

Ireland

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Macroeconomic overview

In 2009 the adverse impacts of the global financial crisis and the downturn in the domestic property market were felt in the real economy. Although economic activity had declined in 2008, this trend accelerated in early 2009 before easing in the second half of the year. Real Gross Domestic Product declined by 7.5% in 2009 - the sharpest deterioration in economic performance in the recent history of the country.

Unemployment increased sharply particularly in early 2009. The number of unemployed doubled in the year to 267,000 or 13.2% of the labour force (11.9% on yearly average) from 8.5% at the end of 2008. One consequence of this was the return of net emigration for the first time since 1995.

Growing unemployment, falling wages across the economy and negative consumer sentiment were the main factors of the declining consumer prices in 2009 - the Consumer Price Index recorded an annual average inflation rate of -4.5% (while the Harmonised Consumer Price Index recorded an annual decrease of 1.7%). This deflationary trend contributed to further decline in wages in nominal terms over 2009 which has gone some way towards improving Ireland's cost competitiveness relative to the core European economies.

The performance of the export-oriented sector was relatively robust but this was mitigated by adverse movements in the EUR/GBP exchange rate given the prevalence of the UK as a trade partner. As an outward-oriented economy, a return to economic growth is substantially dependent on a recovery in the global economy, especially in the euro area, the UK and the USA. As a member of the euro area, Irish consumers and firms benefitted from the cuts in the ECB Main Refinancing Rate that resulted in a historic low of 1.00% from May 2009.

Housing and mortgage markets

Mortgage lending had been decelerating since 2007, and this trend continued in 2009. The global economic downturn combined with heightened employment uncertainty and falling property prices to significantly subdue consumer sentiment. As a consequence, the number of loans drawn down decreased to 45,818 mortgages at a value of over EUR 8 billion - 58.5% fewer loans than in 2008. First- and Subsequent-Time Buyers grew their share of the market steadily over 2009, reaching 70% in value terms in Q4 2009.

The decline in new mortgage lending occurred despite a notable improvement in affordability in terms of both repayments and purchasing costs, arising from the fall in ECB rates, and lower property prices, respectively. Repayments are estimated to have fallen by 14.6% over 2009 for a First-Time Buyer couple living in the capital, according to the EBS/DKM Affordability Index. However, with the heightened costs of funding and the significant number of borrowers on tracker-rate mortgages, some lenders increased their variable rate mortgages, albeit from historic lows. House prices fell by 18.5% at national level to an average of EUR 213,183, following a 9.1% drop in 2008. In Dublin, prices declined by 20.6% to EUR 278,767 while outside the capital the decrease was less pronounced at 15.3% reaching an average of EUR 189,643. Commensurate with the decrease in new lending, the level of residential mortgage debt outstanding declined by EUR 492 million (0.3%) in the year to a total of EUR 147.7 billion. This contrasts with the high level pattern of growth in net residential mortgage lending in the previous years.

The housing market continued to react to the decline in demand: the number of housing units completed in 2009 was 26,420, 49% less than in the previous year. A similar trend was observed from the volume of housing starts which declined at an even stronger rate, totalling just 8,604. The decline in housing construction has impacted significantly on the wider economy through the loss of employment and investment in the sector.

The changed employment environment negatively impacted on the financial situation of some mortgage-holders. The level of mortgage arrears on owner-occupied properties increased - 3.6% of mortgage accounts were more than 90 days in arrears by the end of 2009. The level of properties repossessed remained at a very low level however, with all mortgage lenders, including sub-prime mortgage providers, being in possession of less than 400 properties at the end of the year out of a total of 792,893 mortgage accounts. Extensive forbearance is being shown by mortgage lenders towards customers experiencing financial difficulties which were translated into low repossession levels by international standards.

Facilitating customers in financial difficulties was a focus of both policymakers and mortgage lenders in 2009. In February, the Financial Regulator published the Code of Conduct on Mortgage Arrears which set out that a mortgage lender must deal with each arrears case on an individual basis and work with the borrower to explore all viable options in formulating a plan to clear the arrears. The Code is heavily based on a pre-existing voluntary industry code but also prohibits a lender from initiating legal proceedings until six months have passed since arrears first arose. Mainstream mortgage lenders reinforced this commitment to helping borrowers in financial difficulties with the IBF Pledge to Homeowners to develop a sustainable arrangement with such customers and to monitor that arrangement thereafter.

The Government took a number of measures in 2009 to stabilise the financial system and to ensure a stable flow of credit to the real economy. One financial institution which had heavy exposure to the property development sector was nationalised, while two others were recapitalised by the Government in order to reinforce their position given the turmoil in global financial markets. A more targeted Guarantee Scheme was put in place to cover certain liabilities of financial institutions beyond the lifespan of the current scheme, which was due to end in September 2010.

Furthermore, the Government announced that the regulatory structure would be reformed and also the appointments of a new Central Bank Governor and Head of Financial Supervision. The Government also made significant progress in establishing the asset relief scheme, known as the National Asset Management Agency (NAMA) which would take on the impaired land and development loans of financial institutions at a significant discount in order to ease the balance sheet pressures and aid their access to funding and liquidity. A review of the taxation system, commissioned by the Government and published by the Commission on Taxation, advocated the implementation of a standing property tax which the Government would look to implement over the coming years.

The Irish economy is expected to return to growth in the second half of 2010 and it is anticipated that it will be some time after that before any pick-up in housing and mortgage market activity is observed.

Funding

As in other jurisdictions, international funding markets remained restricted for Irish mortgage lenders in 2009. Mortgage debt instruments were generally issued under the Government Guarantee Schemes and Covered Bonds put in another strong performance- the value of new issuances stood at EUR 14.8 billion, an increase of 56% from the previous year. The value of outstanding residential mortgage bonds was EUR 29.7 billion at the end of 2009.

In Ireland, there was a significant drop in the level of residential mortgage securitisation issuances in 2009 - EUR 5.5 billion compared to EUR 19 billion in 2008. The outstanding value of residential securitised debt stood at EUR 37.7 billion at the end of 2009, compared to EUR 34 billion a year earlier. Retail deposits showed a trend towards longer-term and demand-deposit accounts offering more attractive interest rates. Overall, Mortgage-Backed Securities account for 25.5% of mortgage funding while Covered Bonds comprise 17% of the market.

	EU27, 2009	Ireland, 2009	Ireland, 2008
GDP growth (%)	-4.2	-7.5	-3.0
Unemployment rate (%)	8.9	11.9	6.3
Inflation (%)	1.0	-1.7	3.1
% owner occupied	68.2	74.5	74.5
Residential Mortgage Loans as % GDP	51.9	90.3	81.5
Residential Mortgage Loans per capita, EUR thousand	12.37	33.18	33.65
Total value of residential loans, EUR million	6,125,727	147,654	148,115
Annual % house price growth	-6.8	-18.5	-9.1
Typical mortgage rate (euro area), %	2.71	2.61	4.33
Outstanding Covered Bonds as % outstanding residential lending	23.2	20.1	15.6

Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Ireland= 2009

Source: EMF, Eurostat, ECB, Central Bank and Financial Services Authority of Ireland, Central Statistics Office, Department of the Environment, Heritage and Local Government, European Securitisation Forum, IBF/PwC Mortgage Market Profile, Ptsb/ESRI House Price Index

