Subject: Potential solution to disparate mortgage interest rates across the EU

Interest rates offered to customers in Ireland are almost double that of the euro area average. Figures from 2021 show that the average interest rate on new residential loans in the euro area was 1.62 %, while Irish customers were offered an average rate of 2.81 %. With inflation rising an interest rate increase is expected, and the increased cost of capital will be felt most acutely where it is already relatively expensive.

There are several reasons why average interest rates are considerably higher in Ireland, but I want to highlight the prudential requirements. It is essential that banks are well capitalised and prudentially sound. However, presently the capital requirements for mortgages in Ireland are three times that of the EU average due to higher risk-weighted asset density. A January 2021 study calculated the average risk-weighted asset density for Irish banks at 37.1 % versus the EU banking sector average of 13.3 %.

The health of the Irish banking sector has significantly improved since 2008. In the context of the implementation of the Basel III standards into EU law, how does the ECB intend to rebalance interest rates across the EU?