Central Bank official: 'My bosses repeatedly ignored my warnings'

Frank Browne

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The cost to the taxpayer of the banking crisis could have been significantly reduced, had the Central Bank heeded warnings about the overheating housing market and the fragility of the banking system.

The claim was made by a former Central Bank executive to the Oireachtas Banking Inquiry.

Frank Browne, the head of the Central Bank's Monetary Policy and Financial Stability Unit between 2003 and 2010, claimed important information about the health of the financial system was "suppressed" in 2007.

Mr Browne's statement is directly at odds with evidence given by Mr Hurley, who told the inquiry in June he was not aware of contrarian views in the Central Bank which differed from the bank's overall assessment of the stability of the financial sector.

Mr Browne said his unit had pointed to a risk of a substantial property bubble in 2004 and a growing liquidity risk within the banks.

"Unfortunately, these warnings were not listened to," he said.

Senior management were also aware of research in 2007 that showed house prices were significantly overvalued, but "singularly failed to have any regard for such warnings".

Mr Browne said corroborating evidence pointing to a substantial over-valuation of the housing market was "suppressed". Instead, a favourable perspective on the housing market, including predictions of a soft landing, was given.

In his view, one reason why action was not taken was "the organisational culture prevailing in the bank at the time".

"Senior management was reluctant to countenance any dissent from the 'right' message," he said.

"It is my belief that senior management adhered so strongly to the soft landing belief that it felt that it did not need any evidence for it. It certainly never asked for evidence."

Mr Browne said he felt that Mr Hurley and other senior figures "did not have much of a sense of the real importance" of the financial stability unit and, as a result, it was "severely under-resourced".

"Although requested to conduct research and analysis, the results of this work was neglected and ignored for the most part by senior management," he said.

He also said he had highlighted to senior management the need to prepare for crisis prevention and management situations as far back as 2002.

However, he said "sufficient heed" was not taken of these warnings.

The statement is hugely critical of the organisational culture at the Central Bank, led at the time by Governor John Hurley.

"There was little or no engagement from senior management on the economic substance of these papers. In fact, the Governor told me he did not agree with my analysis of financial stability."

Mr Browne claimed there were "at least three other instances" where efforts were made by Mr Hurley to "quash any attempts to express my views".

He also claimed "editorial pressures" were brought to bear on financial stability unit documents before they went to the Central Bank's board.

Any coherent message was lost by "endless rounds of editing by senior management".

Mr Browne concluded that if there had been sufficient engagement with his warnings earlier, the property bubble and bank liquidity problems may have been tackled sooner and at a less acute stage.

He said the Central Bank could also have been much better prepared for the crisis when it unfolded and its reaction would have been "less panicked".

"Although these collectively would not have amounted to any panacea, they could, in combination, have helped crisis-management decision making and could therefore have helped mitigate losses from the crisis," he said.

Mr Browne's statement is expected to be the last substantial piece of evidence published by the inquiry before the publication of its report, which is due in January.

In response to his claims, Mr Hurley said he stood over his evidence to the inquiry that he was not aware of dissenting voices.

Liam Barron, who was director general of the Central Bank from 2003 to 2007, said he rejected Mr Browne's claims that warnings were ignored.

He said this was "a grave accusation and appears to have the effect of protecting his own reputation while questioning the reputation of others, all now in retirement."