigation team in that regard and also with regard to Mr. Buti who is coming in. But I just think it is one, sort of, example of something that the public actually doesn't get to see ... the type of work that's done in supporting this committee in ensuring that witnesses like yourself are here before us. With that said, I now propose that we bring this matter to a conclusion, that we thank Mr. Chopra for his participation and his engagement with inquiry. We will suspend until 11 ... or,

sorry, 12.15. if that is possible - for about 15 minutes, okay, and we will resume then with Mr. Buti.

Sitting suspended at 12.05 p.m. and resumed at 12.28 p.m.

European Commission - Mr. Marco Buti

Chairman: I now propose that the committee of inquiry into the banking crisis resume in public session. Is that agreed? Agreed. Okay, the committee of the inquiry into the banking crisis is now resuming in public session. Can I ask members and those in the public gallery to ensure that their mobile devices are switched off?

We continue our hearings today with Mr. Marco Buti from the European Commission. Marco Buti has been Director General for Economic and Financial Affairs at the European Commission since December 2008. He was an economic adviser to the Commission's President until 2003. From 2003 to 2006 he was director of economies of member states at the Directorate General for Economic and Financial Affairs, where he was appointed deputy director general in September 2006. Mr. Buti, you are very welcome before the committee, and also welcome back as this is not your first time here.

Mr. Marco Buti: Thank you.

Chairman: I would also like to acknowledge that you're appearing here today as a voluntary witness, and that the European Commission has been very co-operative with the committee's requests. This is your second occasion - Mr. Nava has also been here - and I'd just would like to put it on the record that the European Commission has engaged with all the requests that this committee, unlike other institutions that we have, but it has been very, very co-operative in its manner with the inquiry. So, before we engage in the proceedings, I'd just like 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're directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to so do, 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'm very, very mindful as well that there are particular terms of reference and lines of inquiry that relate to the Commission that we will be remaining inside today in our engagement with you, Mr. Buti.

In that regard, 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. Therefore, the utmost caution should be taken not to prejudice those proceedings. 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 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 confidential and they should not publish any of the documents so displayed. So with that said, if I can now ask the clerk to administer the affirmation to Mr. Buti, please.

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

Mr. Marco Buti, Director-General for Economic and Financial Affairs, European Commission.

Chairman: Once again, Mr. Buti, I thank you for your attendance today, and if I can invite you to make your opening remarks to the committee please.

Mr. Marco Buti: Thank you very much, Chairman. Thank you for inviting the Commission again, as you said, it is my second appearance. I welcome the opportunity to be here in Dublin for the ... for a second time and to contribute to the inquiry as a sign of the Commission availability in the discussion of the Irish crisis and its adjustment. When I appeared before this committee in February, the focus of attention was on the years preceding the crisis. I understand that the statement I gave at the time and the evidence I provided are part of the comprehensive documentation available to the committee. For today, I have been asked to deliver a statement and to provide evidence on the so-called Nexus Phase of the Irish banking crisis, which covers the post-2007 period, including the implementation of the EU-IMF financial assistance programme. With this in mind, in my opening statement I will focus on four subject areas: the first one is the implosion of the Irish economy; the second is surveillance and economic policy initiatives of the European Commission during the crisis years; the third is the reforms to the EU economic governance framework in response to the Irish and euro area crisis; and, finally, the EU-IMF financial assistance programme to Ireland.

Let me stress up front that in my testimony I can only provide evidence on issues that are related to the responsibilities of the institution I represent, namely, the European Commission, in particular, its directorate general for economic and financial affairs, so-called ECFIN. In particular, I can provide evidence on matters pertaining to the EU economic surveillance and the implementation of the EU financial assistance programme. I cannot comment on matters of financial supervision or regulation and, linked to that, on matters pertaining to specific individual banks or financial institutions before or during the crisis period.

As pointed out during my first appearance before this committee, the remit of EU economic surveillance prior to the crisis and during the first years of the crisis was fairly limited in scope. It essentially amounted to fiscal surveillance. Other surveillance instruments, albeit available and anchored in the EU treaty, notably the broad economic policy guidelines, had no enforcement power. I made this point during my first appearance plus, all member states were understandably keen on defending their sovereignty in economic policy making. With hindsight, the limited surveillance mandate of the European Commission turned out to be a serious problem. Many crucial events that took place in Ireland between 2008 and end 2010 concerned the banking sector and thus fell outside the then operating range of the European Commission in general, and my DG in particular. More importantly, the European Commission played essentially no role in regulating and supervising domestic banks. I think the point was clarified by my colleague, Mario Nava, who came here to this committee last February. He explained in great detail the supervisory and regulatory set-up in Europe at the time - a set-up that, with hindsight, was far from optimal but which determined the responsibilities of national and supranational actors.

Things obviously changed when Ireland entered the EU-IMF financial assistance programme as the Commission was part of the so-called troika. The involvement of the European Commission also changed with the various waves of reforms of the EU economic surveillance framework. The reform significantly broadened and strengthened the responsibilities of the European Commission and I'll come to that in a moment.

On the build-up to the crisis, the years immediately preceding the Irish crisis were marked by very strong economic growth. I recall the Irish economy was expanding at a pace of 5% or more per year, as opposed to around 2.5% in the euro area as a whole. However, strong economic growth masked important imbalances in several key areas of the economy, notably housing, the banking sector, public finances and the external accounts. A number of observers, including the Commission, noted the build-up of these imbalances. During my first testimony, I indicated the various surveillance documents issued prior to 2007 which highlighted risks linked to both the Irish construction boom and the rapid expansion of Government expenditure during economic good times, but I also made it clear that the key macroeconomic indicators which we had to monitor under our narrow mandate at the time were all satisfactory.

In 2008, against the backdrop of international economic and financial dislocations, the imbalances of the Irish economy started to unwind in an abrupt manner, giving rise to downward spiral of interacting forces: property prices collapsed; budgetary windfalls linked to the property boom vanished and exposed a huge gap in Government finances; banks started making important losses as their real estate exposures went bad; international investors became increasingly worried; and wholesale funding for Irish banks vanished. Liquidity outflows from the banks left them increasingly reliant on the euro system for funding and on emergency liquidity assistance from the Central Bank.

Because of the unprecedented size of the debt-financed housing bubble, its burst gave rise to a particularly strong and persistent feedback loop between the financial system and the real economy. The sharp decline of real estate prices annihilated a large part of the banks' and household assets, which in turn seriously impaired the banks' capacity to intermediate, as well as the households' capacity to consume. The oversized construction sector collapsed abruptly, releasing an army of mostly low-skilled workers. In addition, Government revenues continued to fall and expenditures to rise, not least in an attempt to safeguard the stability of domestic banks. The boom had turned into a daunting bust and policy makers, both domestic and at the EU level, were faced with formidable challenges.

In summary, I very much concur with the conclusions drawn by most witnesses that appeared before this committee. The post-2007 economic and financial crisis in Ireland was domestically generated. Its roots were not only in the banking sector, but also in pre-crisis fiscal policy making. The depth, scope and resolution of the crisis were influenced by the global economic and banking crisis.

As to the domestic policy response, starting in 2008, the Irish Government took a series of measures in response to the crisis. One of the main, and possibly the most emblematic policy action, was a so-called blanket guarantee. To confront the perceived liquidity crisis of the domestic banks in late September 2008, the Government decided to implement a two-year guarantee on banks' liabilities. The guarantee covered almost all liabilities of the domestic banks except for subordinated debt.

It is not for the Commission to judge whether, ultimately, the decision to issue the guarantee was a good one or not. With hindsight, I believe the guarantee was too generous and magnified the fiscal impact of the banking crisis. At the same time, it is clear that the decision was taken in a very difficult situation characterised by great risks and uncertainty. I certainly do not envy those who had to make a decision in late September 2008. The only point of criticism that I can make here is that the Irish Government did not consult with European ... with its European partners. The blanket guarantee heightened competition for bank funding at a moment of growing tension in financial markets across Europe. The blanket guarantee was the first such scheme

put forward by a European country during the crisis. In September 2008 there were no specific guidelines for ... concerning the acceptable or desirable features of state guarantee schemes for banks. They were adopted one month later, in October 2008, setting out a fairly strict set of rules. The blanket guarantee was broader than the new rules allowed.

In September 2009, the blanket guarantee was complemented and eventually replaced by the ELG ... so the eligible guarantee scheme. The ELG allowed Ireland to align its guarantee scheme with those in place in other European countries and to limit its exposure towards banks. Importantly, the ELG also allowed Ireland to earn a fair remuneration on the guarantees provided to banks. At the time, the two guarantee schemes provided some relief to the banks but they did not restore their market access for funding. What initially was thought to be a liquidity problem relatively quickly turned into an acute solvency problems ... problem, especially for some of the domestic banks. As a result, and in a bid to safeguard macro-financial stability, the Irish Government made a number of capital injections into banks. Through the cash or promissory notes, the Government provided capital to five domestic institutions, totalling about €49 billion or 29% of GDP in 2009-2010. All capital injections had to be approved by the European Commission, specifically the Directorate-General for Competition.

The economic and financial crisis in Ireland also had a profoundly negative impact on public finances. Starting in 2008, and until the start of the EU-IMF financial assistance programme, the Irish Government adopted and implemented five consolidation packages with a net deficit reducing impact of 9% of GDP in 2008-2010. Still, and because of the particular depth and scope of the crisis, the general Government deficit ballooned to just over 32% of GDP in 2010 and the general Government debt jumped to 87% of GDP, still in 2010, up from 24% of GDP three years earlier. The majority of this was due to one-off banking support measures but also due to the collapse in property-related revenue and structural increases in spending over previous years. The share of property-related revenue in total tax revenue had increased from 8.5% in 2002 to 18% in 2006 and fell to less than 3% in 2010.

Let me turn now to how the EU responded to the Irish crisis. I will start with the policy initiatives for Ireland undertaken under regular EU economic surveillance and then move to the EU response to the euro area crisis more generally. Until end-2011 - when the so-called six-pack entered into force - the EU economic surveillance would have largely centred on fiscal policy, as I mentioned before, notably the implementation of the Stability and Growth Pact. Financial sector developments were not considered to pose a threat to the overall macroeconomic stability. I clearly highlighted this shortcoming in my first testimony before this committee back in February. While the EU has learned the lesson from the crisis and the economic governance framework has been improved significantly, the Commission's surveillance activities for Ireland in 2008-2010 need to be assessed against the backdrop of the framework prevailing at the time.

Once the Irish housing bubble had burst and the economic troubles began, the European Commission deployed the instruments foreseen by existing EU legislation. In particular, it launched the excessive deficit procedure, or, for short, the EDP, for Ireland in spring 2009. Importantly, the EDP for Ireland was embedded in the so-called European economic recovery plan, a cross-country initiative aimed at boosting aggregate demand in Europe and which allowed a considerable amount of flexibility in defining national adjustment paths. I will talk more about this European economic recovery plan in a moment.

Member states with a government deficit in excess of 3% of GDP were given much more time to implement fiscal consolidation. This was also the case for Ireland. When the EDP was

opened in spring 2009, Ireland was given four years to correct its excessive deficit, so until 2013. I record that under normal conditions of the rules of the SGP, it would have been one-year deadline. Moreover, in the following years, the ECOFIN Council, upon a recommendation from the Commission, repeatedly extended the deadline for the correction of the excessive deficit, first to 2014 and then to 2015. I think ... I believe the Commission initiative to stretch the period of fiscal adjustment in Ireland was crucial and its importance is probably underestimated in the public debate.

The Commission and the Council were also concerned about the developments in the Irish banking sector. EU surveillance documents issued in 2008 and after included reference to banks. For instance, both the Council recommendations under the EDP of spring 2009 and the Council opinion on the 2009 stability programme mention the fragility of the financial sector and its possible implications for the sustainability of public finances. There were even more extensive references to the financial crisis in Ireland and its implications for fiscal sustainability in the Council opinion on the 2010 stability programme. However, beyond such references, the Commission and, in particular, DG ECFIN, did not have any instruments to help Ireland address the banking crisis. As indicated by my colleague, Mario Nava, here before this committee, financial supervision and regulation was still a national prerogative in the governance framework of the time.

None the less, in early 2009, DG ECFIN stepped up its internal monitoring of the Irish economy. Senior management was updated more frequently on economic and financial developments. The exchange of information between DG ECFIN and DG Competition, which is in charge of support measures for banks, intensified. In addition, in April 2009, DG ECFIN provided input to a dedicated discussion on Ireland in the Eurogroup. As a result of that discussion, the Minister of Finance ... the Ministers of Finance asked the Government to consider a comprehensive reform package to address the serious economic and financial challenges. Ireland reported back in May 2009, including on the supplementary budget it had just adopted in April. However, public communication regarding financial crises is a very sensitive issue. Thus, neither the Commission nor the Eurogroup did publicise this kind of enhanced surveillance.

On the EU response to the systemic euro area crisis, by mid-2008 it was obvious that the euro area and the EU as a whole would be heading towards an unparalleled drop in the aggregate economic activity and employment. It was also evident that the limits imposed by the EU fiscal surveillance framework would become too tight for many EU member states and, second, important elements had been missing in the EU economic governance framework. Thus, starting 2008, the European Commission and, more generally, the EU put in place an array of initiatives. I will not cover the full set of initiatives here. The policy response is well documented on the European Commission Internet webpages. Let me just highlight very briefly the most significant stages which were particularly relevant for Ireland.

At the end of November 2008, the European Commission launched the European economic recovery plan. The main objective of the plan was to provide a co-ordinated boost to aggregate demand across the EU. Hence, the European Commission did not stubbornly implement the commonly agreed fiscal rules. On the contrary, it explicitly encouraged member states to use the available fiscal space to lean against the strong headwinds and many member states implemented fiscal stimulus packages. To ensure credibility, member states were asked to embed the expansionary policies into multi-annual strategies that would ensure the long-term sustainability of public finances. Without the European economic recovery plan, the economic contraction of the euro area would most likely have been even sharper with the usual spillovers to small

economies such as Ireland.

The EU also reacted quickly to the emerging sovereign debt crisis. In 2009, the member states and the European Commission began putting in place so-called firewalls or measures to help countries facing temporary difficulties in borrowing from financial markets. In May 2010, the EFSM, the European financial stability mechanism, of the European Union became operational with a capacity to lend up to a total of €60 billion. Shortly afterwards the private EFSF was established with a capacity to provide loans up to €440 billion to the euro area countries. In 2012, the EFSM was replaced ... the EFSF, sorry, was replaced by the permanent European Stability Mechanism, the ESM, with a lending capacity of €500 billion.

The EU, with important contributions from the Commission, also began work on measures to help prevent a recurrence of future financial crises. First, the EU economic surveillance framework was strengthened and extended with the so-called six-pack in 2011 and two-pack in 2013. I already mentioned these innovations in my first appearance before this committee and am happy to provide further evidence, if so wished, in the discussion. Second, extensive work started towards the banking union with the establishment of the single supervisory mechanism, the SSM and the single resolution board, SRB.

In February, my colleague, Mario Nava, provided a comprehensive overview of how the system of financial supervision and regulation in Europe has changed in response to the crisis. There is nothing that I can add on my part, not least because matters of financial regulation and supervision do not fall under the responsibility of my DG. Let me just say that the banking union represents a natural complement of the economic and monetary union. It addresses severe problems and gaps that were revealed by the crisis, including cross-border financial linkages. The banking union is underpinned by a common set of rules, including for bank resolution, that are designed to minimise costs to the taxpayers.

On top of the key EU reforms there were, of course, also important initiatives taken by the European Central Bank to safeguard the financial stability of the euro area. I will not review them in detail here. They still need to be mentioned because of the interplay between different macroeconomic instruments. In particular, the ECB's OMT programme, the outright monetary transactions, was decisive in addressing the sovereign debt crisis in several euro area countries, including Ireland. In combination with other policy initiatives undertaken both on national and EU level, it very much helped to restore confidence and facilitated the return to market funding at sustainable rates.

On the transition to the EU-IMF financial assistance programme for Ireland, from around the spring 2010, the spreads on Irish sovereign bonds over German bunds began to widen significantly and became more volatile due to the increasing worries over the capacity of the Irish to shoulder the mounting level of government debt. There was also contagion from Greece, as it applied for external assistance finance in April 2010. Moreover, we must not forget that these financial jitters went along with very dire economic conditions in Ireland. In 2008-2009, the Irish GNP fell by more than 11%. This was by far the strongest economic contraction in the euro area in those years. The unemployment rate more than doubled from less than 5% in 2007 to 12% in 2009, before rising further to close to 15% in 2011. A small government surplus in 2007 turned into a very large budgetary shortfall of close to 14% of GDP in 2009, with the prospects of a much larger deficit to come. In fact, over the summer of 2010 concerns grew over further losses in the Irish domestic banks, coupled with an imminent end of the two-year Government bank guarantee. Liquidity outflows from the banking sector picked up. At the end of September, the Government promised to provide a final estimate of the cost of restructuring

the banks, and it announced its intention to strategically withdraw from the markets since it was fully funded until mid-2011. By then, spreads had increased to almost 450 basis points.

In an effort to address mounting economic and financial concerns, the Government told the European Commission in September that it was preparing a four-year national recovery plan to be published in November 2010. The plan aimed to reduce the budget deficit to below 3% of GDP by 2014. In the context of the Europe 2020 process - the EU strategy for smart, sustainable and inclusive growth launched in spring 2010 - the Commission undertook a mission to Dublin at the end of September to discuss the challenges facing Ireland and gave input on the reforms envisaged in the national recovery plan. Following this, contacts between the Commission and the Irish authorities continued. As is well known by now, these contacts also encompassed talks about the possibility of a joint EU-IMF financial assistance programme as part of contingency planning. To be clear, at that stage these talks did not involve any negotiations.

During the course of October and November, market pressures intensified with further bank deposit withdrawals and the spread of Irish bonds over German bunds widening further. By early November, bond spreads had gone above 680 basis points, a new high and a level that was not considered to be consistent with sustainable public finances. In addition, the announcement by the Government of the fiscal consolidation packages was not enough to calm investor worries. It was against this dire background in mid-November 2010 that more concrete talks began between the Irish authorities, the ECB, the IMF and the Commission in Brussels and Dublin. This was to explore the scope and content of a possible financial assistance programme.

The Irish Government formally requested a financial assistance programme from the EU and IMF on 21 November 2010 and formal negotiations began. In parallel, it published a four-year national recovery plan 2011-2014 on 24 November which, to a very large extent, formed the basis for the policy conditionality of the new programme. I emphasise this point because it was crucial for the ownership of the programme and ultimately for its success. In fact, after the completion of the programme in December 2013, the current Minister for Finance indicated in public that the troika had not imposed one single measure to Ireland. All policy conditions, and certainly the more important ones, had been agreed and put forward by the Irish Government and subsequently included into the programme. This, obviously, is not to say that the troika had not a say in negotiating the programme. Rather, it underscores the fact that the Government programme had identified the right policy challenges, including due to its previous exchanges with the IMF, the ECB and the Commission.

The main objectives of the programme were to restore financial market confidence in the Irish banking sector and in the sovereign, break the financial-sovereign loop and recover market access. In order to do this, the programme was based on three main elements. The first was financial sector reform entailing fundamental downsizing and reorganisation of the banking sector. The second factor was fiscal consolidation to restore sustainability based largely on expenditure restraint, and the third was structural reforms to boost growth and enhancing competitiveness and employment creation. In order to ensure fairness and minimise the social impact, all programme measures were inspired by the overarching principle of protecting the most vulnerable. The European Commission and the other troika partners also showed considerable flexibility in defining the fiscal adjustment path. Most importantly, the programme documents included an extension of the deadline for the correction of the excessive deficit by one year from 2014 to 2015, so this extension allowed for a more gradual and arguably a more growth-friendly fiscal adjustment. Extending the fiscal adjustment turned out to be the right strategy. Fiscal consolidation remained on track throughout the programme period and cumulative GDP

growth in 2011-2015, so the period covered by the EDP, has been practically in line with the forecast underpinning programme negotiations. This is quite remarkable actually, taking into account the size of the overall fiscal adjustment and the very uncertain economic outlook prevailing at the time.

The implementation of the financial assistance programme was, on the whole, smooth and effective. Most importantly, the EU-IMF financial assistance programme achieved its main objectives. Ireland implemented substantial financial sector repair and fiscal consolidation, regained market access, returned to sustainable economic growth and started to create jobs again. The Irish sovereign recovered market access already in July 2012, well ahead of the end of the programme, when it issued €500 million in treasury bills at a rate of 1.8%. Economic growth, as measured by real GNP growth, returned to positive territory also in the second year of the programme, and last year Ireland was the fastest growing economy in the EU as a whole. The rate of unemployment started to decline in 2012 and has been below the euro area average since 2014. Although less celebrated, the programme also succeeded in containing the impact of the adjustment process on the most vulnerable. Admittedly, the distribution of market income deteriorated significantly in Ireland in 2007-2013. By contrast, the distribution of the disposable income - that is, taking into account taxes and social transfers - remain essentially unchanged. This result is quite remarkable. This is not to say that the adjustment programme had no impact on people's economic conditions. We know, of course, it had. However, it shows that fiscal policy was definitely geared toward mitigating the gap between the rich and the less well-off.

The single most important determinant of the programme's overall success was national ownership, as policy conditions were consistent with national preferences. The openness of the Irish economy, the flexibility of its economic institutions and the labour force also played an important role. Last but not least, the EU partners took several important decisions aimed at improving the sustainability of public debt. The lending rate margins on the EFSM and EFSF loans were eliminated and the average maturity extended from initially 7.5 years to 12.5 years in 2011 and again to 19.5 years in 2013. In 2013, with the wind-up of Irish banking resolution company, the promissory note transaction also improved public debt sustainability. This transaction involved exchanging €25 billion of short-term Government promissory notes with marketable long-term bonds.

On post-programme performance, Ireland is now subject to the post-programme surveillance. This is part of the EU surveillance as foreseen by the two-pack regulation. Post-programme surveillance started after the expiry of the EU-IMF financial assistance programme and lasts until a minimum 75% of the financial assistance has been repaid. The Irish economic and financial situation has continued to improve. Ireland is currently among the fastest-growing economies of the euro area. Public finances have recovered significantly and the situation in the three Irish domestic banks is encouraging. Of particular note is also the fact that Irish bonds have suffered little contagion from recent troubles elsewhere in the euro area. This underscores the improvement in fundamentals. While we all welcome the current state of the Irish economy, we are equally conscious of the fact that the adjustment process Ireland went through since 2008 was an extremely difficult one. Nonetheless, many authoritative observers agree that if the ... if programme funding had not been available from international partners, the economic adjustment and the impact for the Irish people would have been significantly stronger. I concur with this assessment, not just because I represent one of the three former programme partners. Rather, I see the financial assistance to Ireland and all the other policy initiatives undertaken at the EU level during the crisis as part of the wider European project, which may not always progress smoothly but which succeeds if we work together.

Chairman, this is my written statement. If you allow me, I would like to add one or two sentences on a more personal ... a very personal basis. I am proud of the work we have done. I think I am proud of my team. I'm proud of the work that we have done with the troika partners, with the Government authorities. I am proud, in particular, of the Irish people for the efforts they underwent during these very, very difficult times. I think we have learned a lot of this. I think all the institutions - I talk on the ... on our side - we have learned a lot. It was one of the first programmes - the second for the euro area. We certainly could have done things better in certain extents. I think we have learned our lessons and certain elements clearly could be in the future done better. I think ... nonetheless, I think the success of the ... of this undertaking is clear and I think in terms of learning, we have learned, I think, a lot on the European institutions. I think there is ... the experience has also provided learning for the IMF that dealing with a country in the euro area in a monetary union is not the same as dealing with a country somewhere else in the world, in developing ... especially in developing countries.

The second point is that the job is not done yet. I think it's not done yet for Ireland fully. It's definitely not done yet for the European institutions as a whole. You may have listened yesterday to the state of the Union speech by President Juncker. He said there is not enough Europe in this Union ... there is not enough union in this Union. So the job is still in front of us for several aspects, including matters that are very important for Ireland that we should ... have been mentioned as criticism in the way things have been handled at the European level. I mean we have to complete the banking union, complete the second leg, definitely complete the third leg. The President yesterday announced that we would come forward with proposals for a deposit guarantee ... common deposit guarantee scheme before the matters. At the same time, I think we have done a lot. We are not in the same positions as we were when we had to deal with Ireland. And I think we have to avoid, if I may say so, easy ex post rationalisations; namely, to judge based on what we know now and what we have now in terms of institutional systems, things of the time. When they set up the institutions ... the institutional set-up was not that. So I think this is important. I hope that the figure that has come out this morning on the Q2 results, which is an extraordinary 1.9% growth, will be confirmed in the future because we know that quarterly growth in Ireland is pretty volatile. But the recovery is well there, creating employment. And I think the future, if everything is done well in Ireland and Europe, is bright for Ireland. Thank you.

Chairman: Thank you very much, Mr. Buti, for your opening remarks and your additional comments. Just for committee members to be mindful as well, you're not a native English speaker. Members might say that I'm not either, but that's a different story. So with that said, if we can get matters under way and if I can invite Deputy Michael McGrath please.

Deputy Michael McGrath: Thank you, Chairperson. And, Mr. Buti, you're very welcome. Thank you for reappearing before the inquiry again. And can I start with your ... your closing remarks there where you acknowledged that some things could have been done better. So, in the context of the Irish crisis, what do you believe the European Commission could have done better?

Mr. Marco Buti: I think the ... I would not, let's say, change in any fundamental way the basics of the programme. I think what we had ... we were confronted with at the time was a crisis which was not only a banking crisis. It was a crisis of, let's say, systemic nature and also a fiscal crisis. So I think the axis of the programme which was, on the one hand, to cure the banking system, to deal with the unsustainable public finances when the true state of the public finances came to the fore with the crisis ... and the overall rebalancing of the Irish growth

model I think was the right one. Now, if I take what we could have done better I think we ... as I said, we largely succeeded in, I'd say, very difficult circumstances to reduce the burden on the less well off. With this taken into account, I think we could have done more on that from what we know now in terms of the social consequences. The social consequences, I think, were ... tackled and reduced but we could have had a system which would protect probably even more.

Deputy Michael McGrath: So you're talking there about the fiscal adjustment and how it was implemented but were they not matters for the Irish Government of the day to decide rather than the Commission or the troika ... the detailed elements of the programme and how to arrive at the target deficits? So, in terms of social protection expenditure and so forth, they weren't matters for the Commission, surely.

Mr. Marco Buti: No. Clearly, I think it has been stressed quite ...quite forcefully and I think it is ... it is absolutely the truth is that, as always in the ... in programmes with the EU and IMF, the details of the individual policies are for the government to implement. Clearly, there is open dialogue and there is a lot of interactions. I think on the ... overall on the fiscal, I think you have two issues. One is the speed of adjustment, so how the fiscal ... the inevitable fiscal retrenchment is carried out over time and the other one is the composition. Now, I think on the speed of adjustment I have indicated that already - in the initial EDP decision - we had granted four years adjustment in 2013. These were extended to 2014 and eventually 2015 at the initiative of the Commission. I think this was largely correct. Now, in terms of the composition, one could have looked at, you know, social spending and maybe, let's say, protect even more the less well off. But, overall, I would say that if one looks also at the indicators of market disparity of income, which increased very strongly ... but the ex post, after the tax and benefits system operating ... largely preserved the current distribution of income. I think this was a success of the programme.

Deputy Michael McGrath: I'm just not sure I got anything there as to what the Commission could have done better in the Irish context. You went back to the fiscal element and social expenditure programmes and so forth but ... on the Commission, is there anything the commission could have done better in handling the Irish crisis?

Mr. Marco Buti: I think looking at things from where we stand now, certain things could have been ... could have been done better. I think ... what I think one should do at this stage is to see with the ... where we stand now and what has been the development over time.

Deputy Michael McGrath: We'll continue with the questioning and we'll see where it takes us.

Mr. Marco Buti: I think we can be satisfied by the-----

Deputy Michael McGrath: Can I start by taking you back to November 2010? And you'll be well aware of the letter from Jean Claude Trichet, the President of the ECB, to the late Brian Lenihan 19 November 2010, which made the continuation of emergency liquidity assistance for our banks contingent on the Government applying for a formal bailout programme. So was the European Commission aware at that time of the stance of the European Central Bank and was it a stance that was supported by the Commission?

Mr. Marco Buti: We were aware of the stance of the ECB, obviously. I mean, when we were talking about ... amongst the institutions, we were aware that the worries of the ... of the ECB in this. We were not part of ... or we were not copied in on the letters that Mr. Trichet sent

at the time. I think we did not have any possibility or willingness to influence the ... the ECB at the time. I mean, what Mr. Trichet has indicated to you - not precisely in this committee - is that the exposure of the ECB was very, very large and one has to take that ... that into account. So it was an individual decision by the ... by the ECB. I think in ... I think in these matters one has to look at the ... what the real situation is and I think, deep down, independently of the letter of Mr. Trichet, the situation became so difficult. And I mentioned in my written statement that the spreads over the bonds at the time were ballooning, which made it inevitable and right to apply for a bailout.

Deputy Michael McGrath: I suppose the question is: did the Commission support the direct linking of continued provision of ELA to the banks with Ireland entering a programme?

Mr. Marco Buti: No, we have ... I have nothing to say on this. This is a matter for the ECB, not for the Commission.

Deputy Michael McGrath: That's fine. And at that time, in mid-November 2010, prior to formal negotiations getting under way - there had been preliminary discussions - had the European Commission come to a view that Ireland should enter a formal programme at that stage?

Mr. Marco Buti: I think the ... at the time, I think it was evident that the adjustment programme was inevitable and the ... we saw this as ... I think as a good step indeed, considering the decision of the ... to apply by the Irish Government I think was a wise step at the time.

Deputy Michael McGrath: Okay. In his evidence to the inquiry, Kevin Cardiff, the former Secretary General of the Department of Finance said:

> The big question in the public domain in relation to the bailout seems to be whether entering the EU-IMF programme was a free choice or were we pushed. Well, at the moment we entered it we were pushed quite hard [he said].

Have you any comment to make on that?

Mr. Marco Buti: We had intensive discussions in the context of the regular contacts that we have with the Irish authorities at all levels: central banks, the Finance Minister, ministries, the Irish Government. I think at that time the situation was such that the ... it was inevitable I think for Ireland to apply. I have to say that one thing that ... one question that may come is, which may be implicit in your question, is that: was it right for European institutions to have a view on this or not or should it be left completely to the Irish Government, in this case, or to a national government? I think the experience at the time was very clear that, given the potentially dramatic spillover effect and contagion risks, I think we had the right and the duty to have a view on this. And actually, if you look at the *ex post* on the two-pack regulation, the one dealing with the financial ... with financial assistance, there is the provision there that the Commission can recommend the Council to advise a country to prepare an adjustment programme. It doesn't mean applying for the EU ... full EU-IMF programme but in a situation of dire straits, certainly that is something that goes in that direction. So I think it was our duty to have a view and at the time I think it was ... we considered it to be right for the Irish authorities to make that decision.

Deputy Michael McGrath: Can I take you to the bailout itself and the interest rates attaching to the various elements of the bailout programme? The rate on the EFSM was 5.7% initially; the EFSF, 6.05%. Now, the IMF rate seems to have been quite rigid in that it has determined by set rules of that organisation. But can you explain how the EU elements of the funding for the bailout programme arrived at those figures, which were higher than the Government was

expecting? Was there an element of negotiation involved or was the Government told, "These are the rates attaching to these streams of funding and that's it"?

Mr. Marco Buti: The IMF has its own way of setting rates and the rules related to their, say, their prerogatives, and we did not have that at the time. It was ... we were in unprecedented territory. I always, when I talk about management of the crisis not only on Ireland but all other countries, is that we were there in a wholly new situation. So we had ... there was an element here of learning by doing and setting the rules as we walked along. Now, at the time the idea was to try to mimic and get to something with a European ... at the European level, which was close to what the IMF had but we did not have the possibility. We don't have the capital that was, you know, that was ... that could be off-lent to the country. So, what we could do ... we did at the time - what we are still doing actually - is that we have to go and borrow on the market and lend back to back to the Government. Now then, on top of that, at the time it was decided that in order to get close to IMF rates, that a margin, which was about 290 basis points, would be .... should be charged.

Deputy Michael McGrath: 290?

Mr. Marco Buti: 292 actually, I think, if I'm not mistaken.

Deputy Michael McGrath: 2.9%.

Mr. Marco Buti: Added to the market ... to the borrowing rate. And here the prevailing opinion at the time was to avoid moral hazard or, you know, too easy, let's say, entering into a programme.

Deputy Michael McGrath: You didn't want to create a financial incentive to get into a programme. You didn't want to reward a country that ended up in a programme.

Mr. Marco Buti: That was in the mind of some at the time the idea. Now, it is clear that this margin was very large.

Deputy Michael McGrath: This was on the EFSF element, is it? The 2.92% margin was on the EFSF element?

Mr. Marco Buti: Yes, the EFSF, exactly. So what we had when it was decided it was too large and then, based on strong ownership and strong implementation of the programme, subsequently in two stages - I indicated before - actually we came to elimination of the margin, which improved, I think, very substantially. If I'm not mistaken, I think between €4 billion and €5 billion saved in terms of interest payments due to the reduction ... to the elimination of the margin. So, this was what was done at the time, initially let's say, to match the IMF rate and then rewarding the good implementation over time and substantially improving the sustainability of public finances.

Deputy Michael McGrath: Okay, but are you acknowledging that, in hindsight, the rate was too high?

Mr. Marco Buti: I think the rate was certainly pretty high and I think the, kind of, incentives that was built into the system with the ... then the tapering of this and the elimination, okay, improved the situation certainly.

Deputy Michael McGrath: Can I take you to the issue of burden-sharing, which featured during the negotiations of the bailout programme as well? We heard evidence this morning

from Ajai Chopra, the mission chief from the IMF, and in his view, if Ireland had been allowed to impose losses on senior bondholders at the time of the programme negotiation, savings of up to €8 billion could possibly have been achieved. We know that the ECB was opposed to it at the time, the IMF was supportive of it and it would appear that the Commission sided with the ECB and blocked burden-sharing. Is that the case?

Mr. Marco Buti: Okay, let me say, first of all, this ... I want to go back for a second to what I said at the very end of my written statement, namely, that one should beware of ex post rationalisation in judging, let's say, with what we know today and what the institutions and legal system that we have today. Now, we were at the time for Ireland and for the euro area as a whole in a life-threatening situation. I think the judgment that was made by the ECB, in particular, was that in a situation of unprecedented uncertainty, going into something which would have, or could have, increased substantially the uncertainty ... market uncertainty and possible spillovers effect - and I say "spillovers" here both in terms of cross-country spillovers so to other systems, but also spillovers within Ireland - would have been, I think, too risky. This was a judgment made. At the end of the day, the troika are three partners and we came to the common judgment that this was not the right thing to do. The ECB was very forceful on that. I think overall ... and I think we have documented that in our ex post assessment of the programme that has been made available to the committee, I think we think ... I think with hindsight ... I think it was the right thing to do - not to go for the bail-in of senior bondholders.

One thing that has not been mentioned here so far, I think, is the fact that the legal system that prevailed at the time was not clear. It did not allow this in a sufficiently certain manner. So, the risk of legal systems-----

Deputy Michael McGrath: The Irish legal system or-----

Mr. Marco Buti: No, both at the Irish level because you should have, I mean, a specific *ad hoc* law should have been-----

Deputy Michael McGrath: We have examined that issue, yes.

Mr. Marco Buti: And, even more importantly, at the EU and at global level. So, the FSB guidelines for the global community were issued later on and we did not have what we have now, the BRD, which, you know, allow clear rules for a bail-in. So, this implies that the litigation ... potential litigation costs related to that could have been very high, prolonging the uncertainty and eventually wiping out largely, if not more than largely, the potential gain coming from the direct bail-in of senior bondholders.

Deputy Michael McGrath: But is it the case, Mr. Buti, that the dominant consideration from the Commission and the ECB's point of view was the wider impact on the eurozone , the spillover effect? Because I would put it to you that, from an Irish perspective, Ireland was entering into a programme whereby it had, subject to conditionality, a guaranteed stream of funding from the authorities for a period of three years, so market sentiment towards Ireland was not directly relevant. The key concern was the spillover effect in the eurozone at a time when you were trying to put a lid on the crisis. And so, in that context, I'm putting it to you that Ireland took one for the team.

Mr. Marco Buti: That is ... you are correct in this. So the spillovers, let's say, were, let's say, in particular to the rest of the euro area. However, as I explained before, the EFSF and the EFSM going out and borrowing to on-lend to Ireland in a situation on even potentially larger

market unrest and even higher interest rates would have been, I think, damaging for Ireland also. So the effects ... so the negative loop from Ireland to the rest of the euro area and back to Ireland, I think, were certainly present in the assessment.

Deputy Michael McGrath: So it was both. In your assessment, it was the potential impact on Ireland indirectly through the funding channels and then a direct impact on the wider eurozone and the view of the markets towards the eurozone?

Mr. Marco Buti: Yes.

Deputy Michael McGrath: Okay, and today you believe, looking back, that was still the right decision.

Mr. Marco Buti: I think so. Yes, I think so. I mean, I am looking now, obviously, with an exercise of what economists call comparative statics. I mean, I look at the situation of the time, I look where we stand now. And with the situation that we have, both in the economic and financial system at the time for Ireland and considering the very large risks which were there at the time, adding a potential source of uncertainty, further uncertainty, I think would have been unwise. I have to say that this was the view of the Commission. The ECB, let's say, channelled this view in a very powerful manner, but it was also the view of many other stakeholders at the international level. For instance, the ... when we ... even taking the IMF debate into account - we know that Mr. Chopra indicated that the review of IMF was that there was not that view at the IMF board level, which includes, let's say, the older stakeholders at the national level. Some of the very, let's say, powerful stakeholders made their view known.

Deputy Michael McGrath: Yes and we are aware of Mr. Geithner's book and the references that he made at that time. But can I take you to a different issue, and that is the issue of Ireland's corporation tax rate? Again, in the lead up to the negotiations and ... there is a reference in evidence that Mr. Cardiff gave in his lengthy written statement where he refers to a visit, a two-day visit to Brussels that he and the Minister and Mr. Honohan would have made in November, and he refers to yourself:

> Later that evening, [he says] myself and Honohan had dinner with Mr. Szekely [is that how you pronounce your name?] and his boss, Marco Buti. We went over the day's events and the prospects for Ireland and Europe. Walking through narrow side streets on the way back to our hotel, Honohan told me that while I was washing my hands, Buti had taken the opportunity to tell Honohan that I was unrealistic [on the corporation tax issue] and that we would have to concede on the corporation tax issue.

Is that accurate? Was this your observation, your assessment of the views of other countries or was this a European Commission view?

Mr. Marco Buti: No. Okay. I remember the dinner, I can tell you the menu bilaterally after. It was very cheap, actually. So, very much in austerity mode already.

Deputy Michael McGrath: Who paid for it?

Mr. Marco Buti: On the specific issue, I think what I must convey ... I must have conveyed that time, so I don't deny that. I cannot recall precisely, but I am sure if it has been reported by Mr. Cardiff, I must have done it. What I did at the time was to convey the view of a number of member states which were, let's say, vocal, also in public I believe, on the fact that as they were getting into a programme helping Ireland, they considered it to be unfair tax competition

coming from the very low corporate rates. So it was not, and here I'm formal, it was not the preference of the Commission, it was not my own preference, it was making them aware of the fact that the view in some member states in the euro area, this was an issue that could come up.

Deputy Michael McGrath: Okay.

Mr. Marco Buti: In fact, our own preference, and it was expressed then when we came to the negotiation of the programme, was that not in a situation of collapsing growth not to undermine the ... one of the strengths of the Irish system, which is the strong competitiveness of the corporate sector. So this was, let's say, our position at the time.

Deputy Michael McGrath: Did you convey the sentiment from some countries that you were picking up, you were conveying that?

Mr. Marco Buti: Yes. It was not a sentiment it was an explicit statement.

Chairman: Final question, Deputy McGrath.

Deputy Michael McGrath: Okay. Final question is, you say in your witness statement that during the pre-crisis years in Ireland, strong economic growth masked important imbalances in several key areas of the economy, including housing, banking sector and the public finances and I don't think there is any disputing that. But can I put it to you, Mr. Buti, that the agreed measure at the time of the structural deficit for example of member states, that Ireland even then was reporting positive structural balances, I think, bar one year? And when we had testimony here by John McCarthy, the chief economist in the Department of Finance, he stated that the measurement of structural deficits is still a problem today. And he confirmed, when I put it to him are you saying that Ireland was actually complying with the structural balance requirements from Europe at the time, pre-crisis, in accordance with how the structural balance was measured in harmonised terms during all of those years, he said, "Yes". So in acknowledging that imbalances were building up in the system, the agreed harmonised methodology for measuring that in the EU did not detect those imbalances on the fiscal side. Can you comment on that?

Mr. Marco Buti: I think that's correct. When the ... I mean in the evolution of the fiscal surveillance, we have moved from looking only at headline figures, so deficit and debt, to try to understand the underlying. So the automatic stabilisers may, you know, vary with the cycle. They go up ... the deficit goes up and down for very good reasons, for very good reasons. But the issue here is to try to detect what is the underlying situation of the public finances. And I have to say that at the time, the method did not give rise to particular worries because we had, mistakenly, and I think here I acknowledged that very clearly back in February, we were projecting growth staying high for a very long time. So we thought at the time, mistakenly, that the potential growth rate of the economy would be very high and remaining high.

We have realised, afterwards, that there was an element of reversional exuberance, let's call it like that, with ... behind the figures. This clearly had an impact on the assessment of the structural balance at the time. I think we have changed ... we have learned a lesson. I have to say that in particular for Ireland, but more generally for small open economies, it is very difficult to detect what structural balances, structural deficits are. Here, you have in Ireland, you have a ... one of the elements is the labour component of the Irish potential growth, and we know that you have a highly integrated labour market with the UK. So, it's difficult here to assess what is the structural rate of unemployment. You have also tax elasticities which are very, very-----

Deputy Michael McGrath: Very finally, are you accepting that in the years leading up to

the crisis, that the EU's measure of Ireland's structural budgetary position did not detect the growing dependence on property and construction-related receipts and did not detect the impact of that on the underlying fiscal position?

Mr. Marco Buti: I think that is a fair statement and we have corrected a number of things and we started correcting even before the crisis, but we did not apprehend fully the true state of the public finances in Ireland at the time.

Deputy Michael McGrath: Thank you.

Chairman: Thank you Deputy. Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Buti. You are very welcome. I just want to go back, if I may, to 2008. In your opening statement you say that it is not for the Commission to judge whether ultimately the decision to issue the guarantee was a good one or not. But the Commission had to approve the guarantee for state aid purposes, so was that not a judgment being made by the Commission at the time?

Mr. Marco Buti: The ... I mean, I stand by my written statement saying that it is not for us to judge this. We did not ... I think there was a question in my previous hearing whether we had asked to do so and this was definitely not the case. The European Commission intervenes here in terms of the application of state aid. So it is up to DG Competition to implement the state aid rules. And from that viewpoint, I think the Commission adopted ... and supported the decision. But this is a different thing compared to the ... let's say, to the judgment on the ... let's say, wisdom of having such a large-----

Deputy Eoghan Murphy: You can improve something in terms of state-aid rules but you can remain neutral on the actual decision being made.

Mr. Marco Buti: Okay, I think the ... when I said that the state of affairs - the institutional setting and the legal setting - at the time was not complete ... it would not ... let's say, did not allow to have ... to see all the bits and pieces together. This applies also to this particular case and the guidelines on state aid they were issued, you know, afterwards by the Commission and by DG ... by DG Competition.

Deputy Eoghan Murphy: Okay. Well, what are the judgments you make when you say the guarantee was too generous and magnified the fiscal impact of the banking crisis? You say that in your opening statement. Is that not a view or a judgment from the Commission now?

Mr. Marco Buti: You should read also the rest of my statement-----

Deputy Eoghan Murphy: No, no, I have and I'm going to go through it with you, don't worry, yes.

Mr. Marco Buti: Yes, I think, with hindsight, I would say that the blanket guarantee was something ... by covering, essentially, all liabilities, was very large - too large - and when we came to the decisions later on at the European level, as a whole, then it was ... the liabilities covered were smaller than the blanket guarantee. At the same time, I have to say, and I repeat it because I try to apply this, let's say, I have this conceptual reflex on not being excessively harsh now, with things that ... with the knowledge of the time, I think, I do not envy - I say it in my statement - those who had to make that decision at the time because it was, you know, in very, very difficult and dire circumstances.

Deputy Eoghan Murphy: But is that not the Commission making a judgment on the guarantee that it was too generous? When you say that in your statement, are you not here - as the Commission - making that judgment?

Mr. Marco Buti: No, what I am saying is that, with hindsight, it was, indeed, very generous, possibly too generous. At the same time, I acknowledge that those who had to make that judgment in those life-threatening conditions, I think, had possibly good justification for being very risk averse. What we can see, clearly, is that the blanket guarantee intertwined the fate of the banking system and the fate of the public finances in a way which was a perverse one.

Deputy Eoghan Murphy: Yes, so you criticised the Irish Government for not consulting with European partners. What do you mean by European partners, because we know that the Irish Government did consult with the ECB? So what do you mean by that?

Mr. Marco Buti: I mean that, to my knowledge - and I can speak for the Commission - we were not consulted, we were not informed and we knew we were told ex post.

Deputy Eoghan Murphy: Okay, but were you aware that the ECB had been consulted?

Mr. Marco Buti: I'm not ... I cannot say.

Deputy Eoghan Murphy: Okay. In terms of the Commission's involvement here, should the Commission not have been consulted? Do you feel that it should have been consulted beforehand, before the decision was made?

Mr. Marco Buti: I think it would have been wise to do so, yes.

Deputy Eoghan Murphy: Okay. And in terms, then, of the Commission's responsibility here ... because you say, again in your opening statement, that there were no specific guidelines in place in September but there were then in October. So, does responsibility fall on the Commission for those guidelines not being in place before the banking crisis in September? Again, given the context, the liquidity difficulties that banks were facing all over Europe through 2008, does the Commission accept responsibility for those guidelines not being in place?

Mr. Marco Buti: No, I cannot answer here. I am representing the ... the Directorate General for Economic and Financial Affairs. This was a matter for the DG in charge of competition policy, so I cannot ... I cannot express myself on this.

Deputy Eoghan Murphy: Okay. Well, was your section slow in getting recommendations to the directorate general for guidelines to be in place for the kind of crisis that we saw in September, which then came in in October? Was there a delay in realising the seriousness of what was happening in the European banking system at the time?

Mr. Marco Buti: I can only tell you in very general terms that we stood ready - this is the Commission, as a whole - to react as quickly as we could in unprecedented circumstances and putting in place what was needed at the time and this is the only thing I can tell you.

Deputy Eoghan Murphy: Thank you. Okay. You also say that - and you already mentioned it a few times - that the blanket guarantee was a major factor contributing to triggering the need for assistance from the troika. Was this understood in the Commission when the guarantee was put in place? Once the guarantee came in and that measure being put in place, did you understand that what this was going to mean two years from now?

Mr. Marco Buti: The logic and the, let's lay, the underpinning of ... and the rationality of a blanket guarantee was based on the fact that one would consider the problems of the banking system being only a liquidity issue. If you have a liquidity issue purely, then you can do that, then it's about volatility that can be ... can be overcome very quickly and this is ... then you can do that ... you put the big bazooka guaranteeing everybody ... liquidity then is restored and the system continues as it was before. What was ... I think what became clear very quickly is that considering the interactions between the growth model of Ireland based largely on housing growth and the boom and bubble that we ... at the time and the heavy reliance of banks in their portfolio on mortgages, it was clear that the bust there that was ... gave rise not only to a temporary programme of liquidity but there was an issue of sovereignty so the banking ... the banks had to be restructured and, from that viewpoint, the blanket guarantee clearly did not help.

Deputy Eoghan Murphy: Okay, so at what point did the Commission see this problem for Ireland in terms of the bank difficulties being intertwined with the sovereign difficulties, because you note as well the five fiscal corrections and consolidations that the Irish Government had to undertake, you know, from the moment of the guarantee? So at what point are you sitting in the Commission going, "Correction number 3, there's a problem here that's a bit deeper, that these little bites at the cherry isn't going to address. We need to look at something bigger"?

Mr. Marco Buti: I cannot tell you the ... I cannot pinpoint the exact time. I think in the course of 2009 it became increasingly clear that there was a more fundamental issue with the Irish banking system and then leading into the discussion in the course of 2010 and the problem that was evident that one of the pillars of the adjustment programme already in the recovery plan by the Irish Government itself was, let's say, fixing the banking system.

Deputy Eoghan Murphy: Okay. So when Greece entered into difficulties and was seeking a programme, were there any contacts between the IMF and the Commission in relation to who might be next for a programme? Did they come to you and say, "Look, we think there might be a problem with Ireland."? They were talking April-May 2010.

Mr. Marco Buti: I cannot, myself, personally recall this but I do not exclude it. I mean, there was ... we were at the time ... just to get you the picture ... into ... I mean, I defined before the life-threatening situation in which the vulnerabilities of a number of countries came to the fore very quickly. So when the focus was on Greece, I am pretty sure that the discussions went on at the time also on other potentially vulnerable countries, Ireland being one of them.

Deputy Eoghan Murphy: Can you tell me about the proximity of the Commission to the ECB when it came to addressing the Irish situation? I mean, you said to Deputy McGrath that later on in the negotiations the ECB was channelling the view of the Commission. But prior to any, kind of, formal negotiations, how close are the ECB and the Commission in terms of their view of Ireland and their contacts ... their co-operation in addressing the Irish case?

Mr. Marco Buti: Obviously, very, very close. I mean, we are working in the Eurogroup working group where I am, myself, represented. We have teams, we have ... we work at our operational level in an extremely close manner. And I think we have in this ... I can ... there isn't ... we may have a difference of view compared to the IMF. We embodied in our reasoning very strongly the risk of contagion that was present at the time.

Now, on the risks of contagion, Ireland was, let's say, a quintessential candidate because of the size of the banking system and because of the interplay between the Irish banking system and that of the rest of the EU. This was much more the case of, let's say, the initial programmes

that we had from non-euro area countries, much more the case than Greece where contagion was more related to, let's say, imitation effects and risks of, you know, in a domino effect. But Ireland, there was a clear interplay between the Irish system and the rest of the EU, also with the US. So, these elements of risks or spillovers, I think, were very present, and rightly so.

Deputy Eoghan Murphy: Okay. Well, I'm talking about the relationship between the ECB and the Commission in addressing Ireland. So we have it in evidence from Mr. Cardiff that in September, when the ECB became aware of the funding cliff... the bank funding cliff, that the president of the ECB phoned the Department of Finance and spoke to the Minister and demanded that the Commission be allowed go to Ireland to see what was happening and what we were doing ahead of this challenge. So, would that be unusual for the ECB to be making those kinds of requests or demands for the Commission to do work?

Mr. Marco Buti: I think, I'm not particularly ... aware, in particular, of this episode ... I have not directly read it myself, as you have done. I think it is ... I don't see that as unprecedented or particularly problematic. I think the ECB has, let's say, its own responsibilities in this. It is worried about the state of the financial system and, more generally, for its implication for monetary policy. And the ECB is also fully aware that a number of other elements on the fiscal and on the structural side, affect this. So, I don't think it is particularly problematic that there would be a suggestion of that sort.

Deputy Eoghan Murphy: So, a team did come from the Commission in September of 2010 and it's been characterised by Mr. Cardiff that the purpose of that mission was to make an initial precautionary assessment of the potential for a bailout programme. Is that accurate?

Mr. Marco Buti: In terms of contingency plan, it is accurate that we did not negotiate at the time with the Irish authorities. We were not in a negotiating mode or mood. We ... in terms of contingency planning at the time, I think it was only normal for a responsible institution to do so.

Deputy Eoghan Murphy: Okay, but could we characterise that then as the beginning of bailout discussions or contacts at a technical level?

Mr. Marco Buti: I would think so, yes.

Deputy Eoghan Murphy: Okay. And then we move to later in September. Minister Lenihan has gone to Brussels for discussions with Olli Rehn. And Olli Rehn communicated to the Minister - this is according to Kevin Cardiff's evidence - that he thought Portugal would be next in line for a bailout but that you told him that you thought Ireland would be next for a bailout. Do you recall that discussion?

Mr. Marco Buti: I do not recall the specifics but I'm not ... I don't deny ... I cannot deny that either.

Deputy Eoghan Murphy: Okay.

Mr. Marco Buti: It may well be.

Deputy Eoghan Murphy: Okay, so ... but that was your thinking at the time, that Ireland would be - this is the end of September - that Ireland would be next for a bailout?

Mr. Marco Buti: I think at the time, the ... after having had the Greek programme, with the mounting tensions and the increase ... rapid increase in the spreads on the Irish Government

bonds, I think it was not only ... it was not essentially myself; I think that it was quite, you know, a widespread view that should the crisis not abate by itself - it didn't look like it at the time - that Ireland could be a potential candidate for an assistance programme.

Deputy Eoghan Murphy: Was it easier to manoeuvre Ireland into a bailout given that they had withdrawn from the bond market?

Mr. Marco Buti: Can you repeat that, sorry?

Deputy Eoghan Murphy: Easier to manoeuvre Ireland into a bailout given that they had withdrawn from the sovereign bond market?

Mr. Marco Buti: No ... I don't ... I can ... I do not accept the characterisation of us manoeuvring Ireland into a programme. I think this ... there was an honest, fair, prudent assessment of the state of the situation of the Irish economy and the Irish financial system and the Irish public finances and what was needed at the time. I think we supported very strongly the national recovery plan that the Irish Government had put in place and were elaborating at the time. I think we had good advice on that, as always we do in a ... you know, sharing sovereignty situation as we have in the EU. And that was the ... but we did not, you know, manoeuvre or, let's say, push or threaten anybody.

Deputy Eoghan Murphy: Was the Commission involved in the Deauville declaration in October?

Mr. Marco Buti: In what?

Deputy Eoghan Murphy: The Deauville declaration from France and Germany.

Mr. Marco Buti: The Deauville declaration ... we were not involved in the Deauville declaration. We ... it came a bit out of the blue from Germany and France on the famous Deauville beach. And the assessment at the time was that whilst for some, let's say, political reasons, one could understand the Deaville declaration in terms of, let's say, the contribution at the time to the financial stability of the euro area and the EU at large was not the most helpful step.

Deputy Eoghan Murphy: But the Commission wasn't consulted before that declaration was made?

Mr. Marco Buti: We were not consulted.

Deputy Eoghan Murphy: Okay. Can I move forward, then, to November and to the G20 summit? Was the Commission at the G20 summit?

Mr. Marco Buti: Yes.

Deputy Eoghan Murphy: Were you at the G20 summit?

Mr. Marco Buti: I was also there, yes.

Deputy Eoghan Murphy: Okay. We've heard in evidence of the frustrations from Irish ... members of the Government that fellow member states but also either ECB or Commission officials were briefing against Ireland in Seoul and that this precipitated the need, almost certainly, for a bailout. Does that sound familiar? Are you aware of any briefings or conversations or discussions on Ireland at the G20 meeting?

Mr. Marco Buti: Conversations, certainly. We were ... I mean, in the context of the G20 gatherings, where you have all the, you know, the top level economic, let's say, intelligentsia and stakeholders in the world, there were certainly discussions on the state of the euro area, the state of individual countries, and, I am pretty sure, Ireland also. I do not recall and I'm pretty sure that there were not, let's say, press briefings on the specific issue, certainly not in the way you may characterise it as something that is, let's say, messages which were against Ireland, the Irish Government or the Irish authorities.

Deputy Eoghan Murphy: Did you share your view with people there that Ireland would need a bailout?

Mr. Marco Buti: I do not recall exactly but I am pretty sure that the issue came up and the risks of a .. of the, let's say, the need of having to step up and to, let's say, to put Ireland to consider financial assistance, I'm pretty sure they were part of the conversation.

Deputy Eoghan Murphy: Okay, but you weren't party to any informal decisions that were made?

Mr. Marco Buti: No, neither ... and I am not aware of any side meetings, let's say, at the political level on the-----

Deputy Eoghan Murphy: Thank you. I want to move forward, then, just to burden-sharing and the legal advice. Did the Commission get its own legal advice on whether or not it was constitutional for Ireland to impose losses on senior bondholders?

Mr. Marco Buti: I cannot tell about the legal ... specific legal advice sought at the time by the Commission. What I can tell you is what I indicated before, namely, that the institutional system and the legal system at the time did not foresee this in any regulated manner and that's why the risks involved in a unilateral decision on this were not to be disregarded, and, as I indicated before, the potential litigation costs could have been very high for Ireland, in particular, and, more generally, the uncertainty created for Ireland, the rest of the EU not negligible.

Deputy Eoghan Murphy: Was it put to the Commission that Ireland might hold a referendum on the issue in case there was any constitutional uncertainty?

Mr. Marco Buti: Can you repeat this question, please?

Deputy Eoghan Murphy: Was it put to you that Ireland might hold a referendum to amend the Constitution so that it would be legal to burn senior bondholders?

Mr. Marco Buti: I have no comment on this.

Deputy Eoghan Murphy: So you weren't . . . that didn't come up in a discussion that you were party to?

Mr. Marco Buti: I am not aware of that, no.

Deputy Eoghan Murphy: Okay, thank you. If I might just move on then to March 2011 and the new Government is in place. There are negotiations on the interest rate that has been agreed with the bailout programme and the possibility of producing it. Was the Commission of the view as early as March 2011 that the interest rate needed to be reduced?

Mr. Marco Buti: In terms of the margin to be reduced? No, I think we were ... we have

been constantly throughout the discussion in favour of lessening the burden on the Irish Government and the Irish people so we have been constantly in favour of reducing and then eliminating the margin. So we have been ... and we have prepared the actual proposals for this. It is clear that one has to understand the logic of the, and the institutional setting for, the EU-IMF assistance programme. In these programmes, we are largely in an intergovernmental setting. So it is ... we are not in the typical Community ... with a typical Community method in which the Commission has the right of initiatives, puts forward the proposal and then the government votes, essentially a majority or they adopt the ... the Commission has the ... in case of substantial changes to withdraw the proposal, we were not in that setting. We are in an intergovernmental setting in which the Commission, in particular, was in charge of implementing the programme. Believe me, we do not do that in a blind manner and, as I indicated and I stress, we were, let's say, behind the scenes, pushing for creating conditions and for the governments to consider reducing the margin.

Deputy Eoghan Murphy: This is my final question Mr. Buti. We have it in evidence that in March of 2011 the new Irish Government was in discussions with the Commission about reducing that interest rate but that this had to come off the table because France and Germany raised again the issue of the Irish corporate tax rate. Is that what happened? Is that why those negotiations were postponed until later?

Mr. Marco Buti: I cannot confirm this. What I can say is that I repeat what I have just indicate, namely that, as far as the Commission is concerned, but here more in a persuasion mode, not as institutional responsibility, we were in favour of reducing the margin and eventually we were extremely happy that it was decided eventually to not only reduce but also to eliminate down the line.

Deputy Eoghan Murphy: Thank you, Chair.

Senator Susan O'Keeffe: Thank you, Chair. Mr. Buti, Ireland obviously contributed from the National Pensions Reserve Fund, its €17.5 billion. Was this part of the deal? Was this a precondition for the bailout?

Mr. Marco Buti: It was not a precondition. I think I can be very formal on this; it was not a precondition. It was a proposal by the Irish Government to do so and I think it was wise to have this national component. I think there were a number of reasons behind this decision. Okay, first of all, I think it was important to, as always in these cases, impress the markets. So we tend, when we fix the financial envelope not to be too stingy because I think it would be problematic if then you realise that you have been excessively cautious and you have to go back to the table and increase it later on. So, it is better to err on the largesse side than on the ... so, I think this element here, this additional €17.5 billion helped to make the envelope more substantial. I think there was also a consideration, I believe, on the part of the Irish Government that - to go back to the issue of interest they charged on the loan - that it would be economically not very rational at the time to have in a sense to pay quite substantial interest charges on the EU assistance whilst this €17.5 billion here was remunerated at a very low ... I think so. I think it made sense in a sense to offer this element here. So, this, I think, was the decision was made and I think that it was the right decision. And, again, I stress that it was not an insistence on the part of the troika, on the part of other governments to say, "Well, this is a precondition for granting the assistance".

Senator Susan O'Keeffe: Going back to the time of the guarantee in 2008, you said that there was no contact from Ireland to you. Was there any . . . sorry, why did the Commission

not contact Ireland? I mean, you would have been aware, obviously, of the seriousness across Europe, across the world, in fact, so why could you not have initiated contact? I don't mean you personally, Mr. Buti.

Mr. Marco Buti: We were in contact and we were discussing with all member states at the time given the pretty dramatic evolution of the situation. The only thing I can say is that we were communicated ex post that this decision was made by the Irish Government and we were not consulted beforehand.

Senator Susan O'Keeffe: I do understand that, Mr. Buti, but in terms of conversations that might have been ongoing how . . . if you were . . . you've said you were in touch, how could it be then that this literally falls out of the sky? I mean, if you're having conversation or were the conversations of a different kind? And were you saying, or was the message, "No bank should be allowed to fail"?

Mr. Marco Buti: As I indicated in my previous testimony, that was never a suggestion, a recommendation on an imposition by the Commission on the no bank being allowed to fail. And on the guarantee, I mean, we have to go back to the historical moment at the time. Declarations, decisions, not only by the Irish Government but by several others, came overnight in certain cases. So it was not that we had, as in normal circumstances, long periods of gestation which give rise to a certain ... I think the announcements fuelled by dramatic developments, sometimes panic, came in a pretty, let's say, sudden manner. It was not only the case of Ireland. I can cite other cases in which there was not consultation with the Commission. As I said, and I go back to the prerogatives that we had at the time, which is different than the system we have now with banking, with the ESM, where it deals with responsibilities that, clearly, are different than it was at the time. There was no obligation on the part of the Irish Government to consult the Commission. I simply say that it did not take place.

Senator Susan O'Keeffe: Were you aware that the IMF had made contact with Ireland and that Mr. Mody had come to Ireland in February 2009 to talk about the crisis?

Mr. Marco Buti: We are in close contact with the IMF. We have ... when the IMF, under their regular procedure - an Article IV mission - take place, we are in touch with them and we know that what is the schedule and what is the calendar of these meetings. As far as I'm aware, we must ... we may have talked with them at a very technical desk level, as we always do. I was not personally aware of, let's say, the specific content of the discussions. But I'm not ... given the situation at the time, I'm not surprised by the fact that these ... these discussions could have taken place. And Mr. Mody was responsible for the Article IV mission, so I think it's all natural that that would take place.

Senator Susan O'Keeffe: And that was February '09 and there was more contact in May '09 and, again, in May '10. So was the view of the Commission that, really, Ireland should have come earlier to seek assistance? Was it, by your estimation, at the time, now, I don't mean on reflection, I mean, at the time, did you think, "Are Ireland ever going to come looking for assistance?" Was it clear to you that Ireland needed assistance and would you have preferred for them ... the country to have come earlier?

Mr. Marco Buti: Look, I think the decision to apply for an EU assistance programme with the IMF on top of that is politically a very difficult decision. I mean, there is-----

Senator Susan O'Keeffe: I appreciate that, Mr. Buti, and it's always going to be difficult,

but I'm asking what the European Commission's view was ... leaving aside, if you like ... there's always a political dimension, but would you have wanted Ireland to have come sooner?

Mr. Marco Buti: No, I think ... look, the ... we have situations in which countries have waited - I can quote you a couple of examples, even a very recent one - have waited 'til the very, very last moment where they have two stare into the abyss and they could not pay pensions and salaries any more before coming to apply for assistance. This was not the case of Ireland. So, I am not saying that it was ... I don't have a value judgment on this. I'm not saying that when they came, it was exactly the right time ... or, certainly, they did not wait till when it was too late. And I think the judgment was that the situation became increasingly difficult and, I think, it was good that they came when they came.

Senator Susan O'Keeffe: In fact, Professor-----

Mr. Marco Buti: They could have come a bit earlier. I would have not advised to go much later than that, given the tensions, even though they had a buffer ... still a buffer in the fiscal coffers. But I think it was ... I appreciate the difficulty in the decision. And it was, let's say, the decision to apply at the time did not strike me as being neither too late nor too early.

Senator Susan O'Keeffe: Can I ask you ... can I go back to the letter that Mr. Trichet wrote? I think you said in evidence to my colleague that you were aware of that letter. That's what you said I think, yes?

Mr. Marco Buti: I was aware of the position of the ECB.

Senator Susan O'Keeffe: Yes.

Mr. Marco Buti: I had not ... I did not see the letter at the time.

Senator Susan O'Keeffe: Okay.

Mr. Marco Buti: But I know what the position of the ECB was and, I think, when we have seen the letter published afterwards, it basically reflected the position of the ECB. So there was no ... no real surprise there.

Senator Susan O'Keeffe: So, knowing the position and sharing the opinion are two different things. Did the European Commission share that view? Because, after all, you were going to be in a troika together, you, the ECB and the IMF. Did you share the view that the ECB held at that time that that was the position ... that that should be said to Ireland at that time?

Mr. Marco Buti: I mean, the troika is three institutions-----

Senator Susan O'Keeffe: Yes.

Mr. Marco Buti: -----and we constantly talk together. And it was very clear, in the discussion within the troika, what the position of the ECB was. Us ... we, I think, appreciated that position and, as I indicated, it was not so much for us to say. But the ECB was trusted not only because of their prerogatives and, you know, institutional duties but also because more than the other two components of the troika had the pulse of the market. So when the ECB comes forward and indicates that there is a very substantial risk of dramatic spillovers coming from certain decisions, that cannot be belittled. And if we come to the benefit of doubt, I give the benefit of doubt the ECB.

Senator Susan O'Keeffe: So putting pressure on Ireland in that way was the right thing to do?

Mr. Marco Buti: No, no. What I am referring to is the assessment of the risks involved at the time and, I think, the assessment was, at the time, and is still now, that there were very, very substantial risks involved in the situation.

Senator Susan O'Keeffe: Thank you.

Chairman: Thank you very much. Senator MacSharry.

Senator Marc MacSharry: Thanks very much and thank you, Mr. Buti, for being here again today. Programme monitoring and warning controls are now being undertaken by Government agencies to reduce the risk of returning to a programme. What, in your opinion is the greatest risk that you see to Ireland having to return to a programme of assistance?

Mr. Marco Buti: In the future?

Senator Marc MacSharry: Yes.

Mr. Marco Buti: I think Ireland is in a much stronger position than it was during ... obviously, during the programme. It was in a much stronger position than it was before the programme ... the programme started and, even, I think I would say, even before the financial crisis erupted. Now, the job is not done. I mean, there are still challenges. I mean, we ... for instance, we have a post-programme surveillance which extends in the future - it's going to last, actually, for quite a long time - and we still have important challenges. I mean, the first one is public debt is very high. It has to be brought down in a gradual manner. I don't think that there is a risk, frankly, at this stage of Ireland having to --- having a relapse and going back to a programme. Clearly, we are going to continue to monitor very closely Ireland, as we do with all the other countries - and particularly those that have undergone such a huge adjustment - to make sure that there is good behaviour in the future.

Senator Marc MacSharry: So, what's the risk?

Mr. Marco Buti: I cannot quantify any risk here.

Senator Marc MacSharry: Okay.

Mr. Marco Buti: I say that it's not likely.

Senator Marc MacSharry: You said, in the opening statement:

> I very much concur with the conclusions drawn by most witnesses that appeared before [the] committee. The post-2007 economic and financial crisis in Ireland was domestically generated. Its roots were not only in the banking sector, but also in pre-crisis fiscal policy making.

You said, in your opening statement, that you believe that Ireland's crisis was domestically generated. Do you agree with Professor Paul Krugman's following statement:

> The truth [in] [...] the story is mostly monetary. By introducing a single currency without the institutions needed to make that currency work, Europe effectively reinvented the defects of the gold standard[s] - defects that played a major role in causing and perpetuating the Great Depression.

Mr. Marco Buti: I don't agree with Paul Krugman.

Senator Marc MacSharry: You don't agree with the statement.

Mr. Marco Buti: No.

Senator Marc MacSharry: Okay. So would you say it's ... that the single currency's design was flawless and did not contribute to the crisis?

Mr. Marco Buti: No, I have not said that. I don't agree with that either.

Senator Marc MacSharry: Okay.

Mr. Marco Buti: It is ... I referred to, at the end of my statement, that President Juncker said that we still have to continue to build the architecture of - and complete the architecture of - economic and monetary union. There is still a lot to do. We have done a lot with the institutional ... and the reforms done also in ... as a response to the crisis involving Ireland as well. There is still a lot to do. At the same time, if you imply that Ireland would have been better off outside the euro or-----

Senator Marc MacSharry: No, no. I didn't do that.

Mr. Marco Buti: No, you don't say that ... and someone you refer ... to whom you refer to may actually think that. I don't think that would be a statement that I would definitely ... that I would support. I think Ireland has the potential, now, having undergone a very steep and important adjustment, to benefit fully from the advantages of sharing a single currency. And I think the Irish people know better than anybody else what is the right path for Ireland within the euro area.

Senator Marc MacSharry: You said in your opening statement that one of the only points of criticism that you might have is that "the Irish government did not consult with its European partners." You also said that the blanket guarantee, in your view, while on one hand saying the Commission didn't have a view, but then you quickly pointed out that your view was that it probably added to the fiscal cost. Is that a fair assessment?

In John Hurley's opening statement to us here, he said:

> As a result of contacts with the ECB, it was the view at the time that an overall European initiative of which Ireland might be part was remote and that any decisions in relation to Irish banks would ... [have] to be made by the Irish authorities. The Government was expected to stand behind its banks and a Lehman-type situation was to be avoided.

He also said - I continue quoting - again:

> There was a strong view on the night that the Government ... [has] one opportunity to assuage the markets. If the decisions taken were considered inadequate and failed the consequences for the banking system would be devastating and lead to very serious economic and social fallout for the country as a whole.

You said in your statement, again, that the Government should have consulted with the European partners before the guarantee decision, while John Hurley, as I have said, the Governor, believed that there was no help from Europe coming and that Ireland expected ... was expected to stand by its banks and that phrase, "no bank should fail." Would you take issue with Mr.

Hurley's statements?

Mr. Marco Buti: It was a very long statement.

Senator Marc MacSharry: It was infinitely longer than that, I can assure you.

Chairman: We don't have all day, though, so if you can respond, please, Mr. Buti.

Mr. Marco Buti: Thanks for summarising. As I said, if one looks now with the benefit of hindsight, the blanket guarantee was a very large coverage and it clearly increased the risks of the perverse loop between the banks and the public. At the same time - at the same time - I think I indicated there, I understand also that the situation at the time was unprecedented and I do not envy those who had to make that decision, having in mind what was in the statement you just ... you've just read. So this is ... I try to apply this type of reasoning of trying to take into account the - let's say the situation at the time, and not judge only on the basis of what we know today, and in particular, not judge on the basis of a successful outcome of the adjustment. I think this is an analytical and conceptual mistake that we should refrain from doing.

Senator Marc MacSharry: But you didn't have a problem making a hindsight judgment of a real-time action yourselves.

Mr. Marco Buti: We have to make, clearly, a judgment. At the time, it was ... it was, as I said, on the bail-in issue as well as on other issues, but when we come to the ex post reconstruction, I think we should have a degree of modesty and a sufficiently long memory to understand that ... At the time, you may recall that we had the *Financial Times* website counting the minutes till the euro would collapse. This was the kind of unprecedented life-threatening situation in which we were.

Senator Marc MacSharry: Okay. No, I-----

Mr. Marco Buti: We have stabilised the situation now, but we should not forget the kind of - let's say risks - that we were facing-----

Senator Marc MacSharry: Of course.

Mr. Marco Buti: -----and those circumstances.

Senator Marc MacSharry: So, given the risks - given the fact that Europe at that time didn't have a ... a lifeboat and the suite of decisions open to, say, the Irish Government at the time, do you feel that there was a possibility of an ECB-led initiative to tackle liquidity issues in Europe - if, for example, the decision that night was not a blanket guarantee but to say, "Okay, we're going to liquidate Anglo Irish Bank and Irish Nationwide and we're going to invest money into the others"?

Mr. Marco Buti: I think you are taking me into a - let's say territory - which I would ... I'm not comfortable with-----

Senator Marc MacSharry: No, no. Indeed, I would-----

Mr. Marco Buti: -----and I wouldn't want to, I mean-----

Chairman: You'll be back in again, Senator, one second.

Mr. Marco Buti: -----to have a ... to imagine a counterfactual and speculate on what the

ECB could or could ... or could have not done at the time. So I'm ... that's what I can say.

Senator Marc MacSharry: I can understand that completely. The difficulty we have here is, on one hand, in welcoming your assessment that it added cost to the ... it added fiscal cost to the situation, we must also try and assess what other possible options there were, and so, while I can appreciate fully that it makes one uncomfortable to have to consider this, in considering our work here, we must try to see were there alternatives. And, I suppose, given your experience and the seniority with which your position comes, I am asking you to highlight if you feel that if the blanket guarantee was not opted for, what option was better for limiting the fiscal cost, either to Europe or the Irish people, and also in looking after the responsibilities which John Hurley, as Governor of the Central Bank and ECB central governing council member, felt that he had.

Mr. Marco Buti: I mean, what I can say on this is that the blanket guarantee was decided and it was based at the time - I mean, in understandably very difficult conditions - on a misdiagnosis of what the state of the banks were. I mean, the bank ... as I indicated before, you can have a blanket guarantee only if you think that the problem is one of liquidity, not of solvency. And it became clear quite quickly that there was a problem of solvency, not of liquidity. So that's where we stood at the time. I do not want to, let's say, venture into, let's say, counterfactual at this stage and, in particular, not on action that the ECB could have made. I am here representing the Commission, not the ECB.

Chairman: You are on the final question.

Senator Marc MacSharry: Yes, just a very final question. You said in your testimony, when - I think it was Deputy McGrath - that ... the lessons learned or what could have been done with the benefit of hindsight. You said we could have reduced the burden or effects on the least well-off. Isn't that correct? Can I, in just closing off, finally put it to you, Mr. Buti, to bring back to your colleagues in the Commission that there is still time to do that?

Mr. Marco Buti: During the whole implementation of the programme - and, I have to say, I pay tribute here to the Irish institutions, to the Irish stakeholders in general. We had many contacts with the social partners. We had contacts with the NGO - I think Social Justice Ireland - in particular. We listened very carefully to what we were ... we were told, and, I think, as much as possible at the time we tried to lessen the impact on the less well-off. If one looks at the ... at indicators of, let's say, inequality of distribution of income, of material deprivation, etc., you can see that the operation of the tax and benefits systems helped substantially to lessen the impact. This does ... I am not minimising at all the fact that it was harsh for everybody, but in terms of overall, let's say, fairness considerations, I think the programme was implemented adequately. We could have done, I think, even more to protect a certain-----

Senator Marc MacSharry: And perhaps we could-----

Mr. Marco Buti: -----certain part of the population.

Senator Marc MacSharry: Perhaps you might consider further concessions in that regard.

Chairman: Senator Barrett.

Mr. Marco Buti: When we come to the ... when we will come to the future, and in the context of the post-programme surveillance, we have the country-specific recommendations, we are in the process of, let's say, in general, co-ordination surveillance, I am pretty sure that the

elements that you put forward will be duly considered.

Chairman: Thank you. Senator Barrett.

Senator Sean D. Barrett: Thank you, Chairman, and welcome to Mr. Buti and his colleagues back again. In the European Commission's ex post valuation of Ireland's bailout programme, it stated that the Irish banking sector has been relatively slow to return to profitability, and in the Commission's post-programme surveillance report of spring 2015, reference is made to the low amount of SME financing. In your assessment, has Ireland's banking sector become too risk averse, given complaints by SMEs and particular difficulties in accessing credit?

Mr. Marco Buti: I mean, the ... it is true. I mean, you are correct in stating that the return to profitability has been slow. It has been slow also because, I mean, we have ... I mean, the working out of very large non-performing loans, the reduction of the loss-making activities has taken time. So the banking sector has remained, I mean, loss-making 'til the first half of 2014. Now, does it mean that there is an excessive risk aversion? And, let's say, that there has not been sufficiently, you know, supply of funds to the SME - possibly but not necessarily. I mean, the ... on the issue of SMEs, the system in Ireland is such that there are also other sources of financing which are available and actually we are trying in the euro area, via the initiative on completing the capital market union, to increase the source of finances. I mean, the ... so there is an element here not only of supply side on the part of the banking system, but also on the demand side on the part of SMEs. So, overall, I think the judgment is ... has to be nuanced on this assess.

Senator Sean D. Barrett: When you said we would break the financial and sovereign loop, does that mean that it's the end of "too big to fail" banks or also that no bank should fail, that they would be on their own in the future?

Mr. Marco Buti: What we are doing definitely is to make sure that there is not "too big to fail" syndrome anymore.

Senator Sean D. Barrett: Okay.

Mr. Marco Buti: That ... and this is at the EU level with the implementation of the BRRD, which kicks off on 1 January 2016, but there is also decisions made more globally at the G20 level on the so-called TLAC, so that there is sufficient funds to make sure that these risks can be tackled without having a burden on the taxpayer which is unduly excessive, and the system that we have in Europe with the bank resolution and recovery directive, which requires 8% of the liabilities to be bailed in before public intervention is certainly a pretty tough conditions. The ... what we have now it is clearly a different legal and institutional setting that we had at the time. Certain choices that were made at the time would be made differently under the current conditions but the legal certainty and the much reduced risks of litigation is one of the advantages of the reforms that have been taken over the past years and, clearly, the reduction of the risks compared to the time wherein decisions were made in Ireland.

Senator Sean D. Barrett: Did the quality of risk-taking in banks decline when the model moved from depositor-saving finance to wholesale and then to emergency financing from the ECB and from central banks? Did you see a decline in the quality of lending and risk assessment by banks in that period?

Mr. Marco Buti: This is essentially related to the pre-crisis period when the mounting imbalances were, you know, below the radar screen actually accumulating and, certainly, the move to more wholesale financing for the banks, the concentration of risks essentially related

to the housing market with the ... you know, the portfolio being essentially concentrated on that, clearly led to a deterioration of the situation, and Ireland and we all paid, you know, a heavy price for that.

Senator Sean D. Barrett: I think we had some banks that had 8% of their lending to industry and agriculture and 88% to property. Would the Commission monitor and seek to rebalance that kind of lending, were it to ... pattern ... were that pattern to recur in the future?

Mr. Marco Buti: No, I think what we ... I recalled when I had my first testimony here that we were under the curse of the great moderation at the time because, I mean ... and what we did, we had a very ... a pretty narrow view. We thought that the financial system ... I think this was not only the Commission was ... I think the main international organisations, we had the view that the financial system did not *per se* ... *per se* ... we create, create problems. So we know that that was not the case. Now clearly we are in a different situation. I think it is not so much for the Commission *per se* to monitor this but we have with banking union the SSM so the responsibility for financial supervision at the European level and I am pretty sure that in ... one of the advantages of the current system with the single supervisory mechanism is to break the sometimes cosy ... excessively cosy relations within the national setting making sure that problems of that sort will not accumulate in the future. I'm pretty sure the SSM will ring the bell should something of this ... let's say a portfolio imbalance of this sort emerge again.

Senator Sean D. Barrett: Yes. I welcome what you said because, while GDP is growing, the public perceives a massive transfer from them to the financial sector so they are actually still worse off even though GDP is welcome, it's increasing again, so measures to prevent those kind of transfers in the future from the Commission or national central banks, ECB, I think that's what the people want to come from an inquiry like this.

Mr. Marco Buti: I appreciate that. I think the, the key challenge for Ireland in the future is not only to grow ... to ... but also to grow steadily and to create wealth and create jobs. I mean, I appreciate also that there is a lag between the recovery coming forward now. Clearly, I mean, I quoted before the figure coming out ... that came out this morning. So now it is pretty vigorous. I think we can start to see the job creation and the unemployment coming down steadily - quite quickly - but there is a lag in perception. I think when we come to our responsibility here to ... of surveillance at the EU level, in particular the Commission, we are going certainly in the future to look more to the composition of growth. What is comforting from the latest figures for growth in Ireland is that if one looks at the composition, there is a strong component of investment, and investment helps not only in the short term but also, provided that is not misallocation of capital, it also improves the ... let's say, the situation looking forward, because it adds to potential growth. So I am overall consciously but definitely optimistic about the policy and the economic predicament for Ireland in the future.

Senator Sean D. Barrett: Do we need protection against asset price bubbles? That's my final question.

Mr. Marco Buti: All this multi-form assessment, which is ... takes place in terms of the financial system essentially by the new institution in the banking union, a single supervisory mechanism. And what we are doing at the European level, I'm confident that will allow to spot more, you know, in a more rapid fashion, in a more comprehensive way the imbalances coming, as one of the important innovation that we have in the new co-ordination system is the macroeconomic imbalances procedure. And the macroeconomic imbalances procedure should help precisely to tackle the issue that you, you highlight. Ireland is subject to macroeconomic

imbalances procedure and as part of the surveillance we will look also at the ... let's say, avoid the first signs of possible accumulation of risks and a new bubble, knowing that memory is very short usually.

Senator Sean D. Barrett: Right.

Mr. Marco Buti: And, I think the Commission is here to try to insert in the policy game a longer-term perspective than those of elected politicians, including you all.

Senator Sean D. Barrett: Thank you very much. Thank you, Chair.

Chairman: Point taken and noted, Mr. Buti. If I can maybe just invite Deputy McGrath in to deal with his own wrap-up and then I have a couple of questions I wish to conclude with as well, Mr. Buti. Deputy McGrath.

Deputy Michael McGrath: Yes, thanks Chair. Mr. Buti, the end of June 2012 summit agreement statement, which provided for breaking the vicious circle between the banks and the sovereigns, and it opened up the prospect of direct recapitalisation through the ESM - and that facility is now up and running, as I understand it - that was heralded in Ireland at the time as a major breakthrough and as the forum through which Ireland would get a deal on retroactive bank recapitalisation. Where stands that today?

Mr. Marco Buti: That is an instrument that is indeed available. We are again ... and I repeat and I hope that in the future things may change ... we are in an intergovernmental setting. So, it is ... this is not an instrument which is under the responsibility of the Commission. My hope is that in the future, we would integrate the ESM in the context of the Community setting, and we would streamline and make more efficient the decision-making on that, but this is not for now, it is for the future and the decision of the ESM is made by the member states, and there is unanimity rules on this, so everybody has to agree. The conditions for using the direct recapitalisation are made pretty stringent. So far, let's say, the prevailing view on the part of the member states has been that ... not to consider this as a suitable instrument. Now, if one takes the situation as it stands now, independently of the decisions that could have been made in the future, the question is "Is that necessary or wise now to have that?" I think the situation now has improved substantially and there is an upside in terms of the banks' situation. So should, I think, at this stage ... maybe it is wiser for the Government to benefit from the upside, rather than to leave it to the ESM.

Deputy Michael McGrath: Sure.

Mr. Marco Buti: So in the present situation I think the issue of the direct recaps, for different reasons, does not seem to be on the agenda, any time soon.

Deputy Michael McGrath: Okay and is it the case that there hasn't been any application from any member state yet under the direct-----

Mr. Marco Buti: No.

Deputy Michael McGrath: -----recapitalisation instrument?

Mr. Marco Buti: No.

Deputy Michael McGrath: There hasn't been. Finally, you had an exchange with Senator MacSharry there about the guarantee and the costs, and I just want to put it to you: on the

one hand you're saying the guarantee was too generous and magnified the fiscal impact of the banking crisis, but on the other hand, you are defending the insistence of the ECB and the Commission that senior bondholders would not have any losses imposed on them. And I put it to you that there is a contradiction in both of those positions because the only way that the costs of the banking bailout in Ireland could have been lessened is if you either don't repay senior bondholders or depositors take a haircut. Junior bondholders suffered very large losses; equity holders were wiped out effectively, so how could you lessen the cost of the bank bailout without imposing losses on senior bondholders?

Mr. Marco Buti: The blanket guarantee went well beyond the senior unsecured bondholders. So, that is, one could have had, let's say, a more restrictive application of the guarantee still sparing the senior bank bondholders. So this is ... so there, basically the blanket guarantee covered everybody and that, with the benefit of hindsight, may have been excessive.

Deputy Michael McGrath: Well, I think you're ... to bring it down to the net point, you're referring there to dated subordinated debt. Undated subordinated debt was not included. There was about €12 billion of dated subordinated debt included in a €375 billion guarantee, and about €1.4 billion of that dated subordinated debt fell due for repayment and was repaid during the guarantee. So, is that the only net point of difference?

Mr. Marco Buti: No, I think we're talking about the-----

Deputy Michael McGrath: What else are you talking about?

Mr. Marco Buti: We are talking about existing debt that we hold, so it's also new debt. I think the guarantee was indeed blanket, so it covered everything that exists in future.

Deputy Michael McGrath: Yes but existing debt was senior debt as well, so I put it to you that there's a contradiction in what you're saying.

Mr. Marco Buti: No, the ... I'm not saying that the ... a possible alternative would have included senior debt ... and that, I don't think it would have been wise at the time but it could have been ... it could have been - and I said it in a very modest way considering the difficulty at the time - it could have been, let's say, less expensive considering other form of debt.

Deputy Michael McGrath: But in terms of the fiscal cost, very modestly less.

Mr. Marco Buti: Possibly, modest less, yes.

Deputy Michael McGrath: Or else present alternative evidence if you can, but-----

Mr. Marco Buti: No. I take your point. I think it's ... that's correct.

Deputy Michael McGrath: Thank you.

Chairman: Thank you, Deputy McGrath. I just want to deal with one aspect of that and then I've got some questions as well I wish to wrap up with. On the issue of burning bondholders, which has been expressed back and forth here this morning, and given that part of the exiting of a bailout programme requires the sovereign to acquire funding outside of the assistance programme, would the burning of bondholders and the matters that Deputy McGrath is referring to ... if that had happened, would the Irish sovereign been able to get access to independent funding outside of the structural programme earlier or later, or would it have had any impact whatsoever in your opinion Mr. Buti?

Mr. Marco Buti: I'm not sure I have grasped, let's say, the essence of your question. I don't think there is a relation really in terms of the timing between the two decisions. I've replied before to whether it would be ... it was too late or was too early. I think the decisions made at the time were ... I think it was due but maybe your question was more complex than this.

Chairman: No. The question is if the Irish Government hadn't honoured the debt it had taken on board by sovereignising the banks' debts, and had left it be burnt. The earlier discussions we had this morning with Mr. Chopra and others are very clear that there was both a banking crisis and a fiscal crisis in Ireland, and Ireland was going to enter a structural programme regardless. The nature of a structural programme is that you are now with a lender of last resort - that is, the only person that can give you money or is prepared to give you money. But as you exit the bailout programme, other lenders become available, as has been witnessed in Ireland where we returned to the bond markets and bonds got cheaper over a period of time.

Mr. Marco Buti: Yes.

Chairman: So, if Ireland had actually burnt that sovereign debt, that was originally banking debt, would it have had any impact whatsoever, in your opinion, with Ireland getting access to funds on the international market?

Mr. Marco Buti: I cannot tell, I cannot tell. What I can say only is what we have observed ... is that Ireland was able, under the setting of the programme, to go back to markets already in July 2012, well before what, I mean, the schedule of the programme itself, which was, I think, an excellent result and largely unexpected at the time. This was based on the decision not to proceed with the bail-in of senior unsecured bondholders. Now, I do not ... I cannot tell you about the counterfactual - what I can tell you is that what happened was indeed a very positive element which, if anything, if one takes a prudent approach, would testify in favour of what was ... what the decision was on ... was at the time.

Chairman: Okay. And just coming back to Mr. Chopra as well this morning, in his engagement with the committee, he placed the IMF as a partner in the troika, but one could take an interpretation from that that the IMF was not the senior partner or maybe not an equal partner in that regard and I would like just to test that idea at the moment. So, in that regard, would you say that the IMF was equal to the European Central Bank and the Commission and was an equal partner in that structure and, subsequently, in the negotiations?

Mr. Marco Buti: In the troika we had three institutions and all decisions made, sometimes after very harsh discussions I have to admit, were made by the three institutions together and everybody, including on the matter of bail-in, would be comfortable with. Clearly, there was a bit of give and take in all this-----

Chairman: Okay.

Mr. Marco Buti: -----but the IMF was an equal partner as the other institutions. Mr. Chopra in the IMF has repeatedly indicated that is, you know, is the partner with longer ... the longest experience on this and I think we greatly benefited from that experience and the ... we... I'm pretty sure also that the IMF would recognise that they have benefited from our own knowledge on how the ... a country in the euro area faces challenges which are not purely national and domestic but having broader relevance for the function of the currency union.

Chairman: Okay. And in that regard, with the IMF's long experience in dealing with programmes and the relative, if little or no, experience that the European Union had as ... in the

wider entity, there is a position articulated that the IMF were of the view through their long experience that the position being articulated by the European Central Bank and maybe the European Commission was too severe in its austerity approach. Would that be accurate?

Mr. Marco Buti: I would not subscribe to that statement. I think what we had at the time was already the implementation of the Stability and Growth Pact and the excessive deficit procedure in a pretty lenient manner. Initially, we had given four years instead of one for the correction of the excess deficit. We had the ... from 2013 to 2014 before ... already before the programme was actually agreed ... and, in the context of the programme, 2015 so as the deadline. All this was discussed within the troika. The IMF may have had a preference for a slight less ... slightly lower adjustment, but it was really a marginal one. The issue ... there was not really a difference in terms of the overall correction of the deficit - 2015 was agreed by everybody. I think us, considering the size of the public debt ... the size of the deficit ... the fact that Ireland is a very small, very open economy so fiscal adjustment in a sense it has in macroeconomic terms lower costs than the more closed economy. We thought that in order to regain credibility we would be ... there should be an upfront correction that is ambitious whilst being realistic and reasonable. That's what we applied, and if one looks at what has happened since then in the implementation of the Stability and Growth Pact, I think this position here can be largely supported.

Chairman: All right, Mr. Buti, just two final questions I want to deal with. The last one I will take as ... I will allow you a bit of time to maybe just give your final remarks to the committee, but one is a specific item in relation to NAMA. And when developer Mr. Michael O'Flynn in evidence before this inquiry ... when he was here what he said was that, "NAMA was intended to save the Irish banking sector, but in fact hastened its demise and along the way added to the burden on the Irish taxpayer". Amongst the reasons cited was an inability on the part of NAMA, according to Mr. O'Flynn, to recognise the cyclical nature of the economic downturn and make a longer-term view of asset realisation and maximisation of proceeds. What is your assessment of that statement by Mr. O'Flynn and were there any credible alternatives to the NAMA model by your reckoning?

Mr. Marco Buti: No, I don't want to go into the details of that, but I think-----

Chairman: Of the person, yes, but in general.

Mr. Marco Buti: -----no, that statement ... I think that statement overall ... I would not support that statement overall. I think we ... the sales of loans to NAMA in 2009 ... at 2009 values effectively insulated the banks of further decline in the property market. I think loans were sold at their long-term economic value. I think what our ... so, our experience in general with NAMA, even though it was not part of the adjustment programme-----

Chairman: Okay.

Mr. Marco Buti: -----so one has to be aware also that we were in touch as part of the overall discussions but we did not influence NAMA and we did not have privileged access, is that ... our experience is that the NAMA has worked very well. High professional people who definitely helped in supporting bank liquidity and favouring the access to the ... eventual access to the euro system. So, I would say that comment was in my personal view too harsh.

Chairman: Okay. Finally, and you can add any further comments you wish to this in terms of looking ... going into the future or in terms of recommendations, Mr. Buti, but in the Euro-

pean Commission's *ex-post* evaluation of Ireland's bailout programme, it is stated that while the burden of fiscal adjustment was shared quite widely, overall it was the younger generations who were hit harder by the crisis. And I think there has been some noting in there that while people may not have become unemployed they would have maybe lost their jobs or they would have less income ... not in terms of losing the job, but would have had less incomes and more outgoings to meet. Could I maybe ask you to please elaborate on this evaluation with particular reference to those in receipt of social welfare income versus those on earned income, however?

Mr. Marco Buti: The fact that the young adults have seen let's say the sharpest decrease in their living standard I think is a fact. I mean, in a ... in this ... I mean, is in a context of high youth unemployment and increasing university fees, reduction in unemployment benefits which had to be implemented at the time. I think others, let's say, suffered less. We assess and try to implement the programme in a way that would reduce the burden on those individuals also. As I indicated before, one could have possibly done things in a more targeted manner. What-----

Chairman: The proposition there, Mr. Buti, that I am saying is that there's no question that people saw significant drops in their incomes and so forth. Your proposition is that they were the ones that seemed to have picked the ... or been impacted upon the hardest. But in contrast to people who were not working whatsoever, who had lost their jobs, 24% of the Irish economy was in construction. Thousands upon thousands of those people lost their jobs and had to go on social welfare. Would you say that it was those that remained - and by your proposition it would imply - that those who remained in employment were the ones that were actually impacted most in that age category as opposed to people who actually were reliant upon social welfare?

Mr. Marco Buti: Look, this, okay, this is the assessment of the *ex-post* evaluation ... by the way is an independent ... even though we think the Commission is an independent *ex-post* evaluation I think that statement is largely ... that assessment is largely correct. I think that statement is largely ... that assessment is largely correct. It is ... we ... I mean, the system and the Irish economy had to undergo a dramatic change in model of development and the shedding ... the very large shedding of labour in the construction sector led to that type of impact and those ... that ... so young adults, males maybe in particular, suffered more than other parts of the population. I think that's a fair ... it's a fair assessment. With the hope is also now that with growth coming back that there will be also within the labour force those who will benefit more from the revival of growth in the present circumstances and in the future.

Chairman: Thank you very much, Mr. Buti. I'm going to bring matters to a conclusion. Is there anything you would just like to mention by means of closing remark or comment?

Mr. Marco Buti: I ... only to say that I would like to thank you, institutionally but also personally, for the invitation. I think we have as European Commission accepted very gladly your invitation to come here. I have been ... I've tried to be as ... let's say, as open and transparent as possible for what I know. I've told you everything I know following your questions. I think ... I hope this is appreciated also institutionally by the committee. I think this ... you're doing an important job.

I think my final word is the perspective should be if one looks at the experience with this programme, what could have been done better. Possibly that is the perspective but in the acknowledgement that the programme was by all standards a success. And I take the example of other Community programmes within the euro area and with the EU and I take the standard also of other IMF-only programmes outside Europe. So from that viewpoint, I think the programme is a success. Then one can look at the data and here and there certain things could have been

done but I think we have learned a lot from this experience of this programme but overall, I think we are confident that should the economic policy of Ireland continue to be anchored to stability, reforms, growth, fiscal prudence, that the future of Ireland is bright.

Chairman: Thank you, Mr. Buti. And in wrapping up this session, I would like to thank you for your participation here today and for your engagement with the inquiry and to also formally acknowledge the ECB's assistance and co-operation with the inquiry ... sorry ... yes I wish, I wish ... the Commission's co-operation and assistance with the inquiry right from the outset in its various stages. So with that said, the witness is formally excused and I propose we break for one hour to return at 4 p.m. Is that agreed? Agreed.

Sitting suspended at 3.03 p.m. and resumed at 4.10 p.m.

Department of Finance - Deputy Michael Noonan

Chairman: I now call the committee back into public session. Is that agreed? Agreed. We will now commence our third and final hearing of today and our final public hearing in total of the banking inquiry and, in doing so, we are now engaging with Mr. Michael Noonan, TD, Minister for Finance. The Committee of Inquiry into the Banking Crisis is now resuming in public session. I can remind members and those in the public Gallery to ensure that their mobile devices are switched off.

The final hearing of the inquiry is with Mr. Michael Noonan, TD, Minister for Finance. Minister, you are very welcome before the committee this afternoon.

Deputy Michael Noonan: Thank you very much.

Chairman: In this session with Minister Noonan, we will focus on the Government's responses to the crisis since taking office. In particular, we will examine what key decisions were made with regard to ongoing management of the bailout; what was the impact of implementing the measures agreed; is macroeconomic policy now being managed in a fiscally responsible manner in line with EU treaties and other obligations; with regard to the regulatory and structural reforms implemented post-crisis, how effectively have these been implemented, operated and managed; and what else remains to be done.

Before hearing from our witness this afternoon, I don't need to bestow privilege on Minister Noonan; as a Member of the House, he has that already as a right. But I would advise the witness that you are directed to only give evidence in connected with the subject matter of these proceedings and if directed by the Chairman to cease giving evidence in relation to a particular matter, not to do so. I would also 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. Therefore, the utmost caution should be taken not to prejudice those proceedings. 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 confidential and 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, will be relied upon in questioning and form part of the evidence of the inquiry. So with that said, if I can now ask the clerk to administer the oath to Minister Noonan please.

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

Deputy Michael Noonan, Minister for Finance.

Chairman: Mr. Noonan, welcome before the committee this afternoon and if I can invite you to make your opening remarks please.

Minister for Finance (Deputy Michael Noonan): Thank you very much, Mr. Chairman. I welcome the opportunity to appear before this very important committee. The banking crisis has had a profound impact on country and it is essential that we learn from the mistakes of the past to ensure that they are not repeated. It was unprecedented in its scale and the measures that were required to address it and I will do my best to help the committee in its most challenging and important task. You have my statement so I won't read it all out. Instead, I will focus on some key aspects of the crisis during my time as Minister for Finance.

At the time of my appointment as Minister for Finance in 2011, we were entering the fourth year of the crisis. Over €34 billion had been injected into Anglo Irish Bank, Bank of Ireland, and Ireland had entered into a joint EU-IMF programme the previous December. The country faced not just a banking crisis but a major fiscal crisis with public finances which were in a poor state. General Government debt had risen to over 100% of GDP and the general Government deficit reached was some 31% of GDP by 2010 or 10.6% on an underlying basis.

In the face of this crisis, I, as Minister for Finance, and my colleagues in the Government made a commitment in the programme for Government to fix the broken banking system, restore order to the public finances, regain and enhance our international competitiveness, support the protection and creation of jobs, radically reform our system of public administration and rebuild Ireland's reputation on the international stage.

We had the aim of renegotiation to secure a programme of support and solution to the banking crisis that would be perceived as more affordable by both the Irish public and international markets. We succeeded in a number of areas - achieving reduced interest rates, extending maturities, the promissory note arrangement, reversal of the minimum wage cut proposal, the jobs initiative and agreement on the use of some proceeds of asset sales for productive investment. We also replaced harmful revenue-raising measures with more targeted growth-friendly measures. And, of course, we also got an extra year for the adjustment.

Despite the large sums of taxpayers' money injected into the banking system at that point, there was still little or no confidence at home or abroad in the strategy pursued to this point. There were also serious question marks as to what the ultimate cost of recapitalising the banks would be and, indeed, whether or not it was affordable. It was made clear, however, any doubt over Government's commitment to recapitalising the banks would create a serious risk of severe financial instability.

The banking strategy announced on 31 March 2011 was designed to answer these questions, build confidence in the banking system and the country, and to draw a line once and for all under the cost of the banking collapse to Ireland. Building upon the advice of the Department of Finance, the NTMA and the Central Bank, I announced the Government's pillar bank-

ing strategy. The strategy set out the Government's plans in relation to what I would describe as the going-concern banks, that is, Bank of Ireland, AIB, EBS and Irish Life and Permanent. It was the Government's response to the announcement by the Central Bank of Ireland of the results of their PCAR or stress tests. The objective was to have smaller, domestically-focused and well-capitalised banks operating in Ireland. A joint restructuring plan for the other banks, Anglo Irish Bank and Irish Nationwide, had been submitted to the European Commission by the previous Government in January 2011 and these institutions had no role in the strategy at that time. The memorandum to Government on 29 March 2011 made clear that any doubt over the Government's commitment to recapitalising the banks would create a serious risk of severe financial instability. Building the banking strategy around a robust PCAR exercise was vital in my view to rebuild confidence in the Irish banking system. The Government was fully committed to the process from the outset. PCAR identified capital requirements of €24 billion and the recapitalisation of the banks announced in March 2011 proceeded later in that year.

We pursued a number of measures to reduce the cost of the €24 billion identified in the 2011 PCAR. We wanted to reduce the cost for the taxpayer, obviously, for ... and we intervened for AIB and Bank of Ireland with ILPs. The liability management exercises with subordinated bonds reduced the cost of the bailout and the recap of the banks. We had asset sales also and we had the injection of private capital. By the end of 2011, these actions on all three fronts had reduced the total cost of the 2011 recapitalisation to €16.4 billion. Burden-sharing with junior bondholders contributed €5.4 billion to this reduction. Since 2011 we have continued to work the pillar bank strategy in the best interests of the Irish taxpayer. Permanent TSB now plays an important role in this strategy as a strong challenger bank to AIB and Bank of Ireland. Bank of Ireland and AIB have returned to profitability and profitability for PTSB is forecast this year. All three institutions are well-capitalised, have completed the comprehensive assessment in 2014 and the State's shareholding in these institutions are now valuable assets. We have started to recoup the taxpayer's investment through fees and disposals and have seen the value of the taxpayer's shareholding in AIB and Bank of Ireland and PTSB continue to rise. At the end of May 2015, we had recovered €5.5 billion from disposals and €5.5 billion in fees and income. In addition, our shareholding in AIB is currently valued at €13.3 billion and the market value of our shareholding in both Bank of Ireland and PTSB stands at €1.6 billion each; a shareholding in each bank of 14% and 75%, respectively. We will continue to manage the shareholdings in the banks in the best interests of the Irish taxpayer and I am confident that, over time, the full amount invested in these banks will be recovered and used to reduce Ireland's debt levels. The timing of the recovery will be very much determined by the timetable and decisions taken in relation to AIB.

The joint committee will be aware of AIB's interim results announced recently. Following discussions between my officials, AIB and their respective advisors, the bank sent a submission to the SSM requesting permission to make changes in their capital structure. The purpose of the request is to make the bank's balance sheet fit for purpose under the new regulatory rules and to start the process of returning cash to the State. We await a response to this submission, which will be granted ... which will not be granted until the SSM informs the bank of its minimum capital requirements, but this should happen in the next few weeks.

As AIB's finance ... chief financial officer indicated recently when the bank announced its results, between the contingent capital instrument we hold, dividends and the redemption of preference shares, it is easy to see over €3 billion being returned to the State in the near term, if the restructuring was to go ahead as planned. Some market commentators are obviously predicting it could be nearer to €4 billion. We can't be definite on the final quantum involved yet

and neither do we know the exact timing. Some of the money could be returned to us by the end of this year or it may all fall into next year. Obviously, the sums involved are quite large though and they will help reduce the national debt. It's important to remember that this is before one takes into account any receipts from the sale of shares in AIB. It would be inappropriate for me to make any further comments on the matter at this time bar to say that once we hear from the Single Supervisory Mechanism I and my officials will take stock of the situation and decide appropriate next steps.

The role of the Minister for Finance is broader than simply ensuring the banks return to profitability. The financial system must function day in, day out and must serve the country and its people by providing access to credit at affordable levels. As a small, open and trading economy it is absolutely vital that our payment systems work efficiently for citizens and business. The Government recognises that small businesses play a central role in the sustainable recovery of the Irish economy. To facilitate this, Government policy since 2011 has been focused on ensuring that viable SMEs have access to an appropriate supply of credit from a diverse range of bank and non-bank sources. As part of the 2011 recapitalisation exercise, the Government imposed SME lending targets on AIB and Bank of Ireland for the three calendar years 2011 to 2013. Each bank was required to sanction lending of at least €3 billion in 2011, rising to €4 billion in 2013 for new or increased credit facilities to SMEs. Both banks have achieved these targets. Activity in the economy is now driving the demand for credit and lending in the first six months of the year. My Department received and, indeed, continues to receive annual lending plans from the banks. Meanwhile, the banks continue to meet my officials on a quarterly basis on SME sector issues.

In terms of mortgages, the amount of new mortgage lending has increased from a low point of €2.5 billion in 2011 to almost €3.9 billion in 2014. In the first six months of this year the level of new lending has continued to increase by approximately 50%. The current scale of lending is, nevertheless, well below the levels that prevailed before the property and credit bust. However, that market and those credit levels were not sustainable and accordingly gave rise to the property crash. It is important that appropriate policies and banking practices are put in place to ensure that the bad experiences of the past are not repeated and that in the future new lending is affordable for the borrower and sustainable for the lender. The Government is committed to working with the Central Bank, with mortgage providers and other relevant parties to ensure that this happens.

I'll turn now to IBRC. The decision to recapitalise and nationalise Anglo Irish Bank and Irish Nationwide was taken by the previous Government and €34.7 billion had been injected in these banks in 2009 and 2010. IBRC was at that time reliant on some €41 billion in emergency liquidity assistance, known as ELA, from the Central Bank and a revised restructuring plan for IBRC submitted by the previous Government in January 2011 assumed a funding strategy of €50 billion. In the absence of any alternative funding model from the ECB it was essential that the merged institutions retained its banking licence and access to ELA. As such, maintaining Central Bank funding to support the wind-down of IBRC was the most prudent approach to protect the taxpayer. Various alternative sources of long term funding were explored but did not prove possible. It was only when a long-term viable solution for the promissory notes was found and the system more generally had stabilised, that we decided to liquidate the bank.

The issue of burden-sharing with IBRC was considered. There was €3.7 billion of unsecured unguaranteed senior debt in Anglo and INBC in early 2011. As IBRC was different from the other banks, the Government pushed for burden-sharing for these bondholders, conditional

on the support of the ECB. In advance of my statement on banking matters on 31 March 2011, I had sought ECB support and the initial speech that I made to the Dáil ... the draft of the initial speech that I made to the Dáil included a statement on burden-sharing for this €3.7 billion. However, despite our best efforts, it was made clear to both the Taoiseach and myself and my officials that the ECB would not support such a statement or moves to burden-share with IBRC. Weighing up the potential savings of €3.7 billion that would accrue to IBRC against the immediate and devastating impact of withdrawal of ECB support on Ireland, the Government took the decision not to proceed with the burden-sharing with senior bondholders.

The promissory note for IBRC required a payment of €3.1 billion each March to the Central Bank. I discussed proposals in consultation with the Central Bank, the NTMA and the troika to restructure the banking sector, to improve the terms of the debt associated with the IBRC promissory note and replace the ELA funding provided to IBRC. I also sought the support of my European counterparts to bolster support at political level in the EU for our approach to IBRC. Because of these efforts, agreement was achieved on the strategy to liquidate IBRC. This involved the appointment of a special liquidator to IBRC to accelerate the winding down of its business operations, discharging the liability of IBRC to the Central Bank in a way that ensured no capital loss for the Central Bank, while the remaining loans of IBRC would be sold on the market or, if necessary, transferred to NAMA and, finally, converting the IBRC promissory note to a portfolio of fully marketable long-term Irish Government bonds. Through these actions the promissory notes and IBRC were to be eliminated from the Irish financial landscape with consequent reputational benefits.

The success of the liquidation to date has far exceeded expectations and has been critical to the restoration of confidence in Ireland. In March 2014, I announced that the debt acquired by NAMA as part of the promissory note transaction was now expected to be repaid in full following the successful conclusion of the sale of the majority of assets in IBRC. This debt was fully repaid in October 2014. The success of the loan sales processes negated the need to transfer any assets to NAMA as part of this process and removed any residual risk of further calls on the Exchequer. The outcome illustrates the strong confidence of investors in the Irish economy and its future prospects with 355 parties across 13 countries interested in the various portfolios. In addition, the special portfolio of Government bonds held by the Central Bank continues to accrue significant savings to the Exchequer compared to the cost of servicing the IBRC promissory notes.

It is important to emphasise that the crisis was not limited to the banking sector only but also due to the crisis in the public finances which ran in tandem. This hugely contributed to the problems faced by Ireland. In fact, the cost of cumulative fiscal deficits since the onset of the crisis has been considerably in excess of banking costs. Following a very difficult period the public finances are continuing to move in the right direction. The underlying general Government deficit in 2011 was nearly 9% of GDP. The deficit for this year is expected to be closer to 2% of GDP. The consistent over-achieving of the deficit targets over these years was key to restoring market confidence in Ireland. I am pleased to state that we are very much on course to exit the EDP at the end of this year. As you will be aware from the spring economic statement which estimated that a fiscal space of between €1.2 billion and €1.5 billion may be available for public spending increases and tax reductions in budget 2016, while achieving an underlying deficit of below 2% of GDP. The continuing improvements in the general Government deficit has helped reverse the trend of increasing debt in recent years from a peak of some 120% of GDP in 2012 to below 100% next year.

The employment recovery has been jobs rich. In the second quarter of this year we saw continued employment growth of 3% on an annual basis, bringing total employment back to levels last seen in the early part of 2009. This growth represents an annual increase of 57,100 jobs which is almost exclusively full-time contracts. Unemployment has fallen significantly from its peak of 15.1% in 2012 to 9.5% in August of this year. Relative to peak levels, this represents 120,000 fewer persons unemployed and a rate which is 5.5% lower.

Growth has recovered following the contraction in output in the early years of the crisis. Ireland has re-emerged as the fastest growing economy in the European Union, with growth of 5.2% in 2014. The economy has rebuilt on a number of strong sectors and the level of GDP last year exceeded its 2007 pre-crisis peak, with a more sustainable composition. Actually, with today's very strong growth figures, with the economy growing at 7% in the first half of the year in net terms, *per capita* growth will also exceed the 2007 level ... would have exceeded it now this year.

The actions I have taken as Minister is part of the overall desire of the Government to ensure that we learn the lessons of the previous crisis. The effectiveness of the current governance regime has been enhanced by a suite of reforms to the Irish banking and regulatory system, initiated at both an Irish and EU level. Such reforms include the European banking union, which will provide for centralised supervision and will help to rebuild trust and confidence in the European banking sector. Importantly, the link between the banks and the sovereigns has been broken and the bailouts of banks has been replaced with bail-ins. At the domestic level, a significant amount of reform was undertaken in the financial regulation, with increased resources and a substantial amount of the legislation, including the creation of a statutory central credit register. Similar reforms have been implemented for fiscal policy, with the Fiscal Responsibility Act, the establishment of IFAC, and enhanced EU monitoring and governance. These reforms will form the foundation of a strong and effective governance structure, which will go a long way to making sure a boom and bust-type of cycle will not reoccur.

In conclusion, over the past few years it has achieved a considerable amount as a result of hard work and sacrifice of the Irish people. It is important that we learn from past mistakes and that we consolidate and build on our successes, which are now bearing fruit, to provide a better future for all of us. Thank you very much, Chairman and members.

Chairman: Thank you very much for your opening comments, Minister Noonan. We'll get questions under way, so if I can invite Deputy Joe Higgins. Deputy, you have 25 minutes.

Deputy Joe Higgins: Thank you. Mr. Noonan, the extensive availability of property tax incentives has been identified in front of this commission as one of the contributory factors to the financial crisis. Now, in this regard, to what extent do you believe that the capital gains tax exemptions for properties bought between December 2011 and December 2014 may have led to an overheating of the property market in recent times? And can you elaborate on why was it decided to grant exemption for capital gains tax, which benefits investors-speculators but is mostly irrelevant for owner-occupiers? And, lastly, has this policy made it more difficult for potential homeowners to get onto the housing ladder?

Deputy Michael Noonan: Well, first of all, I agree with you that the widespread availability of tax breaks for property investment was a contributory cause to the banking crisis and, consequently, to the fiscal crisis. The property market was stimulated beyond what an economy of our size could justifiably bear and it led, in the first instance, to ... when the property bubble burst, it led to a situation where the collateral underpinning bank loans was no longer worth the

loans, so it didn't prop up the loans anymore. So, that commenced the banking crisis. And then it was immediately connected to the fiscal crisis because the Exchequer at that point was relying quite heavily on transactional taxes coming from building-construction, income tax-PRSI from the workers and VAT from the property itself. The rule of thumb at the time was, when I was debating these matters in the Dáil, for every 10,000 houses, the Exchequer was getting €1 billion in transactional taxes. So, when, in 2007, it became clear that there was a falling away on housing starts and that, depending on who you listened to, instead of 100,000 houses finishing in 2008, it would be 50,000, 40,000 or 30,000. It was easy to do the sums. So, if your decline was from 100,000 to 40,000, for example, the rule of thumb was that was €6 billion less to the Exchequer. So, you can see how the banking crisis quickly became a fiscal crisis and, consequently, a sovereign crisis, because the two were linked.

Now, to get to the point of your other question, then, your associated question. In the first budgets that I introduced, I progressively removed the property-related taxes and all the, kind of, section 23 stuff, and all that family of tax breaks was removed. My advice was it couldn't be removed in one fell swoop, but it was eased out over a number of tax years, so that was taken off the Exchequer. The ... we raised capital taxes then in a subsequent budget. I think they were historically, in Mr. McCreevy's time, down to 20%; they're at ... 33% now is the capital tax rate. So, that was part of the increases the present Government brought in. I think what you're referring to on the capital tax breaks was that I decided that persons who bought property - commercial property mostly, but it also probably applied to blocks of apartments - between certain years, would get a tax holiday if they held it for seven years. And that was done because, if you think back to 2011 and 2012, there was no property market. There was nothing happening, nobody was buying anything and we had to incentivise the situation to get people in to buy property. We had, effectively, to create the market.

But I'd a second reason for doing it as well. There was always a risk that when you're creating a property market by interventions, that you'll sell at very low values initially and your purchasers will flip the property and make extravagant profits on the short term. And that was why we had a condition attached that they had to hold for seven years to avail of the break. But I discontinued that then ... it was for a ... it was time-bound, it was for a three-year period.

Deputy Joe Higgins: Some people might find it ironic that what was one of the causes of the bubble and then the crash is again being recycled in relation to trying to come out of a crisis. And would you not have considered other measures? For example, in view of the homelessness crisis, a major public house-building programme ... would that not be an alternative to these kind of failed in the past tax breaks?

Deputy Michael Noonan: This was an entirely different incentive. This incentive was to enhance the possibility that people with a lot of capital would buy vacant properties and underused properties in Ireland. It wasn't for building; it was for purchase. And it was when nobody was buying anything and there was properties all over Dublin, either not used or underused. So, it was a tax incentive to purchase, to create a property market when we had none. It's easy to be wise now and talk about it and all. I wouldn't do it now; that's why it was time-bound and that's why we discontinued it, but it did work.

On the other hand, the domestic residential property is a different issue. And you'll recall that two years back, I brought in a property ... an incentive for people who would build extensions to improve their own homes. And that's a tax break on income tax and that has generated about €400 million of activity. And, in parallel, the Minister for the Environment has brought in a very strong package on social housing and provided money to all the local authorities to

do exactly what you advise. And I understand he's in the final stages of designing a further residential housing package, which he will publish in the near future.

Deputy Joe Higgins: We'll move on because of time. In reply to a recent parliamentary question, you noted that the State has received over €12.7 billion from bank-related levies, investment income and dispositive investment since the bank guarantee came into effect. Now, it would take a long time to outline the aggregate, how that was aggregated. So, could I ask you perhaps if a detailed ... these detailed estimates could be provided in the form of detailed figures to the inquiry so that we can use it as evidence, but also if you'd have a general comment to make just now?

Deputy Michael Noonan: Yes, I think the inquiry probably has that information already because it was provided in a number of PQs and the PQs were available to the inquiry, but I'll provide it again if the inquiry think they don't have that information.

On a general comment, you know, there were fees paid on the guarantee, for example. The much maligned guarantee was given to banks but they have to pay fees on it. So, the accumulated fees come to quite an amount of money. Irish Life was sold, for example, and a lot of money came in. The contingent capital that was put into Bank of Ireland, known as CoCos, that was realised for ... I don't know ... about €1.5 billion or €1.7 billion or something like that. So, I mean, I stand over the cumulative figure, but like yourself, I don't have the breakdown for you now. The breakdown is available and I certainly will provide it.

Deputy Joe Higgins: Your Department can provide it again if that ...

Mr. Noonan, in November of 2010 in Dáil Éireann, you were highly critical of the bailout package, the troika package and, in particular, the lack of burden sharing with bondholders, more popularly referred to as burning bondholders. Now, can I just ask you in relation to that and explore a little bit with you since you came into government your policy in regard to burning bondholders or so-called burden-sharing? On page 18 and 19 of your statement - the written statement to the inquiry - you said, and I quote, "There was 35 ...". Sorry, this is a paraphrase, there was €35 billion of senior unguaranteed bonds remaining in the six covered banks when this Government took over in March 2011. €3.7 billion of that was held by Anglo Irish Bank and Irish Nationwide. Now, do you recall ... Mr. Noonan, your Government took office, I think, on 9 March 2011, if I am not mistaken. Do you recall, shortly after, on 28 March 2011, giving a briefing in the sycamore room of Government Buildings to Government Ministers and Central Bank officials on bank recapitalisation, but also in relation to burden-sharing?

Deputy Michael Noonan: Yes.

Deputy Joe Higgins: Okay. Did the briefing outline plans to enforce burden-sharing on senior bondholders in Anglo Irish Bank and Irish Nationwide Building Society?

Deputy Michael Noonan: There was a briefing. The normal process that we had from the start of the Government was to brief the Economic Management Council first, the EMC. That was Minister Howlin and the Taoiseach and the Tánaiste and myself. But that would be reinforced subsequently then, because we didn't have the constitutional authority to make decisions. So, I would have carried ... I would have taken a memorandum to Government and the Government would have made all the decisions about the recapitalisation of the banks and the possibility of burden-sharing.

Deputy Joe Higgins: And when did the Government make the decision to burden-share?

Deputy Michael Noonan: On the Tuesday before I announced the recapitalisation of the banks on the Thursday, which I think was 30 March, the end of March anyway.

Deputy Joe Higgins: Okay. And then, Mr. Noonan, you say in your written statement again that on 31 March 2011 you were due to address the Dáil at 4.30 in the afternoon on banking issues. And the draft of your speech at 1.30 p.m. you say, said as follows, "The Government will, however, having consulted with the external partners, legislate if necessary to allow for burden sharing with senior bondholders in those institutions", referring to Anglo Irish Bank and to INBS. Was the amount of bonds involved detailed in your draft as well?

Deputy Michael Noonan: Yeah, I mean ... you referenced something I said in the Dáil in November of 2010. I don't recall saying it. But my position on burning bondholders or haircuts or burden-sharing, whatever phrase you like to use, has been consistent. I became finance spokesman for my party in the summer of 2010. And all the way through - and you can check the record - I said that I thought that we should burden-share with senior bondholders, but that we would only do it with the consent of the European Central Bank. That was the position. That's what's in the Fine Gael manifesto and that's what's in the programme for Government. It may not be in those exact words.

Deputy Joe Higgins: Right.

Deputy Michael Noonan: And then, when I went to Government again, I was given the authority to consult with the European authorities, and particularly with the ECB, to see if I could get their consent. So when I was drafting speeches then for going into the Dáil -----

Deputy Joe Higgins: Was the amount in the draft?

Deputy Michael Noonan: Yes.

Deputy Joe Higgins: And what amount was that?

Deputy Michael Noonan: It was what you quoted there.

Deputy Joe Higgins: €3.7 billion?

Deputy Michael Noonan: Yes, whatever senior bonds were in Anglo at the time.

Deputy Joe Higgins: Okay. Mr. Noonan, are you aware of a book called *The Price of Power*, by Pat Leahy, who is political editor of *The Sunday Business Post*?

Deputy Michael Noonan: Yes, yes. I read it one time.

Deputy Joe Higgins: Yes. And Mr. Leahy says, "By Thursday morning 31 March, the ECB had woken up to the Irish intention of imposing losses on senior bondholders in Anglo" and that a series of conversations between Frankfurt and Dublin, as it was put, took place. Can you tell us about those conversations please?

Deputy Michael Noonan: Well, I mean, I can, but what I would like to do first is, if you will permit me, Chairman-----

Chairman: I will allow the Deputy a bit of time. Just hold the clock a second there. Minister Noonan.

Deputy Michael Noonan: I'd like to give you the Government decision.

Chairman: Okay.

Deputy Michael Noonan: Because I think it is a better opening position to actually read the Government decision into the record. And then I'll take all the questions, including the one you've just put to me, if that's all right.

Deputy Joe Higgins: Okay.

Chairman: We'll stop the clock Deputy. That's fine.

Deputy Michael Noonan: So, it was the Cabinet meeting to which you referred, and this is a letter to my private secretary from the secretary to the Government, which is the way decisions are communicated around Government Departments. So it says:

> I am to refer to the memorandum dated 29 March, 2011, submitted by the Minister for Finance concerning Banking Matters and to inform you that, at a meeting held today, the Government [decided]
>
> (1) authorised the Minister for Finance to progress discussions relating to bank restructuring and the Minister's response to the results of the bank stress testing, with the External Authorities - [that is] the [European Union], IMF and ECB - in advance of the release [of] the 31 March of the results of the Prudential Capital Assessment Review (PCAR) carried out by the Central Bank of Ireland.
>
> (2) agree to adopt the strategy recommended by the national authorities to the Minister for Finance for a major reorganisation of the domestic banking system as detailed in the Memorandum, encompassing in particular;-
>
> (i) the creation of two core pillar banks on the basis of the planned future restructuring and deleveraging of AIB and BOI,
>
> (ii) substantial further downsizing of the Irish banking system through the implementation of the banks' [deleveraging] plans agreed with the Central Bank of Ireland,
>
> (iii) an internal split in the banks' loan-books between core and non-core assets,
>
> (iv) the merger of EBS into AIB for financial stability reasons, following the termination of the sales process for EBS and the expected identification of a significant additional capital need for EBS,
>
> (v) the expected sale of the insurance arm of [Irish Life & Permanent] to meet expected capital requirements,
>
> (vi) the strong likelihood of majority State ownership of both [Bank of Ireland] and IL&P to meet expected capital needs,
>
> (vii) significant reform of bank boards and governance arrangements; and
>
> (viii) all of these to be subject to the necessary clearances from, for example, DG Com.
>
> (3) [decision 3 then] noted that discussions are continuing between the Central Bank of Ireland and the external authorities on the draft PCAR results and the current indications are that the final figure will be approximately €21 bn-€24bn in gross terms, with some element (approx. €3bn) being in the form of contingent capital (i.e. to be recouped if [it is] not

needed in the relevant timeframe,

(4) [and this is relevant particularly to your question] agreed that measures should be taken in agreement with the EU/IMF/ECB to mitigate the costs of further recapitalisation of banks and this should be announced. Such measures would include burden sharing, private investment and asset sales, and would have regard to the particular position of each institution, and therefore the mix and measures available will vary between institutions,

(5) agreed that discussions will be required at a senior level with the external authorities with a view to securing agreement to this approach and in particular that the timing of any recapitalisation would allow for arrangements to be made in this regard. Indicatively, at least some recapitalisation measures may be required to be delayed until June.

(6) agreed that the Government will announce its intention to take further measures in relation to the governance of the banking system and will strengthen the role of the banking unit [in] the Department of Finance, and further improve its skill base as appropriate,

(7) accepted the request from the European Commission for the Government to affirm its report to the Joint Restructuring Plan for Anglo Irish Bank and Irish Nationwide Building Society [...] submitted to the European Commission at [the] end- [of] January 2011 in compliance with the commitment contained in the EU IMF Programme for Financial Support, and

(8) noted

[...] the Minister's intention to make a statement on Thursday 31 March responding to the PCAR results and announcing his proposals for the restructuring of the domestic banking sector,

(ii) that the deadline for future recapitalisation of the banks to comply with PCAR requirements will be subject to agreement with the Central Bank of Ireland and the external authorities,

[...] that Government approval will be sought separately for the injection of State capital into specific banks to meet PCAR requirements,

(iv) that the EU State aid approval required for the reorganisation of the banking sector will be sought through the submission of Restructuring Plans for each institution to the European Commission by [the] end- [of] April, and

(v) the Minister's' intention to give a preliminary indication to the relevant institutions today of the proposed bank restructuring measures, in order for [the] preparations to commence, on a contingency basis, of the communication required to the market and to customers.

And it's the Ard-Rúnaí an Rialtais that signs it. Now that Government decision was made on foot of a memorandum I took to Government containing all the elements that underpin those decisions and in the course of the discussion, I would have told the Cabinet the exact amount of senior bonds that were available in Anglo Irish Bank for restructuring. But all the way through ... all the way through, as in my statements during the election campaign, as in the Fine Gael manifesto, as in the programme for Government, bond burning or, you know, discounting of bonds, senior bonds, was conditional on the agreement of the external authorities, especially the

ECB, and, of course, we were in a programme at the time with strict supervision from the troika.

Chairman: Back to yourself, Deputy. The clock's back on.

Deputy Joe Higgins: And then can you tell us the conversations that then ensued?

Deputy Michael Noonan: What happened then was that the word got out at Frankfurt that we were thinking of doing this. The statement you read out there I had in my first or in one of the drafts of the speech ... in the draft that I was about to deliver to Dáil Éireann on 31 March. And you'll note it particularly said that I would introduce legislation to achieve the purpose of bond burning. That was because even though there was nothing in law which prevented it, the advice the previous Government had got from their Attorney General, which was confirmed by the new Attorney General, was that even though there was nothing in the Irish Constitution that prevented bond burning, it would need enabling legislation to allow the Government to do it so that was what that reference was about. So I am preparing to go to the Dáil and I get a call from Mr. Trichet and he asks me what are we doing and I told him that we were recapitalising the banks in accordance with the results of the stress testing that had been done. There had been a commitment made in the programme that the recapitalisation of the banks would have taken place in January but my predecessor, Brian Lenihan, decided to defer it - first of all, to have the results of the stress testing and, secondly, he said if there's to be a change of Government, well, it's really the responsibility of the incoming Government and I'm making no criticism of that. I think that was a moral enough thing to do. So Mr. Trichet would have been aware of the plans because they were involved in discussions at the troika. So what it came down to was how we would arrange things and what the amount would be and then I told him that as part of the programme, we were burning bondholders and he didn't agree. He didn't agree and he asked me was I aware that this would be treated by the markets as a default, which was reasonably strong pressure because I know that after the time you've put in here, you understand the details of all this thing. ELA, emergency liquidity assistance, was underpinning Anglo to the tune of €41 billion at that time. ELA can't be given to a bank that defaults.

Deputy Joe Higgins: So, Mr. Noonan, there was no agreement in that phone call between you and Mr. Trichet then? Did the Taoiseach then speak to-----

Deputy Michael Noonan: I think you'll be interested in the way it went after that. I said well, I was still burning bondholders and it was Government ... I had the authority of the Government to do so and he raised the question of the financial services industry in Ireland, and particularly in Dublin, and he suggested that even though he couldn't say categorically, it might not be possible for people in the financial services in Ireland, particularly in Dublin, to finance themselves on the market if they were situated in a country that was in default. So that was reasonable pressure as well. So I don't think he mentioned the bomb going off until the second telephone call. At that stage ... I think at that stage, I said I have to consult with the Taoiseach so the call was discontinued and I informed the Taoiseach of the difficulty of carrying out what was the clear request of the Government but I was exploring the possibility, which was what was in mind. So after some time, I rang him back and I said we were still disposed to burn the bondholders and he said ... he was ... it's hard to know, like ... English isn't his vernacular, you know. He sounded irate but-----

(Interruptions).

Deputy Michael Noonan: Mr. Trichet. He sounded irate but maybe he wasn't irate but that's the way he sounded and he said if you do that, a bomb will go off and it won't be here, it'll be in Dublin. I know when he gave his evidence - extramural evidence - here or to the, you know, where ... the speech he made, he says he's no-----

Deputy Joe Higgins: That was in the second phone call with you and Mr.-----

Deputy Michael Noonan: I'm not absolutely certain whether it was the first or second phone call.

Deputy Joe Higgins: But to you, not to the Taoiseach?

Deputy Michael Noonan: Oh, it was said to me, yes, and I think it was the second phone call.

Deputy Joe Higgins: And did the Taoiseach also-----

Deputy Michael Noonan: Because there were two phone calls.

Deputy Joe Higgins: Did the Taoiseach also speak-----

Deputy Michael Noonan: I understand the Taoiseach-----

Chairman: Allow Mr. Noonan in - you've plenty of time, Deputy.

Deputy Michael Noonan: I understand the Taoiseach also spoke to him and, I mean, the message was the same but I would think I had a more detailed conversation.

Deputy Joe Higgins: Okay.

Deputy Michael Noonan: But, I mean, n there were three issues that were recited to me. First of all, we'd be in default. I knew the implication of that for ELA although he didn't spell that out although he had previously spelled it out in different circumstances to Brian Lenihan back in 2010 because I saw the correspondence. Then he, kind of ... he rattled me because I didn't expect it. He drew the Irish financial services sector into it, and particularly the IFSC in Dublin, and the possibility that they couldn't be funded if they were in a country that had defaulted and then I think the third suggestion about the bomb going off was mainly in the second phone call but I mean it was a fairly strong argument.

Deputy Joe Higgins: Mr. Noonan, you were on the way virtually to Dáil Éireann. Certain Deputies here will remember sitting and waiting for you after 4.30 while this was going on. So after the three phone calls when these threats - economic threats - were made, what did you do then?

Deputy Michael Noonan: I made ... I had some conversations with my key staff and I decided to advise the Taoiseach that the risk was too high for the amount of gain that was involved and I changed my script and did not promise burden-sharing in the Dáil but went ahead with the restructuring of the banks on the basis of two pillar banks.

Deputy Joe Higgins: Was there a meeting of the Economic Management Council?

Deputy Michael Noonan: No, there wasn't time. The Dáil was scheduled ... this was ... I mean, the reason I was late for the Dáil was we were re-doing a page of the script. You'll have remembered that I was rather breathless when I got across. To get across to you, I had to run but

I would say that it was down-to-the-line stuff, you know but that's the way a lot of the bailout had been. It's very difficult to get decisions from the superiors of the troika and they tend either for reasons of work or for reasons of expediency or for reasons of pressure quite frequently to leave decisions to the last minute.

Deputy Joe Higgins: Mr. Noonan, Deputy Eoghan Murphy questioned Mr. Trichet in Kilmainham in relation to whether he had used the words that an economic bomb will go off and, again, there is a problem with his English. He said first "I will certainly have utilised metaphor of that kind" but then went to say in a second phrase "would have been totally not in line with the relationship I had with the Government", which I take it that he denies using that.

Deputy Michael Noonan: Yes, I mean, I read accounts of that in the newspapers but the accounts were contradictory. One said quite bluntly that I don't use metaphors, you know, with those ... that kind of imagery or words to that effect and the other one was that he didn't use the words at all. So I'm not too sure what was said to Deputy Eoghan Murphy but I can assure this committee he said it. He didn't use the "E" word - economic. He said a bomb will go off, a bomb will go off. He didn't qualify it.

Deputy Joe Higgins: Okay, and Mr. Noonan-----

Deputy Michael Noonan: By the way, there's something I came across during the summer which ... it isn't evidential in nature but it's a curiosity and you might be interested in the anecdote. Tim Geithner-----

Chairman: We're on the clock here now, Minister, because you're on Deputy Higgins's time, even though he wants to hear the yarn and I do. Stop the clock there.

Deputy Michael Noonan: Tim Geithner was Secretary to the Treasury in the United States, and I met Tim Geithner on several occasions, and he's often recited as being somebody who was against burden-sharing, and he was, he makes no bones about it. But he has written his autobiography and I read it during August, and the introductory chapter of Tim Geithner's autobiography is called "The Bombs", and he describes the bombs as, you know, Bank of America, AIG, Freddie Mac, freddie mae. There's five of them and he goes ... right through his biography he talks about these bombs going off, you know? So, if Mr. Trichet didn't use this kind of metaphor, very senior central bankers used this kind of metaphor, because it's the opening chapter of Tim Trichet's book. That's the title. Not Tim Trichet - Tim Geithner, Tim Geithner.

Chairman: Deputy Higgins.

Deputy Joe Higgins: Mr. Noonan, Deputy Murphy further questioned Mr. Trichet and he asked him, "Did you threaten to withdraw ECB assistance to Ireland if we did not repay those bonds?" And Mr. Trichet said, "That has no meaning. That has no meaning". And the Deputy further asked, "Did you threaten to withdraw European assistance to the Irish national sovereign if we decided to-----". Mr. Trichet said, "No, certainly not."

Deputy Michael Noonan: That's correct. I was never threatened that they'd withdraw ELA or assistance to the Irish sovereign but, and you'd well know from your experience here, in saying that Ireland would be treated as a country in default and a bank would be treated as a bank in default, the implications of that to me were clear. ELA could be suspended. ELA was always temporary. Frankfurt always made decisions every so often to continue ELA. We could never get them, and we tried to get them, to say ELA would be paid on a permanent basis.

Deputy Joe Higgins: Mr. Noonan, you say in your written statement that weighing up the potential savings of €3.7 billion that would accrue essentially if the burning had taken place against "the immediate and devastating impact of withdrawal of European Central Bank support in Ireland, the impact on financial stability, jobs and the daily lives of Irish citizens, the Government took the decision not to make the statement and not to proceed with burden-sharing with senior bondholders". When did the Government make that decision, Mr. Noonan-----

Deputy Michael Noonan: Well, in-----

Deputy Joe Higgins: -----because there was no-----

Deputy Michael Noonan: -----in the Government decision I was given the authority to proceed on the basis of this, and to burden-share if I got the agreement of the external authorities, and particularly the ECB, so I had been authorised by the Government. So there wasn't a further Government meeting but I rang the Taoiseach and the Taoiseach was in consultation with the Tánaiste, and I think Minister Howlin was brought into the group, and we acted on the authority we had from Government, or that I had from Government, on the previous Tuesday. The Dáil was meeting and we said we can't go ahead with this.

Deputy Joe Higgins: Mr. Noonan, no less than four Government Ministers said to Mr. Leahy for his book that their understanding was, I'll quote one of them:

> The understanding was that Noonan would burn them. That's the understanding we had.

And that was corroborated by three other Government Ministers. They didn't think that it was qualified in that way.

Deputy Michael Noonan: I don't know what the understanding of colleagues was, or what colleagues may have said to that eminent journalist, Pat Leahy. And the book is a very good book; I don't deny that. All I can tell you, and I've read it into the record what the Government decision was, and Government decisions are available to all Ministers.

Deputy Joe Higgins: Mr. Noonan, you then came into the Dáil ten minutes later than scheduled. Deputies had been waiting.

Chairman: Can I ask you to wrap up now shortly, Deputy? I'll be bringing you back in again later but-----

Deputy Joe Higgins: Yes. Can I just put the following to you and ask you if you agree or disagree if it's a fair or unfair characterisation? So you, a representative of a Government that is supposed to be sovereign, on your way to report to a Parliament that is supposed to be sovereign about a Government decision to burn bondholders in a failed institution and that, on your way, the President - an unelected financial official - of the European Central Bank threatened devastating economic consequences, including a default, and as you said, the most serious economic impactful events if you proceeded to carry out a decision that had been that had been made ... Mr. Noonan, is that not a really serious subversion of democratic rights-----

Chairman: That's a pre-judgment Deputy.

Deputy Joe Higgins: -----by an official of the European Central Bank? And, Mr. Noonan, why did you not immediately report this to the national Parliament, to the Dáil, when you came in?

Deputy Michael Noonan: Well, first of all, the word "threat" was never used either by myself or Mr. Trichet, and it was a conversation which was a reasonable conversation, and from his perspective, he seemed to think he was simply pointing out facts to me.

Deputy Joe Higgins: He used the word "bomb".

Deputy Michael Noonan: Yes, he was pointing out facts as far as he was concerned. So I don't want to exaggerate this, either the tone-----

Deputy Joe Higgins: Mr. Noonan can I just press you-----

Deputy Michael Noonan: No, no, you asked-----

Deputy Joe Higgins: -----for a minute. Chairman, would you-----

Deputy Michael Noonan: -----I want to answer-----

Chairman: I'll bring you back in, Deputy.

Deputy Michael Noonan: -----and I'll do that now because you made an allegation at the end of your question-----

Deputy Joe Higgins: No, I put in a-----

Deputy Michael Noonan: -----and I need to deal with it

Deputy Joe Higgins: I put a suggestion------

Deputy Michael Noonan: I don't mind how long I stay------

Chairman: The allegation has been put out, like, and I'm asking members, because we've a long day ahead of us-----

Deputy Michael Noonan: I went to the Dáil------

Chairman: -----to be measured

Deputy Michael Noonan: What I advised the Taoiseach was that the risk was too high to proceed with bond burning, but that was to proceed at that point. The rest of the Government decision we communicated to the Dáil and proceeded to the recapitalise the banks. There wouldn't have been any problem for the Government the following Tuesday to decide on an alternative course of action, but I wasn't prepared to advise to do it on that day after the conversation with Mr. Trichet. And, you know, it was our business to do what we could, and, certainly, announcing it in Parliament would have been very dramatic but it mightn't have been the most prudent thing to do under the circumstances. On the question of sovereignty, the day that the previous Government took us into the bailout, we had lost a lot of sovereignty anyway.

Deputy Joe Higgins: Mr. Noonan, the ... you say that the ... you weren't threatened, but the Government decision was that you were going to burn, to the tune of some billions bondholders, who had essentially, to use the word scientifically, speculated in a highly speculative bank-----

Deputy Michael Noonan: If I got the agreement of the ECB.

Deputy Joe Higgins: Yes, no, but that ... that was ... but the essential-----

Deputy Michael Noonan: The decision was conditional.

Deputy Joe Higgins: -----but the essential point, Mr. Noonan, was these big bondholders had put in their money, they were unguaranteed, it was a speculative punt by them, and in the world financial market capitalism, if you win, you win, but if you lose, you're supposed to take your losses. So you-----

Chairman: Wrap up now, Deputy.

Deputy Joe Higgins: -----you were going to impose that principle, and Mr. Trichet told you that that would be considered a default which would have, you suggest correctly, devastating consequences, and that he related in this context the financial services industry, which I know how your Government and the previous Government put so much store on the importance of these institutions-----

Deputy Michael Noonan: Well, there are about 30,000 people working there-----

Deputy Joe Higgins: Yes.

Deputy Michael Noonan: -----Deputy.

Deputy Joe Higgins: Yes, but to threaten ... to ... how can you use any word except "threaten" economically-----

Deputy Michael Noonan: No, what I am saying is that neither I or Mr. Trichet used the word. I mean, obviously, you can-----

Deputy Joe Higgins: No, I understand that-----

Deputy Michael Noonan: -----you can ... you're quite free to use it.

Chairman: I know, and I will be bringing you in and I'm being very liberal with your time and I will be liberal when we're coming to the wrap-up as well, but I'm going to conclude this issue and then bring in Senator O'Keeffe, so Minister Noonan.

Deputy Joe Higgins: Yes, I understand that. I'm concluding. I understand the word wasn't used, but the word "bombs" was used-----

Deputy Michael Noonan: Oh yes-----

Deputy Joe Higgins: -----which does imply a threat, I would suggest.

Deputy Michael Noonan: -----"bomb". The word "economic" wasn't used.

Deputy Joe Higgins: Yes.

Deputy Michael Noonan: And it was "bomb" singular not plural.

Deputy Joe Higgins: Yes, so that ... even more sinister, because you can take whatever you like out of it, I would suggest. But I know the word "threat" wasn't used, Mr. Noonan, but, you know, words have meanings and meanings have ... conjure up a reality that can follow those words.

Deputy Michael Noonan: But, I mean, my policy position has been quite clear. I still think the correct ... the better decision would have been if I was allowed to burn the senior bondhold-

ers, and I continued in Europe pursuing that line, and during the Irish Presidency, we got to a point where there's new resolution legislation now, which is pan-European, and the mandate now is not to bail out insolvent banks, it's to bail-in using the assets, and there's a cascade of what you bail-in, including senior bondholders of different categories. So, like, we won the argument at the end, but we won it in circumstances where we hope we don't have to use the benefit of it ever again.

Chairman: Okay.

Deputy Joe Higgins: I'll have to leave the last word with you for the moment, Minister.

Chairman: We'll bring you back in at the end, Deputy Higgins. It's like the wedding feast at Cana - we'll be looking forward to it. Senator O'Keeffe, please.

Senator Susan O'Keeffe: Thank you, Chair. Mr. Noonan, if I might just ask for a couple of clarifications. Am I correct in understanding that Mr. Trichet hadn't been notified about your intent but that he learned of it or his officials learned of it and told him? It that correct?

Deputy Michael Noonan: The troika would've been made aware that we were going to recapitalise the banks and they'd have had a very good idea of the nature of the recapitalisation we had in mind. They wouldn't have been specifically told that as part of that, we intended burden-sharing for senior bondholders, but we did go on of course subsequently and we brought burden-sharing in for subordinate bondholders - junior bondholders - and we took over €5 billion out of that. The late Brian Lenihan had done operations ... legal operations previously, so I think the total discounting from junior bondholders over the period was about €15 billion. So it's not true to say that bondholders weren't discounted in the bail-in. Junior bondholders were very heavily discounted. Senior bondholders weren't, for the reasons I have given you.

Senator Susan O'Keeffe: When that conversation took place with Mr. Trichet, how long had you been the Minister?

Deputy Michael Noonan: I came in I think on 9 March.

Senator Susan O'Keeffe: This was-----

Deputy Michael Noonan: It was important to ... it was important to recapitalise the banks quickly, and I had consulted with the Irish Central Bank, with my own officials and with the NTMA and we decided to go ahead on 31 March and as part of that to discount or burden-share with senior bondholders.

Senator Susan O'Keeffe: So do you believe that that conversation which took place therefore only three weeks after you became Minister ... do you ... how, if at all, did that conversation with Mr. Trichet influence your relationship with him as it went on? Because obviously his language was strong, from what you've said, and you did back down.

Deputy Michael Noonan: Yes, I mean, I thought the risk was too high and I advised the Government not to take the risk. The risk was too high for the gain, but I mean, you have to make decisions like that. The nature of being a Minister is making decisions every day-----

Senator Susan O'Keeffe: But how did that influence-----

Deputy Michael Noonan: -----and you have to give advice and sometimes you have to decide fairly quickly. He is ... I mean, you have met him at the hearing where he reported to you.

He is a very polite gentleman and he continues to be a very polite gentleman and our relationship was businesslike. And I got some concessions after him subsequently, but I would think that for programme countries and for the times we were in and for the big European crisis, Mr. Draghi had a subtlety attached to him that was more fitted for finding solutions than Mr. Trichet.

Senator Susan O'Keeffe: When you came into office, obviously you were able to see any documents that you wanted to see, I'm sure. I'm just wondering whether or not you had the opportunity or the need at any time to find out whether there was any correspondence from Mr. Trichet around the time of the guarantee, because we've been unable to get clarity as to what happened at that time. You made a reference earlier on as to some documentation, but it wasn't that, and I'm just wondering whether or not you had any opportunity to clarify that.

Deputy Michael Noonan: I have been a Minister under ... in three Administrations under different taoisigh and I have a practice never to go back into the affairs of my predecessors. I don't believe in that, but if my officials decided that I needed to know, they would tell me, and I saw one letter from Mr. Trichet to Brian Lenihan and it was around the possibility that ELA would be discontinued if Ireland didn't go into a programme, but I think you have access to that material already. But I haven't seen anything around the guarantee and I don't know of any correspondence that was around the guarantee. I wasn't Fine Gael spokesman the time of the guarantee - I was a backbencher - but I did take part in the debate in the Dáil and I inquired to know whether it was a liquidity crisis or a solvency crisis. Apart from the Act having sections in it .... it looked to me sections drafted to remediate solvency rather than liquidity, I also felt that - and I subsequently confirmed in my reading - that if you have a liquidity problem in a bank where money is moving out, a guarantee can solve that, but if you have a solvency problem you have to recapitalise. So I voted for the guarantee on the night. I thought it was too wide, and I said in our own party that the scope of it was too wide and it was exposing us too widely. But I think that ... I regret that I didn't follow up on my question. I was assured it was only a liquidity crisis on the night by the Minister, but solvency would have required an injection of capital. And it might have been possible to stay out of the bailout if the guarantee was accompanied by a restructuring and a recapitalisation of the banks, but then it might have been a dearer bailout because money on the markets might have been more expensive if we had stayed in the markets than money that we accessed subsequently from the European funds and the IMF, particularly when the reductions in interest rates took out the bit they had put in for reasons of moral hazard. And they were giving us money more or less ... slight margin above the cost of money. So that's my take on the guarantee, but I don't know of any correspondence or anything that went on between the authorities at that stage, and I didn't seek to know of it. You know, Kevin Cardiff gave you very strong evidence and he was there at the time, so-----

Senator Susan O'Keeffe: When you became Minister, and obviously as you've said you'd already been the finance spokesperson for a while when you became the Minister, what did you find when you went in? Was it considerably different to what you were able to understand from being the spokesperson relying on the media - relying on what you were being given, if you like - or was it pretty much as you anticipated when you sat down for the first day as Minister for Finance? Or was it much worse or was it much better or-----

Deputy Michael Noonan: Usually, somebody goes into a Government Department after spending a long time as the relevant spokesperson or as spokesperson in another area, but for personal reasons I hadn't been in the front line of politics for a number of years. So I came back in as spokesman on finance in the summer of 2010. So I wouldn't have ... if, you know ... the point I'm trying to get across is: if I had been spokesman on finance during kind of nor-

mal years before the crisis occurred, I'm sure I'd have got to know a lot of the finance officials because that would be normal relationship, you know, as people like Deputy McGrath would know some of the senior officials over now, and Deputy Doherty, but I actually knew very few of them. I hardly knew them at all. So I found they were grand.

Senator Susan O'Keeffe: No, I think perhaps I should qualify, Mr. Noonan. In terms of the level of the crisis ... because, you know, you can rely as a spokesperson and as a member of the public on what you're hearing and what you read and what you see on the television. Now you're the Minister with all the documents, with all the officials, with all the information. Did the crisis seem more serious, much more serious or pretty much as you had understood it as the spokesperson?

Chairman: Ultimately-----

Senator Susan O'Keeffe: Was there a gap of information?

Chairman: -----when you opened the books, were they-----

Deputy Michael Noonan: No, you see-----

Chairman: How did they look?

Deputy Michael Noonan: The kind of ... I do not know whether you remember back the autumn of 2010 and the January of 2011, but it was a bit chaotic. And I'm not in the business now of criticising the previous Government, I'm not going down that road, but it was a bit chaotic. Once the troika came in and a programme was agreed, there was a new blueprint. So like going back was irrelevant because the programme was an absolute game-changer.

Senator Susan O'Keeffe: Okay.

Deputy Michael Noonan: Now, there was ... we had ... in opposition we had been briefed by the troika because they didn't ... obviously, they didn't brief us fully because they were negotiating with the Government, but they briefed the Opposition. So I had got a lot of briefing in December, before the programme was announced, on what would be in the programme. And we committed to renegotiating it. There were things ... there was elements of it in it I didn't like, but I thought the main thrust of it was that there was an over-reliance on increases in taxation, particularly personal taxation and I thought the balance was wrong. I thought the correction period was too short, so we renegotiated an extra year. And then there was things like the minimum wage, which ... you know, they were kind of stand-alone items-----

Senator Susan O'Keeffe: Sure.

Deputy Michael Noonan: -----but they weren't crucial to the whole thing. So, like, when I went into the Department - to get back to your initial question - the issue was: how much of this programme can we renegotiate? And the previous Government had brought in a budget which was the first major step in the correction process. And, like, I'm not saying 'tis easy to announce a budget, but announcing a budget is only part of the budgetary process. Implementing it across all Government Departments, making sure expenditure ceilings are held to and everything ... all the details are done. So it was ... that was the agenda.

Senator Susan O'Keeffe: Okay.

Deputy Michael Noonan: And, you know, get the show on the road, recapitalise the banks,

renegotiate with the troika - if we could - and then implement the budget that our predecessors had ... had announced and started to implement in the month of January.

Senator Susan O'Keeffe: What advantages do you think have been gained from restructuring the Financial Regulator and the Central Bank into a single regulatory authority? And has there been any review since the changes were made of how it's running and how it's doing?

Deputy Michael Noonan: I think it's functioning. It's functioning ... I think it's functioning quite well now. I mean, again, it appeared ... it appeared, after the crisis really struck, that the previous arrangement didn't function very well. But there are other models where you have a separate regulator, like in London, where the model does function. So, I'm not too sure what-----

Senator Susan O'Keeffe: Has there been a review yet of any of the activity or is it too soon?

Deputy Michael Noonan: No, the Central Bank is independent and it reports to the Central Bank commission, which is another name for the board of the Central Bank.

Senator Susan O'Keeffe: So it would have to require a review.

Deputy Michael Noonan: You know, we get the quarterly reports and the annual reports. But I'd have full confidence in the work of the Central Bank and in the work of Patrick Honohan and I think it has proved to be a very good regulator. So I'd be happy with the amalgamation of the two functions, which were always there in the '90s but which were separated sometime in the early noughties.

Senator Susan O'Keeffe: When you were being interviewed for the Wright report in 2010, I understand that you criticised the pro-cyclical budgets of former Governments. Do you believe now that sufficient controls are in place to ensure that the domestic budgetary rules and the EU Stability and Growth Pact will be strictly adhered to in future?

Deputy Michael Noonan: Well, I suppose, there is always a human factor and it depends who the Minister is and who the Government are, but in terms of the legal position, yes. And the legal position is straightforward now. And it would be wrong to think that it's fiscal rules that are European fiscal rules imposed on Ireland and that we wouldn't obey them if we thought we'd get away with it. I mean, we took ownership of the rules when we put the referendum through. And I argued for the rules in the negotiations in Brussels and I'd be very strongly committed. We ... there are a lot of rules there but to latch on to the point you made about counter-cyclical economic policy, that's certainly built into the rules now. There may be refinements in them as, you know, practice plays out but I think they're very good and I think they're a major bulwark against we getting back into a crisis situation again. But the other bulwark of course is not to rely on one sector of the economy - relying on just building and development and using that for your transactional taxes. If you look at the last jobs figures, 12 sectors in Ireland have put on jobs. I think CSO divides the economy into 14 and the two that didn't put on jobs were the public sector, where it's the policy anyway to keep jobs growth down, you know.

Senator Susan O'Keeffe: How are the views of the Irish Fiscal Advisory Council fed into the budgetary process?

Deputy Michael Noonan: They have a difficult role, first of all, under law. They were brought in informally first and now there's legislation that underpins their role. But ... you

could go into great detail defining their role.

Senator Susan O'Keeffe: I'm not asking that.

Deputy Michael Noonan: -----but they're really there to give a contrary view-----

Senator Susan O'Keeffe: Okay.

Deputy Michael Noonan: -----so that if I come in and I tell you what I'm doing in the budget, there's another reliable institution that can give you a different assessment.

Senator Susan O'Keeffe: But is it a view, Minister, or advice or ... or an assessment? How would you-----

Deputy Michael Noonan: Well, I mean-----

Senator Susan O'Keeffe: Is it something to be disregarded?

Deputy Michael Noonan: They have some legal powers that are mandatory and, I suppose, the key one is that when we're doing forecasts for 2016 on which we base the budget, they have to be endorsed by the Fiscal Advisory Council. And if the Fiscal Advisory Council don't ... don't endorse them, I can't use them for the base for a budget. Now, there's a good relationship between forecasters in Finance and them. And John ... Dr. John McHale has complimented the economic section on their forecast. But they must endorse the forecast, otherwise I can't build the budget on the forecast that Finance produces. Now, that's an extremely strong power ... an extremely strong power and it's mandatory.

The advice is persuasive and, obviously, no Minister wants to be at variance with the advice of the Fiscal Advisory Council to a great ... to a large extent. But, when you remember that part of their mandate is to give a contrarian view ... because Wright and various other people said one of the problems in Ireland was that contrarian views weren't entertained, once that's their mandate, it seems to be that most of the time when they do a studied ... a study of Irish fiscal policy that's promoted by the Minister, they won't agree with it. So it depends on how they present it.

Senator Susan O'Keeffe: What-----

Deputy Michael Noonan: But I think they do a very good job, now. I'm not ... I disagree with them at times but I am not critical of them. I think they're doing their job and they're doing it well.

Senator Susan O'Keeffe: What measures have you put in place to ensure that cyclical revenues are not being used to meet ongoing expenses?

Deputy Michael Noonan: Well, first of all, it's part of the budgetary process. And, you know, again, going back to the fiscal rules, when we balance the budget in two years' time or maybe sooner, then there's a discretion across the business cycle on the structural deficit to go plus or minus half a per cent. So that's the basic rule and, you know, I intend to adhere to that.

On ... yes, one has to make an assessment then, but budgets now have to be submitted to the European Commission and they examine them to see are there incidental windfall sources of revenue which are being built into the base when they can only be used once and they'll object very strongly to that. And they have done it with other countries, so we don't do that. The Cen-

tral Bank keeps an eye on it as well. There were significant capital gains last year on the sale of Government paper that underpinned the promissory note and Patrick wrote to me saying, "This has to come off the debt. You can't use this for budgetary purposes." So we took - whatever it was - €400 million off the debt.

So there are a number of procedures now which are built into the system. So it's not easy anymore to use transactional ... or sorry, incidental windfall stuff for budgetary purposes. You can use it obviously in the one year. You know, if you'd a project, you could use it within the year, but something that goes into the base for subsequent years, you wouldn't use it.

Senator Susan O'Keeffe: I know that you've committed to Deputy Higgins that you'll provide the detail of the €12.7 billion that came from related levies and bank ... dispositive investments and so on. But can I just whether or not that money went to the Exchequer or to the bank's balance sheets?

Deputy Michael Noonan: It went to the Exchequer.

Senator Susan O'Keeffe: Okay. You've talked a little----

Deputy Michael Noonan: It would be non-revenue income under the tables ... on the budgetary tables.

Senator Susan O'Keeffe: You've talked a little bit in your statement about the banks and the restructuring of the banks. So how would you describe the attitude of banks now, in the post-crisis era, and do you think enough has been done to share the burden with mortgage holders?

Deputy Michael Noonan: Well, first of all, bank directors now have to pass a probity test. Again - this is a ballpark figure now but I won't be very far out - I think there was 75 or 76 directors across the banks and I think there's only one survivor. So, you know, there was no reappointment of the directors of banks that were there at the time - not because there was a test of the culpability but it was because certain things happened on their watch. So, you know, that's the first change that has taken place. So there are new teams in, both in terms of directors and senior management, and they tend to be the next generation bankers.

Now, how were the banks after the crisis? I would think there was very low morale among staff in general because they were ... they felt they were being scapegoated and ... even socially, they felt they were being scapegoated. But, I suppose, that's not surprising either. But they're working their way through it now. I wouldn't think the job is finished yet, no more than any of the other jobs on the recovery, you know.

Senator Susan O'Keeffe: Has enough been done for people with mortgages? Has that part of the equation ... I mean, we can always say there's not enough but, really, has there been enough?

Deputy Michael Noonan: It's work in progress, yes, and I think it has ... I think we're at a point now where we can see that the majority of difficulties will be resolved, and of course, as the economy grows people go back to work, and again they have the ability to service their mortgages. But it's something we get monthly reports on and we continue to scrutinise.

But I'd be loath to say, "Enough has been done", and there may be new things we'd have to do. Like, before the summer, there was new measures taken again along ... around the insol-

vency legislation where the Minister for Justice brought in amendments.

Senator Susan O'Keeffe: When Mr. Buti ... In Mr. Buti's statement in evidence, he said, "After the completion of the programme in December 2013 the current minister for finance indicated in public that the Troika had not imposed one single measure on Ireland."

Deputy Michael Noonan: I don't recall doing that but if I said that, the context would have been that one of the advantages we had in managing the programme was total buy-in and I was constantly saying to Cabinet Ministers if they had to do things under the programme, you know, "Buy in and take ownership of it." So ... in taking ownership of it, we didn't regard it as impositions. Another way of putting it was, if there was never a programme or never a troika, what we did was necessary for the Irish economy even if we had full sovereignty and everything was a domestic decision.

Senator Susan O'Keeffe: When Mr. Chopra was giving evidence, he, at the end, said that ... he described the IMF's role in the troika as "a junior partner". How ... what was your view of that? Would you share that view?

Deputy Michael Noonan: I wouldn't, no. The troika, across the table from me, and they were over every three months for three years, they were all equal partners. Sometimes, like, the ECB specialised in banking issues and funding issues whereas the Commission had an overreach and the IMF were more in the same space as the Commission with a view on most issues. Unless he's talking about the relationships when they were discussing things privately among themselves, but, certainly, in discussing with Ministers and civil servants, they didn't give the impression of being junior partners.

And in Brussels, then, where the review of programmes took place at the Eurogroup meetings, the IMF were always present, and during our period, Christine Lagarde was representing IMF. I would never her describe her as anybody's junior partner.

Senator Susan O'Keeffe: Okay. The principals group replaced or superseded the domestic standing group. Do you think that the principals group is an effective structure for co-ordinating communication and actions? And would you describe the reporting relationship between that group and you, in the Minister ... you know, is it ... how does it work?

Deputy Michael Noonan: Well, they meet regularly and they discuss, you know, all the banking issues - Central Bank, Finance and NTMA. And they report to me as a matter of routine but if there's any particular problem, they report to me, you know, more than in a routine manner so, yes, I think it works.

Senator Susan O'Keeffe: Do they meet on a regular basis or on an *ad hoc* basis?

Deputy Michael Noonan: I think it's monthly but there's a regular flow of information, if that's the point you're getting at.

Senator Susan O'Keeffe: The Economic Management Council ... there has obviously been criticism of it as being an effective cabinet, or a cabinet without Cabinet or however you want to describe it. It didn't exist in the previous Government. Is it something that is here as a temporary measure because of the state we found ourselves in or is it a permanent fixture now, do you believe? And what is your view of the Economic Management Council? What do you say about its effectiveness?

Deputy Michael Noonan: Whether it's temporary or permanent is a matter for the Taoiseach and whoever the next Taoiseach is. It's a ... it's really ... there is a lot of, in my view, exaggeration about its role, and the criticism of it I don't agree with. It's effectively another Cabinet sub-committee, and it was a Cabinet sub-committee designed and put in place to deal on a weekly basis with the programme. I mean, by the end of the programme, we had implemented 290 separate and distinct measures and you needed some way of processing that level of intervention across Government Departments in co-ordinating it, and that's what the EMC did. But it had no authority, no more than any Cabinet committee, to make decisions on behalf of the Cabinet and decisions had to be taken back to Cabinet, if it required a Cabinet decision.

Senator Susan O'Keeffe: So why didn't it lapse-----

Chairman: I will bring you back in again now, Senator.

Senator Susan O'Keeffe: Why didn't it lapse when the troika left? That's the last.

Deputy Michael Noonan: It hasn't lapsed because it continues to fulfil a useful function but it's not as central to Government business as it was when we were conducting our programme.

Senator Susan O'Keeffe: Thank you.

Chairman: Thank you very much. Thank you, Senator. Deputy Pearse Doherty. Deputy, you have ten minutes..

Deputy Pearse Doherty: Go raibh maith agat, a Chathaoirligh, agus fáilte roimh an Aire chuig an choiste. Minister, given the deficiencies highlighted in the Wright report, do you believe that the Department of Finance now has the skill sets and expertise to produce reliable economic forecasting and relevant and timely advice on important matters?

Deputy Michael Noonan: Well, the Wright report criticism, as I recall it, was focused principally on the fact that, in comparison to comparable treasuries, it didn't have a large number of people that were qualified in economics. I think that was the ... one of the drivers there. And since the previous assistant secretary, and continued with the present assistant secretary, there has been a huge intake of people with economic qualifications and there's a large number of people now who have a masters in economics.

Deputy Pearse Doherty: So how do you believe ... how do you view the advice and analysis that you are receiving from your Department, ranking it against the ... your European peers? And what's your assessment of the capacity to evaluate policy alternatives and risks internally without the need to engage external consultants now?

Deputy Michael Noonan: Well, I would think that the evaluation is quite good but the nature of the Irish civil servants ... Civil Service is that it's generalist and if you had to gear-up and have specialists for every eventuality, you'd have a lot of specialists who wouldn't be doing anything for a lot of the year who would be waiting for the specialist event to occur. So, if something requires specialisation, it has been the practice for a long time to engage consultants, and it probably ... it's probably more cost effective. But that's not to say that the generalists at senior level don't have a lot of technical competence but there are times when you need either expert legal advice about areas or expert economic analysis about areas, and, you know, the Department goes for that.

Deputy Pearse Doherty: Let's take the conversation you had with Deputy Higgins in terms of your conversation with Mr. Trichet where he pointed out, as you say, you were taken aback or you were stunned a wee bit at this, which was his reference to the Irish financial service centre and not being able to get funding.

Deputy Michael Noonan: I was-----

Deputy Pearse Doherty: Can I just finish, sorry?

Deputy Michael Noonan: I was surprised because I hadn't-----

Deputy Pearse Doherty: Sorry, I need to ask the question.

Chairman: I will just allow Deputy Doherty finish and then I will bring you in, Minister, okay.

Deputy Pearse Doherty: I need to ask the question. In relation to what Mr. Trichet said in relation to the Irish financial service centre, was there advice provided to the ... by the Department to you for the Government decision that covered this area or not?

Deputy Michael Noonan: I ... I ... there is ... what I said was ... to Deputy Higgins was I was surprised because it was unexpected. I had been figuring out how the conversation might go. I knew it was going to be a difficult conversation and the mention of the Irish financial services was unexpected. I did ... I hadn't reckoned that this would be mentioned, you know. I hadn't included it in the Government memorandum. When the decision, which I read in reply to Deputy Higgins's question, ... the Government decision was read out, no, I hadn't included it.

Deputy Pearse Doherty: Was there advice given on that?

Deputy Michael Noonan: I don't think so because if there was-----

Deputy Pearse Doherty: Was he ... was Mr. Trichet right?

Deputy Michael Noonan: If there was, it would have been in the ... it would have been in a memorandum if the advice was given. It would be an important-----

Deputy Pearse Doherty: Did you seek advice afterwards?

Deputy Michael Noonan: I discussed it later on.

Deputy Pearse Doherty: And was he ... was this-----

Deputy Michael Noonan: Well, I mean, they said, "You never know but if you default, there has ... there are unforeseen consequences which ...". I mean, I didn't need advice to tell me that. Once he mentioned it, I said, "You know, if you're trying to put pressure on me, you have come up with a good one", you know.

Deputy Pearse Doherty: Okay. In relation to ... can you just outline ... you talked about the two phone calls that you've had with Mr. Trichet during that period - during that day it was. What other engagements did you have with Mr. Trichet in relation to the burning of bondholders, before or after?

Deputy Michael Noonan: Well, that was my first engagement with him on the burning of bondholders because, as was pointed out earlier, I took up office on 9 March and this was 31

March, so it wasn't a long lead-in time. I knew who he was but I hadn't met him previously. I think there was a meeting in Brussels where I would have met him.

Chairman: Can I just step in for a second because there is a bit of mobile phone interference there? As I say, it doesn't necessarily mean it's the member, it could be anybody in proximity to them so could they please get them off, please. Minister Noonan.

Deputy Michael Noonan: I met him subsequently on several occasions, I had different agendas to run. I was trying to get him to move on the promissory note. I was trying to get him to agree to increasing maturities on the official lending. I was trying to get him to take out the moral hazard imposition that put a premium on-----

Deputy Pearse Doherty: Specifically on the burning of bondholders, unguaranteed bondholders.

Deputy Michael Noonan: No, I didn't revisit it after that.

Deputy Pearse Doherty: Okay. So six weeks after you got this phone call from Trichet, which altered your speech to the Parliament, you announced on RTE - in Washington - that you were going ... the Government was going to pursue the burning of bondholders in Anglo Irish Bank and Irish Nationwide, with the consent of the ECB. You're just after telling us that you didn't discuss with Trichet after that point, and you already knew at that stage that Trichet told you that a bomb would go off in Dublin if you pursued this angle. So why did you make that statement, Minister?

Deputy Michael Noonan: Because I was ... now had moved my negotiation on to changing the promissory note and, as part of the promissory note, the bondholder issue was still in there. I hadn't conceded ... I never agreed with Trichet. I never agreed with Trichet. I never told Trichet we wouldn't go ahead. What we did was I made a statement in the Dáil and that was that we weren't including it in what was announced to the Dáil that day, and then the promissory note discussions were very intricate and took a long time to get a result.

Deputy Pearse Doherty: Yes, but that's not the question I'm asking about the promissory note at all at all. I'm asking you about your public statement, which was I think in Washington, and you did an interview with RTE and all of this is on the record, where you talked about that the banks are no longer normal entities and more like warehouses, in that context you would be going to Ireland's European partners to propose significant cuts in the money to be paid to the bondholders, yet you didn't have any conversations about burning bondholders with Mr. Trichet after this event and you knew Mr. Trichet's position prior to this, six weeks earlier.

Deputy Michael Noonan: No. The conversations I had with the Commission and with the ECB and with the IMF after that was that we could not continue paying €3.1 billion every March to service a promissory note arrangement-----

Deputy Pearse Doherty: I am not talking about ... with respect, I'm talking about bondholders.

Deputy Michael Noonan: -----and that we needed it restructured, and that as part of the restructuring the issue of senior bondholders would have to be revisited.

Deputy Pearse Doherty: Can I ask you in relation to testimony that we've had from Mike Aynsley at the inquiry here, and this is in relation to your Department and yourself? He said in

evidence to the committee:

> I was shocked in January 2013 when I received an email memorandum from one of my direct reports at the Bank who had a detailed discussion on recovery activities with a DoF official. [...] The email details the DoF official stating as part of a discussion that a major asset sale transaction should not have been completed simply because the buyer was a named Irish businessperson or his company. The Bank Executive then moved the conversation to the possible sale of another major business asset, and asked the DoF official whether he would be in agreement with a certain price and the sale process from the same Irish businessperson or his company or alternatively €100 million less from another party. The response from the DoF official was that the lower price would be preferable and that he believed that the Minister for Finance would also be supportive of that position.

Can I ask you a number of questions from that first of all? Are you aware that the Department of Finance was suggesting to IBRC to sell assets to individuals substantially below the valuation because of a sensitive, named Irish business person or his company and that the view was being expressed that you supported it? And can I ask you did you ever have any conversation in relation to a named Irish business person or his company in relation to the purchase of assets from IBRC and your opinions on that?

Chairman: Can I just make an intervention before Minister Noonan answers? And I will be asking him to answer the question, but I would also in doing so ask him not to drift into areas that may be in conflict with the commission of inquiry that is also dealing with related matters. Minister Noonan.

Deputy Michael Noonan: Yes, I read the comments made by Mr. Aynsley in the newspapers. I didn't know what he was talking about. It sounded like dúirt bean liom go ndúirt bean léi to me.

Chairman: I just got a legal opinion on that. That's okay. Go ahead.

Deputy Michael Noonan: I mean, as I read it, it was that an official had a ... produced a minute of a conversation he had with an official in Finance who related to him that he had a view about something and that the Minister would support this view. I mean, I have no idea what the basis for that was. But certainly my view was that assets should have been sold all the way across the banking system for the highest price, once proper procedure was followed and that the primary interest was to make maximum recovery for the Irish taxpayer.

Deputy Pearse Doherty: Minister, we have a very serious job to do in this committee and it's always in the last session, in the last public session it's maybe good to crack the odd joke or all that but €100 million isn't something-----

Deputy Michael Noonan: You started as Gaeilge so I thought I'd complement it by having something as Gaeilge myself.

Deputy Pearse Doherty: No, no, with respect, if you again let me finish my question. The e-mail correspondence from an official within IBRC to Mike Aynsley documents a conversation with a Department of Finance official. I would suggest to you that this is a bit more than dúirt bean liom go ndúirt bean léi. It talks about €100 million of an asset to be sold by IBRC for a value of less than €100 million and suggests that this would be the type of view that you would have as Minister for Finance. Even if it's not your view, do you believe it's appropriate for the Department of Finance official to influence in any way the sale of assets of IBRC and

particularly to suggest that assets should be sold at a value substantially less than what they're valued at because of the political sensitivity of an individual which may be looking to purchase the asset?

Deputy Michael Noonan: I don't agree with the evidence that was given but I have never seen this e-mail or nobody has given me a copy of the e-mail and I don't know what basis there is for it. But there's a commission of inquiry to examine all these issues and let the commission of inquiry deal with it.

Chairman: Thank you, Deputy, and then I'm going to-----

Deputy Michael Noonan: I'm afraid I can't help you on this.

Chairman: I'm going to try and take one question and then go for a break.

Deputy Michael Noonan: It has nothing to do with me, I can assure you of that.

Deputy Pearse Doherty: Okay. Finally, and I understand the e-mails will be given to the committee and I'm sure we can look into the individuals then at that stage, or whoever needs to see them. In terms of what has been reported in the *Irish Independent*, I believe, earlier this year, in relation to Governor Honohan's view of subordinated bondholders in the liquidated IBRC, can I ask you did you take ... did you note Governor Honohan's view that bondholders ... subordinated bondholders should not be paid, that the State should enlist legal views, and suggested a legal individual, somebody who already had provided advice to the State under the previous Government, to bring this about? Did you follow up on the views of the Governor of the Central Bank that the subordinated bondholders in Anglo Irish Bank or IBRC at the end of the liquidation wouldn't be receiving what many believe should be taxpayers' money being paid back to them?

Deputy Michael Noonan: This is the issue that when every secured creditor is repaid by the liquidators the residue will go to the unsecured creditors. And there is a hierarchy of unsecured creditors with subordinate bondholders towards the end of the line and if the surplus is sufficiently large some subordinate bondholders may benefit from the proceeds of the liquidation. Under law, as it stands at the moment, that is the position but it hasn't come to the point yet where this arises as an imminent threat and we're still considering in the Department how we will deal with this issue and we're still considering, and I'm aware of Governor Honohan's advice and I have spoken to him about it, and we'll take his advice into account, but I have to act in accordance with law and I'm exploring the possibility of not paying them in accordance with law. But if, in accordance with law, I have to pay them then I won't be doing it but the liquidator has to act legally as well. So it's still an open question.

Deputy Pearse Doherty: Okay, go raibh maith agat.

Chairman: Thank you, Deputy. I just want to deal with one question and then I'm going to propose that we take just a short break.

Minister Noonan, the former Attorney General, Paul Gallagher, described Ireland as "isolated" on the night of the guarantee and the time of the ... and this would imply that the nation was very much on its own, that there wasn't a friend in Europe, either in a national parliament or at a broader institutional level, and that Ireland was very much there in an isolated position. At the time of taking office, can you describe your perception of the nature and effectiveness of Ireland's relationship at a European level and, in particular, with the ECB and, further to that,

what actions, if any, have been taken to strengthen or maintain Ireland's relationship within Europe and how active is our diplomatic engagement with European institutions today?

Deputy Michael Noonan: I don't know what the situation was around the time of the guarantee because that was long before I took up office but I know, from my subsequent interaction in Europe, that many Ministers in Europe and many treasuries in Europe and many bank governors in Europe were upset about the fact that Ireland introduced a blanket guarantee unilaterally. So there was relationships to be repaired, there's no doubt about that. I mean, even in the UK, the first effect of the guarantee was that funds began to flow from the UK banks into the Irish banks and that began to put pressure on the UK so, you know, there was concern.

What did we do? I should also say, I think, that my predecessor ... Brian Lenihan's reputation was very high in European circles and he was held in high regard so I was building on that and spending a lot of time talking to people. You know, the formal part of the meeting in Brussels works on a fairly tight agenda but the real business is done *en marge* and building up the relationships *en marge* was very important. And I think the Taoiseach followed the same line and Ministers were instructed to attend all meetings that they were required to attend and to rebuild relationships which seem to have been damaged.

Chairman: Okay, thank you very much, Mr. Noonan. With that said, I propose that we just take just a bit of an interval and that we resume at 6 o'clock with the Angelus bell. Is that agreed? Agreed. Thank you.

Sitting suspended at 5.50 p.m. until 6.10 p.m.

Chairman: In returning, if I now propose that we go back into public session. Is that agreed? Agreed.

Now, if I can just deal with one more item myself and then I'll invite in Deputy John Paul Phelan. Minister, in the ... this is contained in the core documents. It relates to the *ex-post* evaluation of the economic adjustment programme, but the general tenor of the question is as follows: that in the European Commission's *ex-post* evaluation of Ireland's bailout programme of 2010 to 2013, it was stated that while "The burden of fiscal adjustment was shared quite widely, ...overall [it was] the younger generations [who] were hit harder by the crisis." Maybe you could comment or give further explanation as to whether you agree with that assessment and maybe offer your own view as to any significant differences in the impact between those on social welfare income and those on earned income during that period.

Deputy Michael Noonan: Well, on the, whether it was the young or the old or everybody, I mean everybody suffered. That's the first thing. This was an absolute catastrophe. And there have been about 80 financial crises across the world since 1975. And, there's no popular way or pleasant way of dealing with them. And as always, there's always pain and suffering, and universally in Ireland, people suffered. Did the young suffer more? Well, young male workers in the building industry where there was 250,000 employed, that went down to under 100,000 and it's going back up now rapidly again, but yes, there was a whole tranche of young male workers lost their jobs. And then they, and many of their contemporaries, were forced to emigrate because in the early stages of the crisis jobs were, were, jobs were being lost rather jobs being created. The job creation didn't really recommence until 2012. So on the basis of unemployment and emigration, I'd agree with the statement.

On people on earned income and people on welfare, there was a commitment given by the

Government coming into office for our period of the recovery, but of course the crisis was going on for some time before we came in in 2011. But if you take it, during the years where the programme under the troika was operational, basic rates of social welfare weren't cut, but other rates were cut and, again, for the young, there were adjustments downward on social welfare payments for persons in their 20s, and you could add that on to the previous remarks. For people on earned income, there was mandatory pay reductions. You, you'd know yourself the level but they ranged, depending on Civil Service grade or public service grade from 15% to 20% and there's only just a commencement of restoration of that now. And as well as that, the universal social charge was brought in by the previous Government and you know people paid a lot more taxes on personal income, and then their personal income went down as well.

Now in the private sector it's not as clear because the data wouldn't be as easily, wouldn't be as easily put together as in the public sector but there would be a strong view that many private sector companies cut wages, and they certainly abolished overtime or reduced overtime. So again, private sector workers - earned income workers - would have had a very heavy penalty. There was a bit of a crossover then. You'll recall that young teachers, for example, were put on a lower starting salary than teachers who had been in the job, and much lower than their predecessors. So I suppose that reinforces the opinion that in certain professions young people were targeted more than middle-aged people with families.

Chairman: Okay, thank you. Deputy John Paul Phelan.

Deputy John Paul Phelan: Thank you, Chairman. Good afternoon, or good evening, Minister. Firstly, can I turn to the matter touched on by Deputy Doherty in relation to Mr. Aynsley's evidence. I'm dealing in general terms. There's a couple of quotes that I want to put to you. He alleged in his evidence that there was interference in certain transactions in relation to certain clients within IBRC. One of the, the first quote is:

> There were times where specific client names were mentioned, and I can think of one in particular where the specific name was mentioned as one that the Minister would not really like to have to stand up and defend in public. There are a couple of these ... in fact, there was more than one of those.

Were you aware before he gave evidence here that, you know, there was allegedly people within the Department of Finance who were making these representations on your behalf to IBRC?

Deputy Michael Noonan: But you see, that question, if I say yes or no suggests that there were people making representations on my behalf. You know, I don't believe there were. So I don't know what the basis of it is, and I can't inquire because if I inquire I'm contravening the inquiry that is now put in place under Judge Cregan. I can't go around the Department asking officials "Were you the person referred to by Mike Aynsley?" because if I do that ... so I'm in a position where I don't know what the basis of that was. As presented by Mr. Aynsley, it was an e-mail from somebody who was an employee of IBRC that were recounting to him a conversation with an unnamed official in Finance, who he said gave a view on what the Minister's attitude would be to a hypothetical situation which wasn't a real case but which might happen in the future. Now how can I deal with that?

Deputy John Paul Phelan: So you were unaware of anything to do with this until, until you heard it here?

Deputy Michael Noonan: My position is that I don't know whether it's, it was accurate or not. I know that from what was said in the newspapers, it wasn't direct evidence, which was what I was suggesting to Deputy Doherty. It's, supposedly, an e-mail by an employee of IBRC, on his interpretation of a supposed conversation with an official of the Department, who supposedly gave a view on what his Minister might think about a certain event if it happened, but it hadn't happened. This is where the hypothetical thing comes in. So, all I can do is advise you to leave it to Judge Cregan because I'm sure, once Mr. Aynsley said it here, he's going to say it again when he-----

Deputy John Paul Phelan: I'm not even getting into it, Minister, but I just wanted to know were you aware of it at all prior to it being mentioned here.

Deputy Michael Noonan: I was aware of it, I was aware of it when I read a record, an account of Mr. Aynsley's evidence in the newspapers.

Deputy John Paul Phelan: Okay. That's fair enough.

Deputy Michael Noonan: That was the first time I became aware of it.

Deputy John Paul Phelan: Can I then ask you in relation to the relationship between IBRC and senior officials in the Department of Finance? And I want to reference, which I did with Mr. Aynsley, *The Sunday Business Post* from 26 April 2015 where there was a quote from Mr. Aynsley, where he said, "I don't think it's a secret that I don't get on at all well with John." The "John" in question being Mr. Moran, the former Secretary General of the Department. Were you aware that, as Mr. Aynsley described, that his relationship with Mr. Moran was as bad as that?

Deputy Michael Noonan: Well, you see, there is a commission of inquiry, there's a specific terms of reference about how the Department of Finance and the Minister for Finance carried out their functions in relation to IBRC. And, I can't see how I can do a preview of anything here today, which relates to that term of reference.

Chairman: We need to move on, Deputy.

Deputy John Paul Phelan: No, that's fair enough. It's just that when Mr. Aynsley was in, those questions were allowed to be asked and I don't see why they shouldn't be asked today.

Chairman: And I would lever in Minister Noonan's prerogative to determine how much space he would move into that here.

Deputy Michael Noonan: I mean, I'm not refusing to answer the question.

Chairman: I know you're not refusing-----

Deputy Michael Noonan: I read the papers like everybody else, so quite clearly there was a bad relationship between Mr. Aynsley and certain officials of the Department, but whether any of that is relevant to anything, I don't know.

Deputy John Paul Phelan: My question was: were you aware of it at the time and when, if so, when did you become aware of it? That's all. That was the question. I wasn't getting into the specifics at all.

Deputy Michael Noonan: Well, I mean, how do you adjudicate on the relationship be-

tween two people who meet each other and talk to each other regularly in the line of business, and are entitled to do so? I mean, it's not the Minister's job to assess the level of, the level of relationships between people.

Deputy John Paul Phelan: Okay, can I ask, were matters relating to IBRC and any tensions that may have existed between them and the Department of Finance ever the subject of discussion at the Economic Management Council?

Deputy Michael Noonan: I'm sure there were because there's a whole series of PQs that were recited over the last six months.

Chairman: We're drifting into Cabinet confidentiality now and Cabinet discussions and all the rest of it, Deputy. I would advise you either to get a more determined line of questioning or else move it on.

Deputy John Paul Phelan: Okay. That's fair enough. Can I ask also then in relation to the Fiscal Advisory Council? You stated in your comments earlier that its function was primarily one to provide a contrary view, a contrarian view. The terms under which the Fiscal Advisory Council operates don't describe its function as one to provide contrarian views. They do provide its function as being to provide critical analysis. Can you elaborate on what you were saying earlier on in relation to those ... that position with regard to contrarian views or-----

Deputy Michael Noonan: There are three different reports into the crisis in Ireland and in a number of the reports, and particularly in the Wright report if I recall it correctly, there's a reference to the fact that within Government Departments that there wasn't a welcome for people putting an opposite view to whatever the convention and wisdom was and I think the same would have happened across Europe. And the idea of independent fiscal councils was developed in Europe and was part of the Irish programme. And the motivation, one of the motivations for it, was that you would have a statutory body operating under law, empowered to give a contrarian view of policy, economic and fiscal policy. That's where I was coming from. On the specific remit it got then, from my point of view, its primary remit is to oversee the forecasts made by the Department of Finance and, in overseeing those forecasts, to agree those forecast, if they do agree with them. And then they have an advisory role as well, where they make public comment from time to time, and I think they do pre-budget statements and post-budget statements. And a number of the members of the council, and particularly the chairman, quite frequently give media interviews. And in the media interview, they give an independent view of the economy and, as part of the independent view, they state clearly whether they agree or disagree with Government policy.

Deputy John Paul Phelan: Okay. Can I ask then briefly in relation to a question asked of Mr. Chopra earlier by Deputy Murphy in relation to the formation of the current Government? There was some media comment at the time that the troika were involved in discussions with the two parties that formed the Government, prior to Government actually being formed, and that effectively they were almost a third party to the negotiations which took place. Do you have any view as regards that particular media comment at the time?

Deputy Michael Noonan: My recall of it was that the troika were very proper in their relationships with the Government and the Government parties and with the Opposition parties. And while they briefed me and the Fine Gael Front Bench extensively around the time the programme was being drawn up, there was no contact with them during the election campaign and there was no contact with them when Labour and Fine Gael were designing the programme

for Government, but we knew that there were certain things that couldn't be ignored.

First of all, there was a programme agreed and we knew from the discussions with them before the election that they expected us to implement the programme. A part of the negotiation I did with them at that stage was I got them to agree that they would be prepared to negotiate changes in the programme if we were to substitute an alternative measure of equal fiscal value. In other words, if it raised the same tax surfeit and same expenditure effect, they were prepared to talk in those terms. But, of course, they had qualifications in that it couldn't be once off - to get back to a previous question - it couldn't be something that just applied for the one year, it would have to be something that had a base effect which would go forward. But there was no suggestion at all that the troika got involved in any way in the formation of the Government and they had done an arrangement with the previous Government and the previous Government ... if the previous Government got re-elected, they'd have been quite happy to work with them. If your suggestion is they were looking for a change of Government, that is not the position-----

Deputy John Paul Phelan: No my suggestion was just the comment-----

Deputy Michael Noonan: -----they were keeping the Opposition informed because all the polls at the time were saying there'd probably be a change of Government.

Deputy John Paul Phelan: Okay, Finally then, under the Single Supervisory Mechanism, the four largest banks in the State – Bank of Ireland, AIB, Permanent TSB and Ulster Bank – are now supervised by the ECB while other institutions are supervised by the Central Bank of Ireland. Do you feel that there's a risk that we've once more arrived at a dual regulatory structure which could lead to supervisory gaps in the future?

Deputy Michael Noonan: Well, I mean, it wouldn't be possible for a central supervisor in Frankfurt to supervise the multiplicity of banks there are across Europe. So there would have to be a delegation of authority to local central banks. And so it depends on the really ... the value of the banks or the capitalisation level of the banks and I think it's sufficient to do what they're doing. But there are other areas as well, I mean the Central Bank here supervises the credit unions, for example, and there's a regulator of credit unions who works from the Central Bank so there are different layers of it but the Frankfurt people have only just begun what they're doing this year and we'll see how it works out. But so far so good and it seems to work well and I'd have confidence in it.

Deputy John Paul Phelan: Okay, thank you.

Chairman: Thank you very much. Senator Michael D'Arcy.

Senator Michael D'Arcy: Minister Noonan you're welcome.

Deputy Michael Noonan: Thank you, Senator.

Senator Michael D'Arcy: Mr. Noonan, Kevin Cardiff in evidence said that the-----

Deputy Michael Noonan: I'm sorry, who?

Senator Michael D'Arcy: Kevin Cardiff, in evidence, said that the Irish officials and the officials from the IMF didn't believe that the programme would work. You became Minister for Finance within a short period and you started to attempt to implement changes in the programme. Did you believe the programme that you inherited could work?

Deputy Michael Noonan: Yes, I did. Yes, I'm an optimist, you know. I thought it was a pretty good programme and, as I said, Brian Lenihan was held in high regard in Europe and I thought that it was a programme sufficient for the disaster that the country was facing. I'm not saying, like, that in your career as a politician you'd be wishing for a programme like this or that it'd be the kind of thing that you'd want to happen and that you'd have it to implement. It wasn't good news, but in terms of ... if you measured the programme against the crisis that it was supposed to resolve, I thought it had the main elements in place and if we could adjust it through renegotiation, we could improve on it, and that's what we did.

Senator Michael D'Arcy: The adjustments, the reduction in the interest rate €4.4 billion, the extending of the maturities and then the change to promissory note ... can I ask: do you believe that with your co-operation – and I use the word "co-operation" – with Mr. Trichet in relation to the non-burning of the €3.7 billion Anglo senior bondholders ... do you think that some of those adjustments were facilitated because of the level of co-operation between you as the Minister for Finance and Mr. Trichet and the troika?

Deputy Michael Noonan: Yes, there was a feeling around among politicians in Europe and among people in banks and various treasuries that Ireland was hard done by. And you know, kind of ... it was never said openly but the, kind of, messaging I was getting that, "We couldn't let you do what you wanted to do when you were restructuring the banks, but we'll try and accommodate you somewhere else", you know. You see, there was a long history to this if you go back on it. You had the Deauville declaration where the two presidents, the president and the chancellor, indicated that there'd be a private sector involvement in future bailouts and then that put the shivers through the European system. Then there was the meeting in Seoul that, I understand, you talked about this morning, but, again, if you go back to Tim Geithner's biography, he references a phone call he had with the participants in the G20 and he places it ... he says it was after Thanksgiving and about four days before the Irish programme was announced. And he says that there was political view in Europe that bondholders should be burned and that he advised very strongly against this because as far as he was concerned that ... the European banking system was being drained of liquidity and if your burned the very people that fund banks, the senior bondholders, that the liquidity crisis would have got worse and it would have brought down the European banking system. So, it isn't the kind of conventional argument we hear here that we weren't allowed do it because there'd be a contagion effect. It was that there was a liquidity problem in Europe and that the liquidity problem, you know ... if you read Geithner's book, you'll see it. And, I mean, there was a lot of people making accusations about Geithner saying that he, you know, he was the key factor in pressuring the Germans, for example, where there was a political disposition to burn bondholders. And it's true, but he doesn't deny it, like. He writes it in his autobiography and he gives the detail of the phone call. And he said Mr. Trichet was, equally, I forget the word he uses but, equally strident about ... about burning bondholders in that phone call. And it went on from there, then, and there was a pullback by France and Germany from the discounting of bondholders. And, you know, Germany wanted it and France didn't seems to be the thing. And the kind of balancing arrangement was when the German proposals for fiscal union were accepted by France. Then it went on and you had banking union. And as part of banking union, bail-ins replaced bailouts. So now it's part of the European legal system to bail-in senior bondholders and all other assets right down along the line in a cascade, giving a priority order. So, like, that's the context from where I sit. But it wasn't that, like, you had a whole group of people in Europe saying, "No bondholders". There was differences of view. And the differences of view played out. And, you know, if we were in a programme three years later or if we were going into a programme now, we'd be burning bondholders because it's now part of the European law. But not at the time.

But there's no doubt that Mr. Geithner had a very strong view on it and it's worth reading what he says in the American context because, as Secretary of the Treasury, he had a big influence on Europe and on international opinion on how they'd deal with the crisis because he dealt very successfully with the crisis in the United States himself. As well as that, there'd be a view that, you know, while the IMF have made various statements about ... they were in favour of this and in favour of that, when it went to their executive boards, they weren't. And I think that the Treasury in Washington has a pretty big influence over the IMF in Washington. So, that's just by a way of a bit of context Michael ... or Senator, sorry.

Senator Michael D'Arcy: And the ... Mr. Chopra this morning said that the SRB, the single resolution board ... that he felt that the funds were too small and too slow being advanced into it. Do you have a view in relation to that at the moment?

Deputy Michael Noonan: Yes, it won't be fully in place for eight years and I'd have a ... I think it should have been done sooner, you know, because it goes in in instalments. The actual fund is €55 billion. And, on the cascade, you run down through shareholders, junior bondholders, senior bondholders of different categories, corporate depositors, personal depositors of over €100,000. If you still don't have enough money to fill the hole in whatever institution you deem to be insolvent, you go on to the ESM and then you go to the resolution fund. So it's the last coach on the road in terms of putting money in to resolve banks. The basis of it was €55 billion is about 1% of the aggregate amount of money on deposits across the European ... the eurozone banks. So, it is a 1% figure. And, I suppose, because it's ...it's at the end of a cascade of other assets, it's probably sufficiently big. But if it was first up, 'twould be far too small.

Senator Michael D'Arcy: In evidence also this morning, Mr. Noonan, Mr. Chopra said that the €160 billion of funding from the ECB that was ... that the Irish banks were using ... that the ECB effectively wanted their money back. Was that the primary reason the State ended up in a national bailout?

Deputy Michael Noonan: No, I don't think so. I mean, the reason ... the proximate reason that the State went into a bailout was we couldn't get money on the market and we were running deficits. And if you're running deficits, you're running your country on the last run of expenditure on borrowed money. And if no one will lend you, I mean, the choices are then make a big correction overnight so that your income from tax equals your expenditure. And that means cutting expenditure and raising taxes.

Chairman: Now, Senator, I need you to wrap up there.

Deputy Michael Noonan: Or doing it over a period of time. And what the bailout did is it allowed the adjustment to be made over a period of time.

Senator Michael D'Arcy: Can you discuss, Minister, the interactions between the Central Bank, the Department of Finance and the ECB in relation to legislative changes on financial regulation?

Deputy Michael Noonan: A good bit of it was done by my predecessor, Brian Lenihan. But there was ... you know, arising from the Honohan report in particular, there were specific measures specified. And in my lengthy introductory statement, I outlined the legislation that was carried out there. But in terms of the discussion, it would have been done by agreement - principally between the Department of Finance, the Irish Central Bank and the banking authorities in Frankfurt.

Senator Michael D'Arcy: And finally, Minister, can you comment on why there has been no legislation to consolidate the numerous Central Bank Acts despite criticism from both the ECB and the Department of Finance dating back to 2002 and 2010, respectively?

Deputy Michael Noonan: Pressure of work mostly. All the things that the Department of Finance had to do around the bailout and since. But I was clearing the legislative programme with the various A, B and C lists which are to be circulated to the Dáil shortly. And in the second list, there's a proposal to introduce a Central Bank consolidating Act. So there's some progress being made. This morning I was clearing that.

Chairman: Thank you very much. Senator Marc MacSharry, please.

Senator Marc MacSharry: Thanks very much and thanks, Minister, for being here. From his experience as chairman of IFSRA, Brian Patterson, suggested to the inquiry, and I am quoting:

> A modern Financial Regulator needs a board with regulatory experience and skills. It needs an enabling legal framework with strength to counter the naturally powerful influence of the banking sector. It needs to be well resourced, to have a fast-moving capacity to develop its IT capability and to recruit expert staff. It needs freedom of action and clarity in its legislative mandate [and] that it's single-mindedly to prioritise the stability of the banking sector over other competing public policy goals.

Do you believe the current structure adequately fulfils each of these criteria?

Deputy Michael Noonan: Yes, you read your list very rapidly but it seems to me that the way the Central Bank is structured now and the way it is bedded in law allows it to fulfil all those. I mean, the Central Bank is the single regulator now and it has the capacity. It's independent, under law. It also is very well resourced, because it's very profitable, and it isn't subject to any of the recruitment embargoes that Government Departments have been subject to. So it has hired an awful lot of extra staff. And there's extra staff ... there's ... there's people available of high expertise in Ireland now coming out of the universities and some of them have worked abroad, in the City of London and elsewhere, so the expertise is there. So, I think they have the capacity. In terms of the board that they report to - in Central Bank terminology, it's called the commission - but they have a ... there's a lot of very serious ... serious people in there and they seem to have a high level of competence.

What was your last ... the only doubt I had was your last sentence. What was your last thing there?

Senator Marc MacSharry: "It needs [the] freedom [and] action [of] clarity in its legislative mandate that it's single-mindedly [focused] to prioritise the stability of the banking sector over [any] other competing public policy goals."

Deputy Michael Noonan: Yes, there was a debate about that back in the '90s, you know, and there was an Oireachtas committee put in place under Deputy Michael Ahern and I served on it. And at the time, the argument was that because it single-mindedly ... because the Central Bank single-mindedly concentrated on the stability of the bank, it ignored consumer interests. So that's the only qualifier I'd have. I think there has to be something in that list there to look after the interests of consumers. And it's not just the solvency of banks and keeping banks, you know, moving forward and getting them to land into the economy, which is of vital importance. But the ordinary person dealing with the bank, there must be a regulatory function to protect

their interests as well and vindicate their interests if they're transgressed.

Senator Marc MacSharry: Maybe your committee in the '90s was over-successful because the evidence we've been getting was that the focus of the regulator and the Central Bank was only on the consumer side and nothing on the macro-prudential side. Just, then, the same question ... just ... to follow on to the next question rather, what we've had - without prejudice to the various witnesses we've had - from the regulator and the Central Bank ... a number have said they had difficulty in getting their case across to senior management or, indeed, the board in one instance where the senior economist was saying that. Are you happy there are procedures in place now that if there are contrarians - and you yourself highlighted that the contrarian view isn't always welcome - are there adequate provisions now and measures and a structure which welcomes that and ensures that, however junior and, particularly, however senior somebody with a contrarian view ... that that will reach not only the Governor and the seniority within the bank and the regulator but also your own office?

Deputy Michael Noonan: Yes. Like, without having worked in a place, you're never sure how internal procedures worked. But in terms of accountability, the Governor of the Central Bank is very amenable to the Oireachtas, for example. And I understand he has appeared before the Finance Committee on a number of occasions with his senior staff and shows no reluctance to answer any questions that are put to him. And, you know, in the business we do as public representatives, you often get the contrarian view and you have an opportunity to put it to the Governor. So, yes, I think, it's a lot better than it was.

Senator Marc MacSharry: Evidence that we've received from John Hurley, former Governor of the Central Bank, from the night of the guarantee suggests that to allow Anglo Irish Bank to fail ... that it would have been his view that it would set the country back a number of decades. I think 30 years was mentioned, perhaps not by him but in representing what he said by somebody else in the room in giving evidence. From what you know, would you agree with that?

Deputy Michael Noonan: Well, you know, any big institution that has loans right through the economy, even if it becomes insolvent, if you pull the plug overnight, there'll be huge damage. Like, Lehman Brothers, when the plug was pulled in the States, did huge damage. But it can be wound down over time, which is what we decided to do with the liquidation. So my answer is that if you do it, like, in one fell swoop it will create a lot of damage, which would have repercussions across the economy, but if you do it in a planned, systematic way, because you've got a dud and you need to remove it, well then you can do it, as we're doing it now.

Senator Marc MacSharry: So if you had your time again, would you support the guarantee again?

Deputy Michael Noonan: I supported the guarantee and I qualified what I was doing on the night. And I spoke to my own people and I said, "Look, we don't much choice but to support it, but it is too widely cast". And then I asked the question during the debate to know was it intended to solve a liquidity problem or a solvency problem and the late Brian Lenihan assured me that it was liquidity. Now, I don't think he could have given me any other answer on the night. If he said it was solvency, the house would have come down .... the sky would've fallen, like. I don't think ... I mean, the way he looked at me I knew that ... I mean, I was quite friendly with him, like, so I had a different view. But I think if there was a mistake made on the night, it was that there wasn't a quick move to recapitalise shortly afterwards. Because it was as clear as crystal that very quickly, even if people didn't realise it on the night, that there was a solvency

issue staring us in the face, and it wasn't just liquidity.

Senator Marc MacSharry: Very graciously on the day the late Brian Lenihan died, in the media you said:

> I always said he was very effective in controlling the budget which was totally out of control when he became Minister. He was very thorough on ... [that] fiscal side. He was less successful in his banking policy. His decisions there were bad in my view but I would excuse him because many of his decisions were based on incomplete information or downright bad information.

Could you expand just on specifically the incomplete-----

Deputy Michael Noonan: Well, first of all-----

Senator Marc MacSharry: -----or bad banking information?

Deputy Michael Noonan: First of all, I liked him and respected him. News of his untimely death came in when the Government was having a meeting in Farmleigh and I did it outside the door at Farmleigh for the one o'clock news what you've just quoted. You know, I wanted to be consistent with the attitude I had taken when I was opposing him in opposition. And I had said in opposition on interviews that I agreed largely with the fiscal policy he was pursuing but I didn't agree with the banking policy. So, it was a reiteration of what I had done when I was the spokesman opposing him, but he'd have known that, like, but we, you know ... I mean, it's pretty well-known around Leinster House we spent a lot of time together, you know.

Senator Marc MacSharry: Oh, absolutely. And there is no issue with that at all. And it was very gracious. No, I'm specifically interested in the reference to bad information and incorrect information on banks. So, having taken over as Minister, had you reason to believe that the Minister before you, irrespective of the emotion of the day and a friend passing on, had you information which would say the Minister, the then Minister Lenihan, was given not just bad information but incorrect information?

Deputy Michael Noonan: No. I don't think he was given bad information or incorrect information by the Department of Finance, but I don't think the banks gave full information the night of the guarantee. I don't know, I mean, you've heard them here. But my view always was that full information wasn't given to the policymakers around the time of the guarantee. And, certainly, I don't think Anglo Irish Bank gave full information but maybe they did. But I was actually referencing something that Brian had said himself in an interview and that's what I was back-referencing there.

Senator Marc MacSharry: Okay. Just to take-----

Deputy Michael Noonan: You know, like with ... you know these situations. And you're in politics a long time and you come from a distinguished political family. You owe it to everybody, no matter what you're saying, to be consistent and truthful. So I was trying to make sure that there was a fulsome tribute being paid, which I was sincere about, but, at the same time, I didn't want to pretend that I hadn't been critical about certain aspects of what he did at the time. And that's is why it was phrased-----

Senator Marc MacSharry: No, I do-----

Chairman: Let's move on so.

Senator Marc MacSharry: No. I do ... I understand it completely. Just on the comment that you felt that the banks weren't giving all the information on the night of the guarantee to officials, did you mean to the politicians or do you mean to the Central Bank to the politicians or do you mean from the banks to the Central Bank to the politicians?

Deputy Michael Noonan: No. I had no first-hand knowledge of it. But like everybody else-----

Senator Marc MacSharry: This is the last one.

Deputy Michael Noonan: -----I'd be interested in the evidence the bankers gave, you know.

Senator Marc MacSharry: Grand. Just on a lighter note and to conclude, I was reading an article in recent days in *The Examiner* . It was written by Ger Howlin, it was about a completely different issue but he spoke of the file in the Department that the Minister never gets to see and it's the one that being prepared for his successor. So, if there is such a file, was there anything in the one that you were given about your predecessor and that Government which you might like to share with us today that might be of interest to our deliberations?

Deputy Michael Noonan: No. Brian Lenihan, the late Brian Lenihan, was held in very high regard in the Department of Finance. Any official I ever spoke to spoke well of him and spoke well of his abilities and also spoke in terms of he being a nice person to work with, you know. I have already told the Department I'm going to succeed myself, so it's on that basis they're preparing the file.

Senator Marc MacSharry: Very good. Thank you. Thanks, Minister.

Chairman: Senator Barrett.

Senator Sean D. Barrett: Thank you very much. And welcome, Minister Noonan. In his testimony to the inquiry, the former chairman of IFSRA, Brian Patterson, noted that the Financial Regulator was reluctant to use its sanctioning powers due to real concerns about legal and possible constitutional challenge. Has that been resolved since as far as we know, Minister?

Deputy Michael Noonan: Yes, I mean, there has been a whole corpus of law put in under the Central Bank now. And I suppose the best test of it is the Governor, Patrick Honohan, hasn't come to me looking for any amendments in law to strengthen his position as Governor or the position of the various regulators that work to him.

Senator Sean D. Barrett: You mentioned in your statement on page 7 that the Wright report identified the Department of Finance as one of the strongest contrarians during the previous decade. But I think there was a reluctance to write things down. Wasn't that one of the problems he found too - what was the nature of the contrarianism? Has that changed in your time?

Deputy Michael Noonan: Yes. Like the process is there is MAC, Civil Service MAC, where the management team meet every week and they discuss all issues. Now I don't attend the MAC; I get reports from the MAC. But one of my political advisers attends the MAC. But then when submissions are made to me, they're made in writing and there is always a recommendation to agree or disagree, or note or whatever. But within the case made, there are different views expressed. So, if there's a contrarian view, I would expect it to come up in the submission, but they don't say, "Everyone here has different views", so, no sorry, the way I'll

put it is ... they always make a recommendation but it's clear that if there are alternative views, they're reflected in the submission.

Senator Sean D. Barrett: One of the things we found, Minister, was an OECD report being fairly severely censored without being shown to the Minister. Does that custom still-----

Deputy Michael Noonan: When was that?

Senator Sean D. Barrett: I think that was in 2008. And some of the things, I think, were interesting about bank resolution and so on and changing bank housing bubble to some word less strong. And it seemed to have developed that the officials got the chance to do this unbeknown to the Minister.

Deputy Michael Noonan: I don't know. I mean, the, kind of, run of reports I get - I get NAMA reports, NTMA reports, Central Bank reports and then reports from OECD, comments from the Commission, all that kind of stuff. And everything is presented to me and nothing is redacted.

Senator Sean D. Barrett: Yes.

Deputy Michael Noonan: And we have a practice now of putting as much as we can up on the website. Rather than waiting for freedom of information, we just ... if we can, we publish and share the information. We send a lot of stuff over to the finance committee as well, as the Chairman will be aware.

Senator Sean D. Barrett: On the same theme, Minister, ringing up the ESRI if they didn't much like what was in a quarterly or in a medium-term review, John FitzGerald referred to something, code-named "Nervous Nellie". He used to ring up if he didn't like what the ESRI was saying. So, I mean, the new dispensation, that kind of-----

Deputy Michael Noonan: As far as I'm concerned they can say whatever they want to say, but I reserve the right to talk back like, you know, if I disagree.

Senator Sean D. Barrett: Of course. The Government economic evaluation service - can it become on the expenditure side the kind of body that IFAC is on the taxation side?

Deputy Michael Noonan: We have appointed a chief economist, whom you heard here, John McCarthy, and he has a team of people with him, all with economic qualifications. And they're a particular unit in the Department and they handle all the forecasting and ... and all that side. So, it is a unit. Are you saying it should have a statutory base or something?

Senator Sean D. Barrett: I think... when we get legislation in the Seanad or in the Dáil, shouldn't it have economic evaluations attached to it? Regulatory impact assessments seem to be declining in the numbers. In other words, we want to participate in the contrarian views being known. I think it's in the background, Minister, that there was so much consensus/complacency that one has to ensure that doesn't happen in case there's a recurrence of this crisis. So, the more differing views and the more economic analysis of documents and Bills and policies that come to the Oireachtas, the better I think.

Deputy Michael Noonan: Yes, that's a good point. I will look at that.

Senator Sean D. Barrett: The public capital programme historically didn't have much in the way of economic appraisals. Should that be changed, given the importance of investment

and that it should yield a return and not just leave a bundle of debt for yourself or future Ministers to deal with?

Deputy Michael Noonan: Yes, we're ... NewERA now does an evaluation of all the major proposals in the public capital programme, and it's the function of the NewERA, in effect, to give that kind of advice. So, it wouldn't apply to smaller projects, smaller cost projects, but all the big stuff would've been evaluated.

Senator Sean D. Barrett: Was the split of the Department of Finance and public administration and reform, while vital in dealing with the bank crisis ... is it the correct way to go forward into a more non-critical situation?

Deputy Michael Noonan: Well, there were historically two Departments, because you had the Department of Labour and, quite frequently, it was labour and the public service. So you had all the HR role of the Department of labour and the public service carrying out the functions that Minister Howlin carries out now. The additional role that it was given was control of expenditure. It was a decision that came from a position paper developed by Deputy Richard Bruton in opposition, where we thought, with the events that we were facing into if we were in government, that you'd get a better control of expenditure if you had a distinct Minister looking after it who could be hands-on in terms of expenditure. Now, whether it lasts into the future or not, you know, when there's less pressure on the kind of things I do ... you know, if banking fully stabilises and the Central Bank is running the banks and you don't have the, kind of, hands-on thing that we had over the last couple of years with banking concern, I suppose there's a case to be made for re-amalgamating the two Departments. But it is a matter for the Taoiseach and the incoming Government, and there has been no thought given to it yet.

Senator Sean D. Barrett: Has Irish banking been able to move away from its property fixation? I mean, we'd some numbers, Minister, that 8%-9% of some of our pillar banks, of their investment, was in industry and agriculture combined and multiples of that into property. Can you turn them around to make them more interested in developing the wider economy?

Deputy Michael Noonan: Yes, it's moving away.

Senator Sean D. Barrett: Good.

Deputy Michael Noonan: A lot of investment in agriculture now; a lot of investment in SMEs also. But as well as that, as we identify new sources of funding, like European Investment Bank money now for SMEs being channelled through the high street banks, AIB and Bank of Ireland. The money provided by EIB is not for construction purposes; it's for growing the economy and it's for the SMEs. So, very often, the authorities from which the funds come dictate the uses to which the funds are put and are adverse to too much funding of construction. Yes, it's improving, but, I mean, I would never say to you that we have completed the work on the banks. It's an ongoing project and, while the economy is stabilising, there's quite a lot to be done yet.

Senator Sean D. Barrett: Were there codes for the relationship between bank regulators and banks, you know, and what should they be? I mean, one model might be that the bank regulator should be hated by the banks because he is controlling them in the public interest, and not be seen as part of the bank industry. When Governor Honohan gave notice that he was leaving, the headline was "Top Banker Quits". Well, he's the top bank regulator, but ... can that distinction be made, Minister?

Deputy Michael Noonan: Yes. I mean, but if you go back in it, the fault in the past was that the, kind of, conventional wisdom was that bankers were in the higher professions. They'd be like doctors and accountants and they should self-regulate because there were of high ethical principle, so that your regulation would be at a level of principle. So, you know, the regulators set down the principles of the regulation and set down protocols, and then the bankers would follow. But there was no hands-on scrutiny of whether they would ... were following or not. So that's changed completely now. I mean, there's staff of the Central Bank now inside in every bank, and they're there more or less on a full-time basis.

Senator Sean D. Barrett: In your reply to Deputy Doherty, you mentioned the-----

Chairman: Wrap it up now please, Senator, if you can.

Senator Sean D. Barrett: Thank you, Chairman. The 39 economists that Mr. Wright found and contrasted it with your opposite number ... Jim Flaherty had, in Ottawa, a much larger complement. I mean, we have a document that's circulated to us today which shows 39 masters in the economic section and one PhD, so it's almost the same as the number that Mr. Wright wrote about-----

Deputy Michael Noonan: I think Mr. Wright's figure was across the Department as a whole. That's just in the economic forecasting, the economic section, because it's much bigger than that now.

Senator Sean D. Barrett: Yes.

Deputy Michael Noonan: I don't think you're comparing like with like, but I can get you the figures.

Senator Sean D. Barrett: Yes.

Deputy Michael Noonan: I probably have them there but-----

Senator Sean D. Barrett: It's the table on page 18, Minister, and thank you very much. And thank you, Chairman.

Chairman: Thank you, Senator. I just want to round off one issue there that Senator Barrett was dealing with you. That was when you were discussing the whole IFSRA regulatory ... regulation model and so forth. One of the issues that this inquiry looked at, Minister Noonan, was what powers were available to the regulator and what powers were available to the Central Bank at the time of the growing crisis and whether those powers were used or not, or whether there were recommendations with regard to further legislative change that would be required to enable the type of powers that may not have been available to deal with a growing crisis. So, in that regard, could I ask how closely do you monitor the use of the powers that the Central Bank now has and the subsequently regulation structure that has been brought in under it? And do you query any apparent lack of use of same?

Deputy Michael Noonan: Well, the position is the Central Bank is independent under law, and the regulatory function has been put back in under the ambit of the Central Bank now, with the chain of command being the banking commission, the Governor and then two assistant governors, and running right down to different areas of regulation. If the Governor feels that his statutory powers are inadequate, he will come to me looking for additional powers. I would not intervene as a matter of routine because I'm not supposed to; the bank is independent. But

if individual issues come to me, either from Deputies or from the general public or otherwise, then we would question it. And, you know, a number of issues have come up and we have questioned them. My view is that it's ... it's adequate at present but you need to be constantly alert. And, of course, we have started a competition now for the recruitment of Governor Honohan's successor and, again, that will be a very important development.

Chairman: So are you saying in that regard that policy positions taken by the Central Bank, in regard to supervision or mortgage products and lending products, or a policy position like the 20% deposit requirement, that you clearly see your role as not to be interfering in those positions?

Deputy Michael Noonan: On that ... prudential measures taken by the Central Bank, the first announcement was starker than what finished ... finished up. And the Governor invited submissions in a consultation process even though the Central Bank was independent of the Department of Finance, I felt free to make a submission. So we made a Department of Finance submission and the prudential regime, because there was a lot of submissions in, was softened somewhat. So that's the kind of relationship ... but they are independent and, in the final analysis, the decision was a matter for the bank. It was not my decision.

Chairman: Thank you. Michael McGrath.

Deputy Michael McGrath: Thank you, Chair. Good evening, Minister Noonan, and thank you for your attendance.

Deputy Michael Noonan: Thank you, Deputy.

Deputy Michael McGrath: Can I start by asking you about the testimony of Cyril Roux, the current deputy governor of the Central Bank? In his testimony in June, he highlighted that in the area of banking supervision there are 140 approved posts and 124 of those are currently filled - so a vacancy rate of in excess of 10%. So are staffing and vacancy rates discussed with the Governor, in your regular meetings, and are any steps being taken to overcome the problems identified where positions can't be filled?

Deputy Michael Noonan: I mean, they have a very large budget because they're a profitable organisation. The Department of the public service does not give them an agreed complement of staff as it does with Government Departments and certain agencies. He's the deputy governor. They're entirely free to go away and recruit the 16 that he needs.

Deputy Michael McGrath: I think the specific issue raised was around pay and restrictions on pay.

Deputy Michael Noonan: Well-----

Deputy Michael McGrath: That was the reason he gave, but this is an issue that arose-----

Deputy Michael Noonan: -----that's a different issue.

Deputy Michael McGrath: -----in evidence going back a number of years as well in the regulator's office where, apparently, they couldn't fill vacancies. And one might assume that that issue was no longer relevant but they have a vacancy rate of over 10% in banking supervision today. That was his evidence, so I am just putting that to you.

Deputy Michael Noonan: Well, you know, what I'm saying is try ... try and fill them.

There's a lot of people out there who are very highly qualified and that certainly work for the pay and salary levels that the Central Bank pays their people. But it's a constant issue, more with Minister Howlin than myself because he's responsible for setting pay levels and pay controls. But we had to control pay and I'm ... I get pressure from NTMA and I get pressure from NAMA and I get pressure from the banks saying that the ceilings are too low and "We can't hire adequate staff", but what about everybody else, you know?

Deputy Michael McGrath: Okay.

Deputy Michael Noonan: So I'm holding the line until I get better arguments.

Deputy Michael McGrath: Okay. Minister, have you concluded in your own mind that, as a State, we're likely to get a better return from disposing of our shareholding in the banks that we currently have part ownership of or are you still holding out the prospect of a deal on bank debt from Europe?

Deputy Michael Noonan: Well, this is what's generally referred to as reactive capitalisation of the banks.

Deputy Michael McGrath: Yes.

Deputy Michael Noonan: When that was conceived of first, it was always envisaged that there would be an exchange of the shares in the banks for money from the ESM and ... that they'd take the shares and they'd give us money and we'd use the money to reduce the debt. And that was the way it was conceived and for a while I would have thought that that was a reasonable solution. If we had activated it after the meeting where it was first indicated in June of 2012, we'd have got about €5 billion - that would have been about the value of the shareholding. But, as time has passed, our banks have got very strong. And, like, I'm not ideological about this. My interest is in recovering the maximum amount of money for the Irish taxpayer and it seems to me now, the way things have developed, and with the slowness of the ESM in activating their legal power to directly recapitalise banks, either on a current basis or on a retroactive basis - because they have entertained no application yet - I'm following the route of selling some of the shares. Now, what's ... what's in question really is AIB. PTSB isn't ready for market yet and we have only 14% of Bank of Ireland and ... it's a useful asset, it's worth about €1.6 billion and it's growing. So I have no plans to sell that at the moment but I'm sure one of my successors will. The policy is we want to restore the Irish banks to the private sector but we're not in a big hurry to do it.

Now, on AIB ... at present, they're restructuring so that if we come around to selling 25% of it - as I suggested we would - then it's structured in a manner that can do that. Now, there are preference shares there that are worth around maybe €1.6 billion, €1.7 billion. There's a dividend which we would expect this year, maybe €300 million, maybe €400 million. These are ballpark figures. The CoCos ... next year they'll have to repay the CoCos anyway. That's the contingent capital that I referred to in my introductory remarks, which would be repayable if the banks didn't need it. That's about €1.6 billion and if you put another €400 million or €300 million in on dividend for next year, that's where the figure that was used in the media of €4 billion comes from. Now, because of the banking union, the new banking regulation unit, the regulator in Frankfurt will decide on the adequacy of the capital levels of AIB. And they may decide that some of the preference share value has to be reinvested as capital, so we're not quite sure where it's going to land. But, you know, my advice is around €3 billion and, if everything arrived, €4 billion but probably somewhere in between. And on the timeline, then,

we expect to hear from Frankfurt in the next number of weeks, hopefully before the budget but the Europeans are never impressed by domestic deadlines so they won't rush themselves to get it in before the budget for us, but it's expected in the next couple of weeks. And I'll brief you then, through the finance committee, and we can have a discussion on it because I know there are a lot of people here who are in the finance committee. Excuse me.

The CoCos will be for next year and I have decided that because we're in an election year, that I don't want to be selling 25% of AIB in the middle of an election campaign because with all the different policy options that'll be thrown around, I don't think it would be good for values. So there won't be any sale of AIB until the election is behind us. At the earliest, it would be May, June or maybe later - maybe in the autumn of next year. And that depends on the incoming government but we're making the plans and arrangements to get to that position. So that's the first piece of it. Now the shares then ... we'll sell 25% of it. It was valued ... the last valuation was around €13 billion but I think that might have included the preferences and the CoCos. So if you strip those out and look at a quarter of that, we'll see where we are. But I'd be very confident and my advice is that we will recover fully everything that has been put into AIB, Bank of Ireland and PTSB. And the residual hit on the Irish taxpayer will be €30 billion or so, which will eventually be the loss ... the net loss for Anglo, regardless of the arrangements we made to replace the promissory note.

So that's the position and, in that context then, I'm still keeping the option in place of applying to the ESM for recapitalisation on that basis. I'm doing it in the eventuality that a future government is the victim of some unexpected shock where they need to realise a lot of capital quickly to reduce the debt. If that were to happen, you know ... I think China is very sound at the moment but supposing China rolled over and it was really a major crisis, along the lines of the '29 recession in China, you might find then that the level of our debt is sufficiently high to cause concern in the market, and you might need a ball of money to quickly reduce it. So I'm keeping the option open but, to be totally honest with you, what I expect to happen is that we'll recover our money by selling the shares in AIB without selling them at a lower price - which is the way it would be - to the ESM. But I'm still keeping the option open of applying to the ESM, because things could change in Europe. Greece has a banking problem at the moment, and while €25 billion has been pencilled in to resolve the Greek banks, it is not quite clear to me how they're doing it yet, whether they'll channel through the sovereign or whether they'll get some of it directly for the ESM, so, so, that's my position, and I'm being fully open with you because I know-----

Deputy Michael McGrath: You might give me a bit of leeway, Chair. It was a long, but a useful answer to get out there-----

Chairman: Indeed, I will. I will.

Deputy Michael McGrath: -----on the record. It was important to get it on the record, so, in-----

Chairman: No, no. Plenty of flexibility, Deputy.

Deputy Michael McGrath: -----in summary, Minister, do I take it that the, the position is that for the remainder of the lifetime of the current Government, there won't be a sale of a shareholding in AIB, but equally there won't be an application to the ESM for retroactive bank recapitalisation? Is that the Government's position?

Deputy Michael Noonan: Yes, that's about it. We got ... we, we succeeded in ensuring that the legal power to retroactively recapitalise banks is in the regulations for the ESM. So, they can legally do it. I know from finance Ministers there is no disposition among some of them - naming Germany, Netherlands, Finland and a few more - to use this power. And the power must be used on the unanimous agreement of the governors of the ESM, and the governors of the ESM are the finance Ministers of the eurozone wearing a different hat. So, unless there's unanimity there, and then it must be on a case-by-case basis. So, what I'm telling you, from a policy point of view, is I'm not recommending to the Government in the near future to apply for retroactive recapitalisation, but neither am I saying that I won't do so in the future. And, secondly, I'm saying that there will be no recapitalisation of AIB before the election, regardless of whether or when the election takes place. And I have already told the people who are preparing AIB for market that I want to continue with the restructuring but we're not going to press the button on a flotation, an IPO, until late summer or early autumn, and then it will be a matter for the incoming Government and for whichever personnel make up that Cabinet and whoever is in Finance.

Deputy Michael McGrath: Minister, you refer on page 9 of your witness statement to the proposed introduction of an independent budget office and can I put it to you that you would be doing democracy a service if you put such an office in place before the next election so that the proposals of the various parties could be independently costed and which would allow for informed decision making by voters at the next election? Why can't it be done in advance of the election in six months' time or whenever it is going to be?

Deputy Michael Noonan: Yes, I thought originally it could be done. I announced the package of budgetary reform, where we'd have a spring statement, and we've delivered on that, and where we'd have an economic dialogue, which we had in the castle in the summertime. And the third leg of that trilogy was an independent budget office to which I'm committed, but when I took advice from officials and cross-matched it with people in Leinster House, the timeline was too short to do a proper job on it. But I'm still committed to it and I will put it in our own programme for Government. And I promised as well that I would consult with you if it's ... if it's my function to do so. But I am committed to it, but I ... I won't get it done before the election.

Deputy Michael McGrath: The final issue I want to touch on, Chair, is going back to the ... the end of March 2011 banking statement which you made. It isn't in the core booklets that you have, but the NTMA paper of 20 March 2011, which I'm sure you're familiar with, which examined the issue of burden-sharing, it didn't limit its analysis to Anglo and Irish Nationwide. They included the surviving banks as well, and they actually quoted in that paper the arguments from AIB and Bank of Ireland, who were consulted, and they gave their arguments as to why their senior debt shouldn't be ... have losses imposed, but the NTMA concludes against their wishes and says that you could and should proceed. So, why did the Government decide, even though it didn't actually happen in the end, to just go down the road with Anglo and INBS and not the surviving banks?

Deputy Michael Noonan: Because in ... in the bank restructuring package, we were reducing effective banking to two pillar banks: AIB and Bank of Ireland. And we foresaw that very shortly they would be trying to get funds on the market. And the advice from the Central Bank and from Finance - and the NTMA didn't push that advice, you know, beyond having written it, they didn't push it hard - that the risk was too high. That if we were trying to put two banks in place to fund the economy, that if the first thing we did was to burn the people we expected to

lend to them, that we wouldn't ... we wouldn't get the money, so that was the reason.

Deputy Michael McGrath: Just on the events of-----

Deputy Michael Noonan: But I mean, all these things are ... all these things are, are the best, the best decision you can make-----

Deputy Michael McGrath: Sure.

Deputy Michael Noonan: -----on the advice available. And, I mean, there's ... there's counterarguments. I'd be the first to admit that.

Deputy Michael McGrath: Finally, just on the events of ... of that day, and you've given your account of the ... the conversations with Mr. Trichet, Mr. Kevin Cardiff, when he was before the committee, was also questioned about it and he said he had contacts that day with Frankfurt as well and the message he was getting was that a statement of support from the ECB on the Government's banking strategy, which was about to be announced, would not be forthcoming if the Government had not taken the advice of the ECB. Was that conveyed to you, or?

Deputy Michael Noonan: We were ... we were looking for a statement of support and we got it at the end of the day, but my memory of it is that it was the format of the statement that was at issue rather than no statement at all. I mean, you could have a statement like we got after 18 months of dealing with the promissory note - "we note the decision of the Irish Central Bank" - which hardly did justice to what had happened in between. So, it ... I, I don't recall that they ever threatened to withhold a statement.

Deputy Michael McGrath: Okay, the nature of the statement-----

Deputy Michael Noonan: Yes.

Deputy Michael McGrath: -----was an issue.

Deputy Michael Noonan: I think, I think that was the position, and we were ... I remember going into the Dáil signing off on a statement I'd agreed to, late as I was to the Dáil, on the way in, from the first floor there going in that top door. I was stopped by an official and they said, "We've got an e-mail now from ... from Frankfurt, and, you know, could you agree this statement?" And it was ... it was a good statement, I thought. It was supportive-----

Deputy Michael McGrath: Thank you, Minister.

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

Deputy Kieran O'Donnell: Welcome, Minister Noonan. The initial projected cost of the bailout has subsequently been mitigated by reductions to interest rates and various loans making up the bailout package. Okay, this is Vol. 1, page 139 to 140. Can you quantify the total savings arising to date as a result of the interest rate reductions? Can you outline any major obstacles encountered in securing these reductions, and are there any further opportunities to achieve savings from repackaging or restructuring these loans or have the possibilities for doing so now been exhausted?

Deputy Michael Noonan: Yes, I mean, I'd have to send you a schedule of the savings because if I tried to speak from memory, and I don't think I have a document that covers everything.

Deputy Kieran O'Donnell: There were two latter points: the major obstacle encounters and-----

Deputy Michael Noonan: I will, I ... I'll go through that. The first thing was that it ... I think it was your second witness this morning said that many of the things were decisions for the finance Ministers and on the political side rather than from the Commission. And, you know, when the interest rates were designed for programme countries, Ireland being second up, in their wisdom, some of the Ministers from the creditor countries decided that if they didn't punish us, they'd do it again ... we'd do it again. And the punishment was referred to as "moral hazard", and to avoid moral hazard they were sticking a premium on to the interest rates to make sure, like, that we didn't enjoy it so much that we'd do it a second time. So I pointed out to them that people who lose their jobs and get their pay cut by 20% were unlikely to sin again and we didn't really need the margin to ... to teach us manners. So there was a lot of debate going on, but that was the first obstacle ... was to get over the moral hazard argument that some of the creditor countries, particularly the smaller creditor countries, were very hot on. Once we got over that, then, we ... we ... we began to move.

The second obstacle was that there's a kind of a protocol - I don't think as a matter of law, but it is precedent and practice in Europe - that any concession you give to one country, you give it to other countries. So, like, if ... if we got a concession, 'twould have to apply to Greece and 'twould have to apply to Portugal and subsequently to Cyprus and Spain and so on. So, you were never arguing on your own. After a while then, we began to get allies and, as I said earlier, people thought we were hard done by on other issues and we got a ... a lengthening of maturities and a reduction of interest rates. And there was still a margin but it was a substantial reduction.

Deputy Kieran O'Donnell: And ... or do you believe there are further opportunities, or at this stage has all been exhausted?

Deputy Michael Noonan: Well there was a second ... a second round then, when there was a concession made for Cyprus and ourselves and Portugal got together, and we said under the precedents, we want to get the same treatment. So we did get a further reduction so-----

Deputy Kieran O'Donnell: Currently.

Deputy Michael Noonan: -----the interest rates that now apply to the official debt are ... there is very little above cost.

Deputy Kieran O'Donnell: So you see no further scope?

Deputy Michael Noonan: Well after that then we got the promissory note that you'd be familiar with.

Deputy Kieran O'Donnell: Can I lead into the promissory note?

Deputy Michael Noonan: Well, once I finish it. And then we got permission to refinance the IMF loans. I always said the IMF loans were worth €1.5 billion to us but the Commission's assessment of that was €2.1 billion, and the way it's working out now, it's ... they're nearer to being right than we were. We're always very conservative in the claims we make, you know. So that was the next piece of it. And then I have a general instruction after conversations with NTMA to refinance anything, any instrument they're holding; if they can refinance it at a lower cost, to do it. So they're doing bits and bobs on it.

Deputy Kieran O'Donnell: But that would be in the normal course of business for a Government rather than a programme.

Deputy Michael Noonan: Well, you see, it wouldn't be unless ... if they were proactive, maybe, yes, but like I asked them to examine their whole portfolio and see are there other things you can do where you have a high-cost instrument and replace it with a low-cost instrument, and they're doing that as part of normal practice.

Deputy Kieran O'Donnell: In the limited time I have, Minister, can I just lead into the "pro notes", the promissory notes, and the two points I might refer to are Vol. 1, page 3 and then Vol. 1, page 31. Vol. 1, page 3, Minister, is the ... it looks to me like ... it's an EMC memo around ... dated 10 October 2012 around the idea of the pro note. And it speaks about a 40-year Government bond should be acceptable to the ECB as the ECB already accepts 40-year-plus bonds. And then we look for a firm commitment that this long term to be held by ... would be recognised, a special holding would be held to maturity. And then when we come to page 31, it's the actual ... what was put in place. So the two quick questions, I suppose, I want is in terms of negotiations on the pro note, did ... how did it come about that the initial proposal you were looking for, which was a 40-year bond to be held in its entirety for the full duration by the Irish Central Bank to a point where, we'll say, you're holding ... the Central Bank is holding a series of bonds of various durations, whereby the Central Bank is required to sell these on to the open market as soon as possible? And how long, do you think, before all those bonds would have to be discharged onto the open market?

Deputy Michael Noonan: Well, first of all, we were trying to come up with an alternative to the promissory note. And it would involve, obviously, the European Central Bank. And after a lot of discussions at different levels, the European Central Bank's biggest problem was while they would agree to some level of principle that what we were looking for was a request that they would consider, that their legal mandate prevented them from monetary financing and getting over the legal obstacles for the European Central Bank ... and the onus was on us to come up with alternative proposals. That was very difficult. So we wanted to have it worth ... I mean you could come up with, you could come up with a lot of alternative proposals which would be just as expensive as the promissory note. So, like, we needed an alternative proposal that would be a big gain for the Irish taxpayer on the sustainability of the debt and on the bonds. So the first shot at it was to have a bullet bond that you wouldn't have to pay for 40 years about.

Deputy Kieran O'Donnell: Yes. Interest would come back to the State circle.

Deputy Michael Noonan: Yes. And because, you know, the Irish paper in the Central Bank, you have to pay interest on it. The Exchequer has to pay interest on it.

Deputy Kieran O'Donnell: Yes.

Deputy Michael Noonan: But it then goes into the Central Bank books-----

Deputy Kieran O'Donnell: Yes.

Deputy Michael Noonan: -----as surplus profit, so the following year it comes back to the Exchequer. So the effective rate is very, very low, and that is where the big gain is for us.

Deputy Kieran O'Donnell: And how long do you anticipate, Minister, that-----

Deputy Michael Noonan: Well, I'll come to that now. What happened after that then was

the NTMA advised that the 40-year bond would be a good idea. And when we put it to Frankfurt, they wouldn't entertain it, and then there was a deadlock. And then somebody suggested to me that there was a different way of doing it if we had a series of bonds of different duration-----

Deputy Kieran O'Donnell: Maturities.

Deputy Michael Noonan: Part of the package were ... some of them run out to 40 years, like, and others are early and have to be redeemed earlier. Now, there was a schedule drawn up then-----

Deputy Kieran O'Donnell: Yes, that's all in the schedule.

Deputy Michael Noonan: -----of when they have to go to the market and this was the arrangement as long as there was some kind of risk to financial stability. Now every so often the Central Bank revisits it and says, you know, "You'll have to pay these off sooner." But what we have paid off almost completely now, and this is subject to checking-----

Deputy Kieran O'Donnell: Yes.

Deputy Michael Noonan: Do you remember the year that we had big political controversy about the €3.1 billion in March and we got Bank of Ireland-----

Deputy Kieran O'Donnell: Yes.

Deputy Michael Noonan: -----to repo it for us? That's almost unwound at this stage, I understand.

Deputy Kieran O'Donnell: Fine.

Deputy Michael Noonan: But it's a function of the bank.

Deputy Kieran O'Donnell: But the main programmes-----

Deputy Michael Noonan: The last time there was pressure put on me by Frankfurt was when we decided to repay the IMF.

Deputy Kieran O'Donnell: Fine.

Deputy Michael Noonan: They said, "You're repaying the IMF and we did this for you, why don't you repay us?" I said, "Because we gain a lot of money if we repay the IMF; we only get grief if we repay you." But they didn't like it, you know. But they revisit every so often, so I can't give you an absolute guarantee that they won't change the schedule.

Deputy Kieran O'Donnell: How far advanced is the schedule at this time, Minister?

Deputy Michael Noonan: There's minor-----

Chairman: Thanks Deputy.

Deputy Michael Noonan: There's minor changes in it. I can get it for you but I would say ... I mean it's ... I have to ask for the information because it's the Central Bank function. I would think they have maybe paid back €0.75 billion ahead of schedule. It's small anyway, you know.

Deputy Kieran O'Donnell: A bit like Deputy McGrath, it was a long answer but worth waiting for. Minister, can I deal with the whole issue ... Professor Honohan, when he was be-

fore us, he stated that I think it's remarkable ... punishment for bankers ... it's remarkable, first of all, how long it takes, how heavy the procedures are and how light the consequences. Do you believe that the legal ... I suppose, the legislation available to the courts is sufficiently strong enough to deal with rogue bankers in Ireland or not?

Chairman: You've to be more careful than that even.

Deputy Michael Noonan: You're asking me a criminal law question.

Deputy Kieran O'Donnell: Well, I suppose I'm asking a question that-----

Deputy Michael Noonan: Where I have the expertise at all, it's not in criminal law, you know. I mean, my personal opinion - but you're not to take this as a-----

Deputy Kieran O'Donnell: Yes.

Deputy Michael Noonan: -----as an authoritative view - I think it probably is but I think the process is slow. But I can understand why the process is slow because people are afraid, who are organising the prosecutions, of making a mistake in process and someone will walk out the door who quite clearly shouldn't walk out the door.

Deputy Kieran O'Donnell: The final question I have for you, Minister, is ... we'd Mr. Chopra in earlier this morning and he spoke about issues that he felt could have been done-----

Chairman: You're out of time now Deputy.

Deputy Kieran O'Donnell: Yes, it's a final question, yes. Felt could have been done at European level. And the issue was around the tracker mortgages. He was looking to see ... how he felt Europe should be doing more to finance them. So, I suppose, the two ... they're a related question.

Chairman: Only one question now, Deputy, get it out.

Deputy Kieran O'Donnell: No, but they're both the one question.

Chairman: Okay.

Deputy Kieran O'Donnell: The tracker mortgages ... it's the end, Chairman.

Chairman: I know it is and I have to be consistent.

Deputy Kieran O'Donnell: The tracker mortgages are putting pressure on the Irish banks. At the same time, the standard rate ... for standard variable rate holders is excessively high. So do you feel that Europe has done enough in terms of assisting to unwind the tracker mortgage, the cost of those mortgages? And you were reported in the media recently speaking about talking ... discussions with the banks in terms of dealing with the standard variable rate for home owners with mortgages-----

Chairman: Thanks Deputy. Minister, if you could be as brief?

Deputy Michael Noonan: Yes, I mean, the trackers have been a problem all the time and I haven't come up with any solution for the trackers. I suppose, for the people who have tracker mortgages, the assurance is that they hold their trackers at the interest rates that was agreed at the time. I mean, I saw proposals that ... saying we should bring down the variable and increase

the trackers but, you know, try that out when you're door-knocking with people who have tracker mortgages. So that wasn't a solution.

In John Moran's time as Secretary General, we had a proposal but it didn't go very far that the Central Bank would agree that we'd park the trackers in the Irish Central Bank and take them off the banks' balance sheets so that they wouldn't have the effect on profitability that you reference. And, as a consequence, charges across the spectrum then could be reduced, you know. But again, monetary financing, and they wouldn't agree it, so it didn't run.

Chairman: Thank you very much.

Deputy Kieran O'Donnell: Standard rate-----

Chairman: No, Deputy, you're finished. Deputy, you're finished.

Deputy Kieran O'Donnell: With a standard rate variable mortgage, Minister.

Deputy Michael Noonan: Well, I suppose the good news over the summer was that AIB took another quarter off it. They're offering a standard rate now of 3.65%, and they are going into the market, they tell me, in a strong advertising campaign to try and get people to switch.

Chairman: All that information is out in the public domain. Can we move on to Deputy Murphy please, and I want wrap things up. Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you Minister. I'll be brief, because a lot of the areas have been covered. I just want to clarify a couple of issues, if I may? The first is in relation to November 2010 and the memorandum of understanding that's agreed with the troika, and you are being briefed by the IMF at the time as the Opposition spokesperson from Fine Gael. Did the IMF, or representatives of the IMF, tell you that the possibility of burden-sharing remained open, because it wasn't in the MOU?

Deputy Michael Noonan: Well, first of all, they didn't brief me personally. They came and they briefed the Fine Gael Front Bench.

Deputy Eoghan Murphy: Okay.

Deputy Michael Noonan: That was the way it was done. I can't recall whether there was a discussion on burden-sharing or not. Our policy position was clear. We had said all the time that we believed that not only subordinated bonds should be haircut but the senior bonds should also be involved in burden-sharing, provided that the Central Bank agreed with our position. But nobody said you shouldn't follow that policy line.

Deputy Eoghan Murphy: In terms of then, when you come into government, what prompts the change in official thinking about the possibility of the ECB agreeing to burden-sharing when it comes to March 2011?

Deputy Michael Noonan: Well, I think we were, I was, you know, we were only three weeks in office, so it was driven at that stage by the political side through the ... I mean, it was a commitment we made in the election manifesto. It was reflected in the programme for Government, always with the assent of the European Central Bank and, in the early days in government, we said if we're recapitalising the banks, we'll implement this. But it didn't ... I'm saying the policy driver didn't come from officials in the Department of Finance, it came from Cabinet and the parliamentary party, because the election was just over and we had made

this commitment.

Deputy Eoghan Murphy: And reflected in the programme for Government with the assent of the European Central Bank.

Deputy Michael Noonan: Or words to that effect.

Deputy Eoghan Murphy: Okay.

Deputy Michael Noonan: I don't know how it was phrased, but that's what the meaning of it was.

Deputy Eoghan Murphy: But does that mean that the European Central Bank had to sign off on our programme for Government?

Deputy Michael Noonan: Oh no.

Deputy Eoghan Murphy: No. Can you just clarify what you're saying there in terms of-----

Deputy Michael Noonan: What I'm saying is that all the way through, with statements I made before the election, during the election and after the election and in the Fine Gael programme for Government, and in the programme for Government, Fine Gael said that we would impose burden-sharing on senior bondholders and change the law to do so if the Central Bank consented to us doing it.

Deputy Eoghan Murphy: I understand that now, okay. At the same time, in March, you are having discussions with the Commission as well about the interest rate. Is that correct? The interest rate on the loans from the troika and the possibility of reducing them. We have it in evidence from Kevin Cardiff that-----

Deputy Michael Noonan: Well, look, we came into government on 9 March, you know. You were involved, first of all, in getting a private secretary and sorting yourself out, finding your way around the place, and you're involved with the troika and you're involved with the Europeans, so the priority was sorting out the banks. We didn't have a banking system, really, when we went into government, and three weeks later we were doing it. So, I can't tell you that I started negotiating on interest rates before 31 March or after 31 March, but we got down to it pretty quickly.

Deputy Eoghan Murphy: Why I'm asking the question is, we have it in evidence from Kevin Cardiff that there was discussions with the Commission and they were in favour of reducing the interest rate at that time - it was just after the election - but that that was stopped because France and Germany reintroduced the idea of the corporate tax rate and because things weren't calm enough to pursue the interest rate.

Deputy Michael Noonan: Yes.

Deputy Eoghan Murphy: Is that correct? Is that what kept us from negotiating the rate earlier?

Deputy Michael Noonan: Well, you see, the Commission wasn't the decision maker because, as you heard in evidence already today, these were issues ... there were intergovernmental issues. So the interest rate issue was an intergovernmental issue, because the creditors were

the sovereigns of Europe. And it wasn't the Commission. Olli Rehn was in favour of reduced interest rates all the time, and he was the Commissioner. But that made no difference to me, because it was being opposed vigorously by certain finance Minister colleagues across the table, and it needed a decision. On the corporate tax, I understand that the first meeting the Taoiseach went to, that a lot of pressure was put on him by Chancellor Merkel and President Hollande on corporate tax rates, but he stood his ground and didn't agree. But I never heard there was a linkage to interest rate, because we wouldn't have ... I wouldn't have activated the interest rate campaign at that stage. I mean that must have been mid-March. You can check whenever the Council meeting was. It was at his first Council meeting.

Deputy Eoghan Murphy: Okay, thank you. Moving forward to 2012, and there's a change at the top of the ECB, and you led a delegation from here in the summer of 2012 to meet the new President, Mario Draghi. I was just wondering, the purpose of that meeting, was it just a formality or was this the first stage in addressing the promissory notes?

Deputy Michael Noonan: What's the date?

Deputy Eoghan Murphy: It was the summer of 2012. I don't know the exact date, sorry. I think it was July though.

Deputy Michael Noonan: Yes, it would have been a variety of issues. It would be interest rates. It would have been promissory notes, certainly, at that stage. We'd have started it at that stage. But, I mean, the governor of the European Central Bank usually attends Eurogroup meetings and ECOFIN meetings, so I'd be meeting him twice a month anyway, and I've had several conversations with him on the margins of meetings and, you know, I'm looking for something and he's trying to be helpful and saying, "Sorry, we can't do that for you". He was more amenable to our argument than Mr. Trichet was.

Deputy Eoghan Murphy: So, it was a significant change then, in terms of the new President coming into the ECB, in terms of what that meant for Ireland being able to achieve what it wanted to achieve with the various different financial measures.

Deputy Michael Noonan: That was certainly part of the reason. Another part of the reason was that they were getting to know us in Europe at that stage, and they knew we weren't some kind of bandit government and that, you know, we were going to work the programme if we got it renegotiated. And a level of trust had begun to build up and as the trust built up, they were prepared to make concessions to us. So, I'm not too sure. I wouldn't say it was all because of the change of central bank governor.

Deputy Eoghan Murphy: Okay.

Deputy Michael Noonan: But, certainly, I found Mr. Draghi helpful all the way through.

Deputy Eoghan Murphy: Okay. Thank you. And to my final questions in relation to the Wright report and the Honohan report. Both reports were negative in different ways about the Department of Finance, and alluded to a particular type of culture or a lack of rigour in certain areas. Are you worried about the Department slipping back from some of the new practices that have been introduced? I ask this in the context of the evidence from Mr. Aynsley, not talking about anything specific in relation to the IBRC, but just some of the comments that were made about the lack of expertise in the Department regarding bank board composition, a lack of banking expertise in the Department of Finance:

The authorities are stuck in their old ways. They do not recognise or understand conflicts of interest.

And he was quoting his own CFO in that last comment. When you heard those comments, or when you read about them, did it worry you about what might be happening in the Department or what might have changed after the Wright report was recommended and implemented?

Deputy Michael Noonan: Well, no. I read the Wright report and I met Mr. Wright when he was over. I think he spoke to the finance committee and I had a conversation with him. He told me he was happy with the progress that was made in the Department of Finance in implementing the recommendations that he made and I think he spoke in similar terms at the finance committee. I didn't read the minutes of that. I don't see a possibility of ... things have been changed systemically in the Department of Finance and, you know, let Mr. Aynsley have his say. I'm not going to contradict him here. He said what he said.

Deputy Eoghan Murphy: Okay. Thank you. Thank you, Chairman.

Chairman: Thank you very much. I am going to move to wrap things up. I just have two questions for you. We'll move on to some closing remarks after that and then, prior to that, I'll bring in the two leads. If I could just deal with one issue in regard to the sort of legacy issues at the moment and NAMA and debt, Minister Noonan, that NAMA took on board one third of all property-related debt. As a result, a substantial level of impaired property loans still remained on the balance sheets of AIB, Bank of Ireland, Permanent TSB, I think with something like €42.3 billion of impaired loans and impairment amounts to approximately, I think at present, €16 billion remaining at the end of 2013. Then we have the situation where the State, basically, still *de facto* owns AIB and Permanent TSB. How does the Government ensure that these difficult loans are dealt with appropriately and that there is no further substantial losses arising from these as the Irish citizenry tries to get its money back from these banks?

Deputy Michael Noonan: NAMA was set up under statute by the previous Government and the express purpose of putting it in place was to clean the banks' balance sheets by taking over the impaired loans that you referred to and they, you know, have a particular funding model. And they started pretty quickly then to dispose of loans and to get a return for the Irish taxpayer. I think they sequenced it because the Irish property market was dead in the water. They began to sell some of the London book first and they sold that successfully and then they progressed to Ireland. So, in terms of the valuations which were put on the loans when NAMA acquired them, they have been quite successful and they have paid back a lot of the debt now. The IBRC provision - when we liquidated to transfer anything that they couldn't dispose of to NAMA - will not have to be exercised because IBRC have realised sufficient funding to pay off all the secured creditors that they have. So, I don't think ... I mean, there was a time when the rating agencies were marking down Ireland to almost junk status because there was a story around, particularly in London, that there was a big black hole going to emerge in NAMA and there was another big black hole going to emerge in IBRC and this was believed. But as soon as we got sufficient evidence to show that there was no black hole, but that NAMA within its legal mandate would show a profit and IBRC within its legal mandate would show a profit, this was a big relief on the markets and it was a big relief to NTMA in funding Irish debt. So, this morning now, the NTMA got €1 billion of 15-year money for 1.85% and with the volatility in the markets at the present, that's a very low price for 15-year money.

Chairman: Can I just touch on one other issue as well? It was something at the start of the meeting with Deputy Higgins with regard to capital gains tax and also the issue of the, kind of,

legacy matters arising from IBRC in that the low rate of capital gains tax between 2011 and 2014 attracted a lot of foreign buyers into the Irish property market. And we've also heard recently from Mike Aynsley and Alan Dukes of IBRC - former Anglo - that the Department of Finance asked them on numerous occasions to accelerate the disposal of assets. That happened while capital gains tax exemptions were in place. Without referring to specific transactions, can you confirm whether or not you were aware of this pressure being exerted on IBRC and, if so, can you comment on the reasons why the Department was trying to realise assets more quickly than the agreed disposal timelines, given that the substantial disadvantages that would have resulted as I've exampled - lower capital gains tax income, substantial gains made from these purchases made between 2011 and 2014 would flow into foreign countries and lower recoveries as the market improved substantially through 2013 into 2014?

Deputy Michael Noonan: Well, when I went into government in March of 2011, IBRC was down €41 billion to the European Central Bank in ELA funding and in the proposal put forward by the previous Government the previous January, they had made allowance for €50 billion of ELA funding. So, the chairman and the chief executive of IBRC constantly talk as if IBRC was a going concern. IBRC was a bust bank and we were getting pressure from the European Central Bank and from the troika to start paying back some of the ELA because ELA was ... by definition, it's emergency liquidity assistance and you can't be in an emergency long term. If it's an emergency liquidity assistance, they expect to get it back.

And I know that Mr. Aynsley made references to the American book. The American book was very valuable. It was dollar denominated and we needed to show progress. But I think the big misunderstanding was for some unknown reason, I think the chairman and the chief executive had an idea that they could trade Anglo Irish Bank into being a solvent bank and it was as clear as crystal that that was mission impossible and we had to start getting market value for certain loans and paying down ELA and that was ... I mean, I was working under much wider concerns. I can understand why a chief executive of a bank would have one view, but I was working on much wider concerns. Now, I also saw in some of the documents that Mr. Aynsley said, "Ah, we might have got 100 million more". I don't know whether he is talking dollars or euros, but we might have got 100 million less as well. The American market wasn't ... was bouncing around a bit at that stage, but it was recognised internationally as a huge successful sale and one of the first people to congratulate me and himself was Mike Aynsley on the success of the disposal of the American book.

So, you know, any time, like ... one of the big problems in disposing of assets below market value is you can always present an argument that if you only waited, you know, you'd make a fortune out of it, you know. We had it when we offered Bank of Ireland shares at 10 cents on the market and we had the great and the good telling me and going on radio programmes saying, "Ah, these are worth nothing. They're worth zero. Nobody will buy these shares", right? And then, foreign investors came in from Canada and the US and they put a big private sector investment into Bank of Ireland and then they made a lot of money out of it. And the same guys who told me that no one would buy them come back saying, "You gave them away for nothing". The same people. So, like, it is very easy be wise after the event, but we were in a dreadful stage and we had to start realising some of the assets to pay off the debt.

Chairman: A final question, Minister.

Deputy Michael Noonan: Anglo was a bust bank and that's it.

Chairman: A final question and then I'll bring in Deputy Higgins and Senator O'Keeffe.

Can I ask you at this moment in time and as we start moving towards concluding these hearings and, specifically, in relation to banking supervision and financial stability and its monitoring, do you think now we are in a position to say with confidence that a situation that led up to the 2008 banking and financial crisis will never happen again?

Deputy Michael Noonan: I think the situation has improved a lot and a lot of the changes that have been made are systemic and they'll be difficult to unwind, but there is pressure to restore everything we cut and everything we changed. Now, like, if you ... if you change back to where we started, you're only going back to the causes of the problem. The other issue is in the dialogue down in Dublin Castle. Everyone around the table had plans to spend far more than we'll ever have and every ... practically every submission was for extra spending. And the problem with the public economic debate in Ireland is nobody stands up for the taxpayer. Nobody stands up for the taxpayer in this country, even the people who should stand up for the taxpayer.

Chairman: Thank you. Deputy Higgins.

Deputy Michael Noonan: Everybody comes up with new spending programmes.

Chairman: Deputy Higgins.

Deputy Joe Higgins: Mr. Noonan, two questions on different subjects. The Fine Gael manifesto - it's in your evidence book - says in 2011: "[It would] ensure that rogue bankers are pursued for their crimes and that the full rigours of the law will apply to them, and the courts [would] have the powers necessary to impose appropriate fines and jail sentences". Could you please comment on why no legislation has been forthcoming on these measures, as promised in 2011? And, secondly, do you consider that the UK senior banks' regime, which will include the threat of criminal conviction for senior executives and directors, is an appropriate model?

Deputy Michael Noonan: Well, criminal law is adequate in this country, I'm advised. Three senior bankers are now in jail and other cases are pending. So, there isn't a necessity for new law, but I think the process is slow. But that's not a matter of law.

Deputy Joe Higgins: Second question, Mr. Noonan, is on 1 December 2010, in the Dáil speaking on the troika programme you said:

> There is such a thing as moral hazard. It starts with the individual management and board of directors and then it goes to the institutions. It is a principle of moral hazard in the context of liberal capitalism that if one behaves recklessly, one gets punished. One gets punished because one deserves to get punished and it is an example to everyone else in the system that if people behave recklessly, they will be punished also. The principle of moral hazard applies not only to those who invested as shareholders and lost all their shares, as happened in Anglo Irish Bank.

It ... you go on to say it also applied to others and then you say: "The only part [right ...] of moral hazard that seems not to be understood in this country is that those who lent recklessly can walk free and the taxpayers have their liabilities transferred to them." That's what you said.

This morning, Mr. Chopra, in his evidence - written evidence - was very strong on the question of those who lent recklessly and points to the IMF *ex post* evaluation of its financial support, dated January 2015, and he concludes that "the evidence is not clear on the risks of cross border spillovers from bailing in senior bank creditors in Ireland" and, essentially - I haven't

time to quote it all but I hope you will look at it or get your officials to look at it - that, in fact, there isn't a big deal about burning bank holders, that it wouldn't cause the type of contagion that was being put up by the EU institutions, essentially to frighten people, and moreover, he ... I quote from the IMF:

> Moreover, even if cross border contagion risks were considered important, steps could have been taken to ring fence these through appropriate policy responses in the affected markets. This could have included supporting steps by country authorities in cases where their banks' solvency would be threatened from writing down their direct exposures to Irish senior unsecured debt

And Chopra comments, finally:

> Recent academic research confirms the view that spillover risks were exaggerated. An empirical analysis of funding cost spillovers in the euro zone [... show] that contagion between most euro zone banks is limited because they have fairly weak links.

Can I put it to you, in conclusion, Mr. Noonan, that ... does it look likely from this that there were bogus scares put out there by EU institutions to frighten this country into not burning bank holders and that the IMF now says that these were bogus and that, in fact, that should have been done and if it was done, wouldn't that have coincided with what you said about moral hazard five years ago?

Deputy Michael Noonan: Yes, well, first of all, I'm still of the same view - as the view you quoted - that I expressed in December of 2010 and I did pursue it to the point where, as I outlined this morning, I came to the view that the risks that were put to me exceeded the possible gain we would get by burning bondholders. But I had gone so far as drafting a speech where I was prepared to bring in legislation to allow the Irish authorities to do it. Secondly, I pursued it relentlessly in Brussels, to the point where, when Ireland had the Presidency - the last time we had it - I chaired the meetings that brought in banking union and brought in a banking resolution regime which now bails in not only the shareholders which you referenced, not only junior bondholders, but also senior bondholders of different categories.

Deputy Joe Higgins: But is it academic if-----

Deputy Michael Noonan: No, it's not academic, you know. We will-----

Deputy Joe Higgins: -----if the EU institutions forbid it and then you go along with that, is it not academic?

Deputy Michael Noonan: No, but everyone is on-side now. It's European policy and it's a matter of European law now to ... in future problems with banks across the banking union, bank ... senior bondholders will be bailed in. So I'm consistent and it's my policy position and we've succeeded in making it European law.

On the Ajai Chopra statement, first of all, I'd like to say that he was certainly, in my view, one of the most helpful members of the troika. He was ... he was very, very assiduous in trying to help Ireland and very good and I've great admiration for him. His presentation of the IMF having a different view from the European Central Bank is correct, at staff level, but in the end of the day, the IMF executive, under pressure, in my view, from the Treasury in the United States, did not follow the policy and support Ireland for burning bondholders. And the reason wasn't fear of contagion, the reason was what's recited in Tim Geithner's autobiography, that it

would affect the liquidity of the banking system in Europe. And maybe he was right, maybe he was wrong, but there was a flow out of funds from Europe and he said "Burn the bondholders: these are the people you need to put liquidity back and this will be magnified." And that was his position and he was very, very influential, as the Americans are over the IMF, and because of the dollar being a reserve currency and whatnot. So it's not academic. Things have evolved over time. It's now a matter of European law that if a bank goes bust anywhere in the eurozone, in the cascade of "bail-inable" assets, senior bondholders is ... have ... has a high rating.

Deputy Joe Higgins: Thank you, Minister.

Chairman: Senator O'Keeffe.

Senator Susan O'Keeffe: Thanks, Chair. Two small questions, Mr. Noonan. Will we get to publish our report before the election? No, I'm just kidding. I'm just kidding.

Deputy Michael Noonan: The question is beyond my pay scale, Chairman.

Senator Susan O'Keeffe: I just wanted to check ... when the promissory notes were exchanged for the long-term bonds, was that, effectively, taking the retrospective recapitalisation off the table?

Deputy Michael Noonan: No, we never took the retrospective recapitalisation across the table, but when I bring it up with some of the colleagues who are helpful, they say, "But, sure, didn't you get your deal on the promissory note." So it certainly is an argument, but we succeeded in making it part of the regulatory ... statutory regulation governing the ESM, that the ESM may directly recapitalise banks or retroactively recapitalise banks. But it needs unanimity of the governors and it has to be done on a case-by-case basis, and we haven't applied, but I set out in detail for-----

Senator Susan O'Keeffe: Yes, you did.

Deputy Michael Noonan: -----Deputy McGrath-----

Senator Susan O'Keeffe: Yes.

Deputy Michael Noonan: -----what the position is on that. And the alternative way of getting money back for the Irish taxpayer is to sell AIB shares, in particular, on the market, but, subsequently, Bank of Ireland ... and PTSB is becoming profitable now and it's already valued at €1.6 billion, so there's an asset there as well.

Senator Susan O'Keeffe: And then finally-----

Deputy Michael Noonan: But we needn't-----

Senator Susan O'Keeffe: Sorry.

Deputy Michael Noonan: -----we needn't do it. I think I said before that I had a colleague in Sweden who's no longer finance minister, but he spent seven or eight years there, and he told me that in the Swedish banking crisis which was in the early '90s, he only sold the last tranche of shares into the market 18 months ago and they made two and half times the nominal value of what they put in.

Chairman: Senator.

Senator Susan O'Keeffe: And, finally, in evidence ... in written evidence, Kevin Cardiff talked about the additional €24 billion State injection into the banks in March 2011 - this would have been just after you came into office - and he talked about the horse-trading that went on in order to achieve that figure and he says, really, it was an increase on what the Central Bank would have been comfortable with at the time. And I'm just wondering, finally, Minister, what was your ... what figure did you hope for at that time and were you disappointed or were you satisfied with that figure?

Deputy Michael Noonan: I wouldn't have a lot of expertise in the field now but, first of all, I needed to ensure that we didn't have to look for extra money to do it. So it had to fall ... less than €35 billion, I think, was the issue. And the stress test figure came up with something like €16 billion or €17 billion or €18 billion, somewhere in that neighbourhood. And the authorities in Europe said "The markets will not believe that figure, so you have to go beyond that." So it was pushed up to just over €20 billion. And then they said "We need you to put in contingent capital as well, which you'll get back if it's not needed." And that's where the CoCos came in, and that was another €3 billion, and it went up to €24 billion. But the negotiations weren't done by me, they were done by the Central Bank with the authorities in Frankfurt and the other interests, like the Commission. And in the end of the day, it looked reasonably prudent, and we sold shares then in Bank of Ireland on the private ... to the private sector and we discounted junior bondholders to the tune of €5.1 billion, I think it was, and it came down to something over €16 billion. The €24 billion was reduced to about €16.5 billion for that reason and we hope to get back everything, but not the Anglo Irish stuff.

Chairman: Thank you very much.

Senator Susan O'Keeffe: Thank you very much.

Chairman: Minister, is there anything else you'd like to add before I bring matters to a close?

Deputy Michael Noonan: I'd like to thank you, Chairman, and I'd like to thank all your colleagues and wish you well and ... you've done a great job and it's an honour to be the last witness.

Chairman: Thank you very much. Just to ... I'd like to just thank a couple of people in closing and I certainly would like to thank what would be described as the Fourth Estate who have been with us over the course of many a hearing and many a long day and many a long evening, and for the coverage that they have obviously ... and attention that they have given to the inquiry. I was speaking to the clerk there a moment ago, and I'd say he's only too happy to let the other clerks in the Dáil know that this room is available from now on ... having occupied and almost lived in it. And, in that regard, the team that have been on the top table as well, I probably ... in my acknowledgment of the investigations and other ... maybe didn't give them their own due acknowledgement earlier this morning.

The committee door will be closing soon and we'll go into our private deliberations to get to the report. And, in that regard, I'm reminded of a quote by Alexander Graham Bell that sometimes we stand so long at a door that is closing that we see too late a door that is opening. Now the quote may have been made for another context but I do think it's relevant to the work of this committee. And as we close the door on the public hearings we now open the door as we go into our final report. And in keeping with the theme of that quote it's important that the committee, in preparing its final report, is not just looking at the past to learn lessons but also

has a firm eye to the future in bringing forward recommendations to ensure that a crisis such as the one that we are presently examining is never revisited on the Irish people again. Thank you. With that said, I'll now bring matters to a close. I thank the Minister for his engagement this evening. The meeting is formally adjourned and the Minister is formally excused. And this concludes the public hearings of the Joint Committee of Inquiry into the Banking Crisis. The committee is adjourned *sine die*.

The joint committee adjourned at 8 p.m. *sine die*.