ECONOMICS & MONETARY POLICY

You Didn’t Vote for This

How the eurozone requires Irish households to pay more for monetary policy, and why fixing it is beyond any single central bank’s remit

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IDEA IN BRIEF

THE PROBLEM

When a central bank raises interest rates, the decision doesn't land equally on everyone. It has to travel through the financial system — through banks, mortgage contracts, bond markets — before it reaches ordinary households. How fast that journey takes, and how hard it lands when it arrives, depends on the architecture of the financial system it passes through. Economists call *this monetary transmission*.

During the ECB’s 2022-23 tightening cycle, an Irish household with a tracker mortgage saw their monthly repayment rise by over €600. A German household with a fixed-rate mortgage paid around only €35 more, even though both live under the same central bank and the same rate decision. Ireland's tracker mortgage market is the most direct form of ECB transmission that exists anywhere in the eurozone

THE ARGUMENT

Irish households don't just pay more than German ones during ECB tightening cycles — their disproportionate payment is part of what makes it possible for German households *to pay less.* Because Ireland's mortgage architecture transmits ECB rate rises so directly into household spending, Irish households do more demand-destruction work per basis point of rate rise.

This asymmetry matters beyond the household level. Because Irish and Spanish households feel rate rises immediately in their mortgage bills, they cut spending quickly; meaning the ECB reaches its inflation target without having to raise rates as high as it would if everyone transmitted as slowly as Germany. German households get the benefit of that: lower inflation, a stable currency, without their mortgage bills having moved. The ECB's work was done disproportionately by households in Dublin and Madrid. The reward is shared across the union, but the cost was not.

THE IMPLICATION

This structural subsidy — from high-transmission to low-transmission economies — was never negotiated, never disclosed, and cannot be resolved by market forces or by any single national central bank. The covered bond infrastructure that would enable Ireland to reduce its transmission exposure barely exists and would take decades to build. Similarly, the outstanding stock of tracker and variable mortgages will remain exposed until the 2040s regardless of what policy is adopted today. Addressing this requires institutional action at the scale of the problem — which is eurozone-wide.

Imagine two families, both with a €250,000 mortgage, both living in the eurozone. When the European Central Bank raises interest rates, as it did, aggressively, between 2022 and 2023, one family’s monthly repayment rises by over €600. The other family barely notices.

The first family lives in Ireland, on a tracker mortgage. Their product is linked directly to the ECB policy rate itself; not to a market benchmark, but to the actual rate the ECB sets in Frankfurt. Every time the ECB raises rates, their monthly repayment rises by almost exactly the same amount. The pass-through is near-perfect and near-immediate.

The second family lives in Germany, on a 20-year fixed-rate mortgage. They signed their contract when rates were low. Until that contract expires, no ECB decision affects their repayment at all.

Neither family chose the mortgage market architecture they were born into. Further, the tracker mortgage was not an Irish invention born of recklessness — it was a product designed for a specific financial environment and became embedded in the Irish market over decades. Similarly, the German fixed-rate mortgage was not a product of German financial prudence — it was built on a covered bond infrastructure that dates to Prussian land finance law of 1769. Both Irish and German families inherited the systems available to them, but when the ECB acts, those inherited systems produce radically different outcomes.

And this is structural. Understanding why — and why neither the market nor any single national central bank can resolve it — is the subject of this piece.

IRELAND'S EXTREME CASE: THE TRACKER MORTGAGE

Ireland has a feature that makes ECB transmission asymmetry especially sharp: the tracker mortgage. Introduced in the early 2000s, tracker mortgages became dominant in Ireland during the boom years, partly because they were genuinely cheap and partly because banks competed aggressively on price. At their peak, trackers accounted for the majority of the outstanding Irish mortgage stock.

A tracker mortgage charges the ECB policy rate plus a fixed margin — typically between 0.5 and 1.5 percentage points. When the ECB rate was near zero, tracker holders paid almost nothing. When the ECB raised rates by 4.5 percentage points between 2022 and 2023, tracker holders felt almost exactly 4.5 percentage points of that rise in their monthly repayments. There is no lag and no dampening: the ECB decision travels directly to the monthly bill.

This makes the Irish tracker mortgage the most direct example of ECB monetary transmission that exists anywhere in the eurozone. A Spanish variable-rate mortgage is linked to Euribor, which follows the ECB but with some market intermediation. However, an Irish tracker is linked to the ECB itself. The chart below shows what this meant in concrete euros during the 2022–23 cycle.

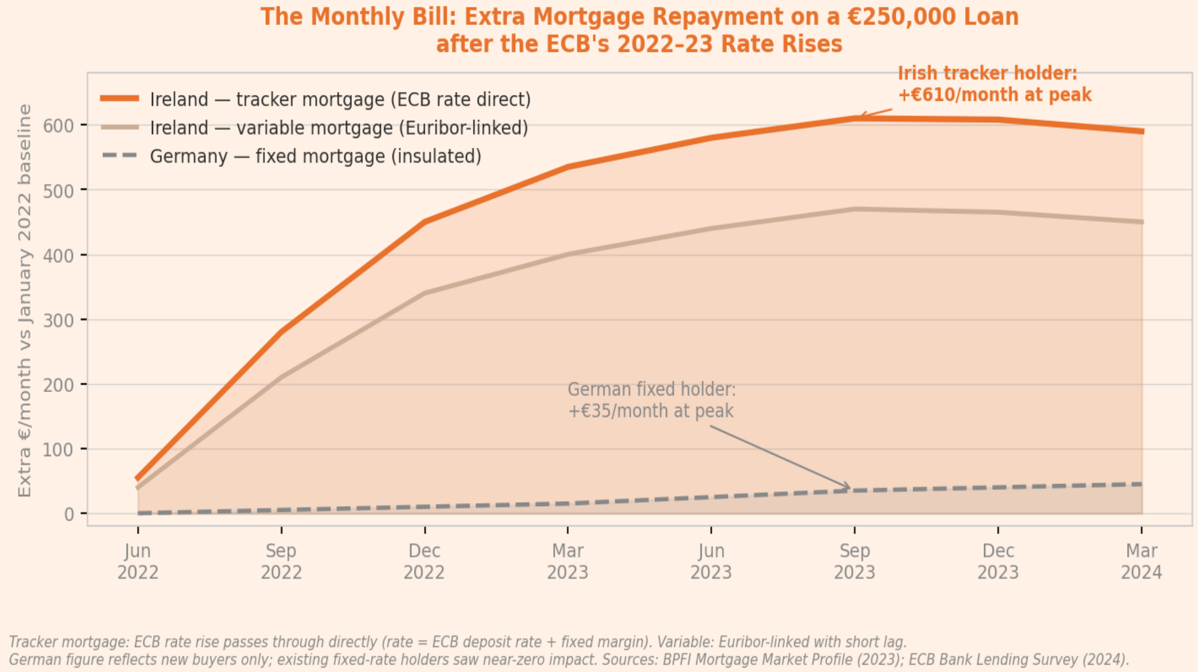


Figure 1: Extra monthly repayment on a €250,000 mortgage vs. January 2022 baseline. Irish tracker mortgages (ECB rate direct) vs. Irish variable mortgages (Euribor-linked) vs. German fixed-rate mortgages (insulated). Illustrative estimates based on BPFI Mortgage Market Profile (2023) and ECB Bank Lending Survey transmission data.

THE TRACKER SCANDAL AND WHAT IT REVEALED

There is a further dimension to the Irish case that has no equivalent elsewhere in the eurozone. During the financial crisis, Irish banks attempted to move tens of thousands of customers off their tracker mortgages — in many cases without contractual entitlement to do so — onto more expensive standard variable rates. The banks' motivation was straightforward: tracker mortgages had become loss-making as the ECB rate fell toward zero, and the banks wanted to escape their obligations.

The Central Bank of Ireland launched a major enforcement examination, which ran from 2015 to 2019 and ultimately identified around 40,000 affected households, many of whom had lost their homes or suffered severe financial distress as a direct result of being wrongly removed from their trackers. The redress and compensation programme ran to over €700 million.

This episode is directly relevant to the argument here, because the tracker scandal revealed that the architecture of the Irish mortgage market was not merely a passive structural feature — it was actively contested, and the contestation ran along the fault line that this article is describing. Banks wanted to escape the ECB transmission mechanism, while households were contractually entitled to remain exposed to it. The institutional question of who bears the cost of ECB rate movements was litigated through enforcement proceedings, not resolved by market forces.

The Central Bank of Ireland's role in the tracker examination was a legitimate and important exercise of its consumer protection mandate. But that mandate operates at the level of individual contract enforcement. The structural question — why Irish households are more exposed to ECB transmission than German ones, and whether that exposure is equitable within Europe's monetary union — is a different order of problem, operating at a different institutional level.

WHY THE MARKET CANNOT FIX THIS

The tracker scandal illustrates the stakes precisely: the question of who bears the cost of ECB rate movements is not abstract. It lands on specific households, in specific months, in specific amounts. And the reason Irish households bear more of it than German ones — not because of anything the Central Bank of Ireland did or failed to do, but because of the architecture of the mortgage market itself — is a problem that no enforcement action, however well-executed, can reach.

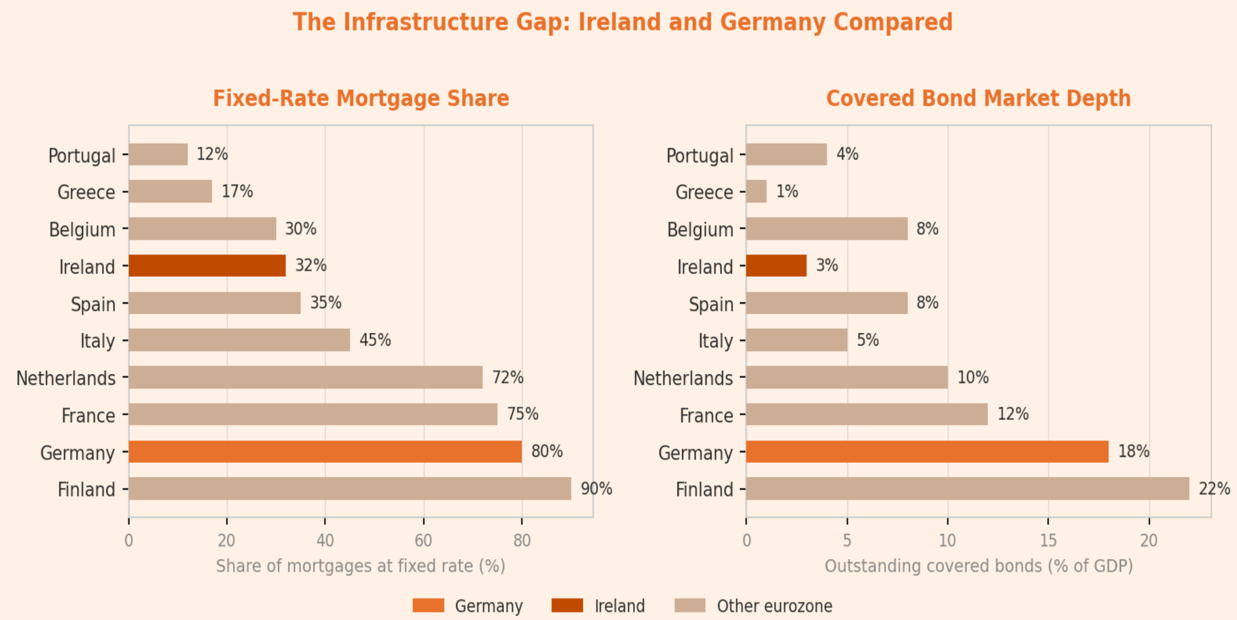
The ECB has known about transmission heterogeneity for over a decade, and its answer has been to build instruments that contain the damage. What it has *not* done is describe the distributional structure those instruments are papering over: that some member states' households systematically subsidise the monetary policy preferences of others, and that this was never part of the agreement.

The natural question that follows is whether Ireland could simply fix its own architecture — transition toward a predominantly fixed-rate mortgage market and reduce its exposure. The answer requires understanding what a fixed-rate mortgage market actually depends on.

A bank that offers you a 20-year fixed-rate mortgage faces an interest rate risk problem: the bank has promised to charge you a fixed rate for two decades, but it must fund that loan in markets where rates fluctuate. If rates rise — as they did dramatically in 2022 — the bank is earning less on its mortgage portfolio than it costs to fund it. Without a mechanism for offloading that risk, no rational bank offers long-term fixed rates at competitive prices.

German banks solved this problem through the ***Pfandbrief*** — a covered bond instrument originating in Prussian land finance law of 1769 that allows banks to package mortgage loans and sell long-duration bonds to investors, transferring the interest rate risk to the capital markets.

The investor base, legal framework, regulatory treatment, and credit history of the Pfandbrief market were built over more than two centuries. Ireland meanwhile has a covered bond framework, but the market is among the shallowest in the eurozone — around 3 percent of GDP, compared to Germany's 18 percent. The chart below shows how closely covered bond market depth tracks fixed-rate mortgage availability across eurozone members.



Ireland's covered bond market (3% of GDP) is among the shallowest in the eurozone — producing a fixed-rate mortgage share of around 32%, close to Spain's 35%. Without the long-duration funding infrastructure, Irish banks cannot offer fixed-rate mortgages at scale without bearing crippling interest rate risk. Sources: European Covered Bond Council (2023); European Mortgage Federation (2023); BPFI (2023). Eurozone members only.

THREE PRODUCTS, THREE TRANSMISSIONS

Ireland's mortgage market presents a sharper version of the transmission heterogeneity problem than most eurozone members, because it contains not one but two structurally distinct exposure channels side by side. Tracker holders experience ECB transmission directly while variable-rate holders experience it through Euribor with a short lag. Fixed-rate holders — now the majority of new issuance, following a gradual market shift since 2018 — experience almost none of it until they refinance.

The table below places these three product types alongside Germany's predominantly fixed-rate market, to show the full range of transmission architecture operating within and across the eurozone.

	Ireland (Tracker)	Ireland (Variable)	Germany (Fixed)
Mortgage mix	~40% tracker, ~30% variable	~32% variable, ~68% fixed (new issuance shifting)	~80% fixed rate
Transmission channel	ECB rate direct into repayment	Euribor-linked with short lag	Insulated until refinancing
Transmission speed	Immediate: weeks	Fast: months	Slow: years to decades
2022–23 peak impact	+€610/month on €250k loan	+€470/month on €250k loan	+€35/month (new buyers only)
ECB rate: fit?	Structurally damaging	Broadly transmitted	Largely irrelevant to households

Sources: BPFI Mortgage Market Profile (2023); ECB Bank Lending Survey (2023); European Mortgage Federation (2023); Central Bank of Ireland Quarterly Bulletin (2023).

THE COLLECTIVE ACTION TRAP

Faced with this analysis, the tempting conclusion is that Irish households should simply choose fixed-rate mortgages and insulate themselves. The problem with this conclusion is that it mistakes an individual choice for a *structural* one.

In a low-rate environment, which describes most of the period from 2012 to 2022, tracker and variable-rate mortgages were significantly cheaper than fixed ones. The fixed-rate premium on an Irish mortgage has historically been around €150 to €175 per month. That is money paid now, every month, for protection against an event that may or may not occur. The rational individual response, particularly when rates have been low for a decade, is to take the cheaper product!

The cost of that choice, i.e. elevated exposure to ECB transmission, does not fall on any individual household as an individual cost.

It falls on Irish households in aggregate, as a class, when the ECB tightens: No individual household choosing a tracker or variable mortgage is making an error, they are all making locally sensible decisions that collectively produce a national mortgage architecture that is structurally fragile at the eurozone level.

As such, no individual household, acting alone, can internalise the aggregate cost or change the aggregate architecture.

The chart below makes the arithmetic of this trap concrete. At the household level, choosing a fixed rate in normal times costs roughly €2,100 per year in premium. During a tightening cycle, staying on a tracker or variable rate costs roughly €5,400 per year in extra repayments. The aggregate transfer from Irish households over the 2022–23 tightening cycle, across the entire stock of tracker and variable mortgages, ran to the order of billions of euros.

No market mechanism exists to distribute the cost of insurance across the collective that benefits from it.

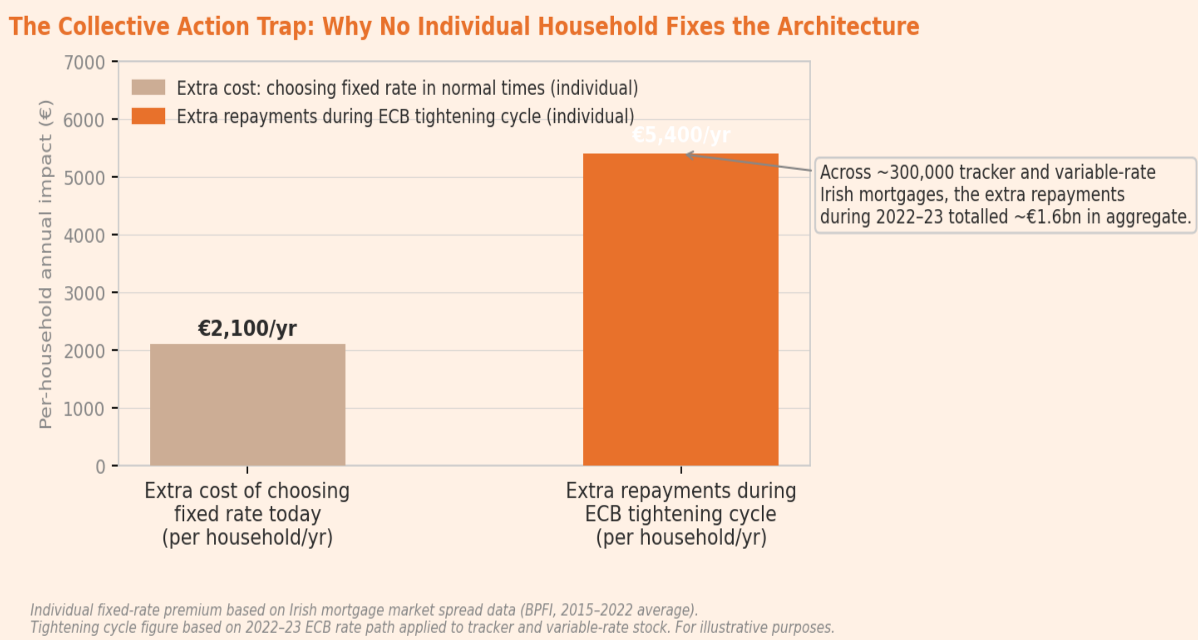


Figure 3: The collective action trap. In normal times, variable and tracker mortgages cost less — so households rationally choose them. In tightening cycles, the cost of that rational choice accumulates to a national-level structural burden. The collective benefit of switching is real but uncapturable by any individual. Sources: BPFI (2023); ECB Bank Lending Survey. Stylised estimates.

EVEN IF IRELAND SWITCHED TODAY

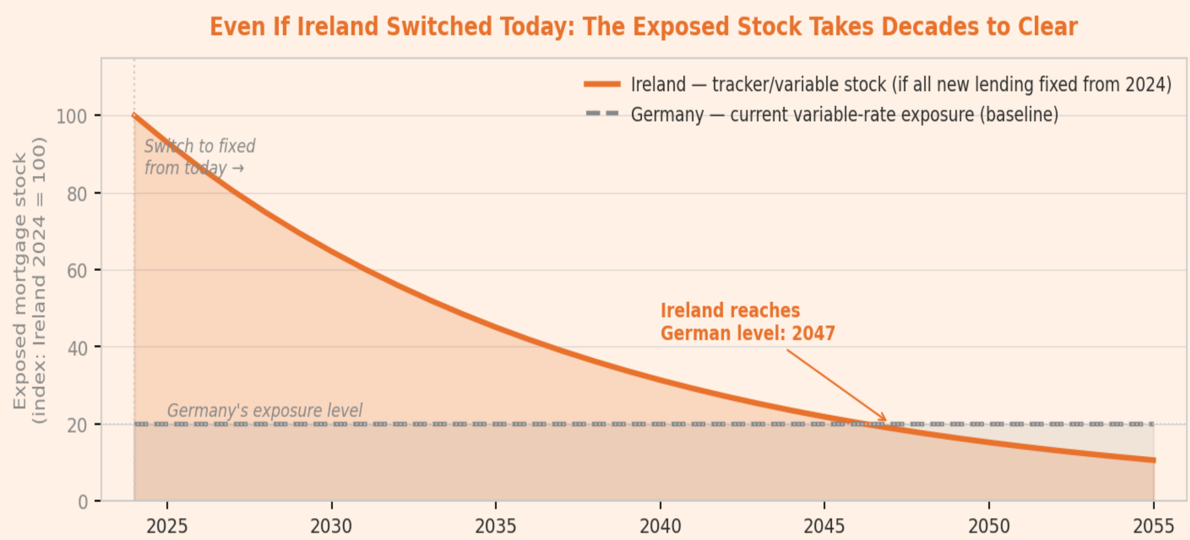
Since approximately 2018, the Irish mortgage market has been shifting toward fixed-rate products, and new issuance is now predominantly fixed. This is a genuine structural change, and one worth acknowledging. But it addresses the flow, not the stock; and the stock is where the exposure lives.

Ireland currently carries roughly 180,000 tracker mortgages and around 120,000 additional standard variable-rate mortgages, representing the outstanding legacy of decades of variable-rate issuance, which will not expire for another 15 to 20 years.

Even under the most optimistic assumptions — all new lending fixed from today, no new variable issuance whatsoever — the exposed stock decays at roughly 7 percent per year as mortgages are repaid or refinanced.

Ireland would not reach Germany's current level of exposure until the early 2040s.

Every ECB tightening cycle between now and then will hit Irish households harder than German ones. This is not because of anything the Central Bank of Ireland has done or failed to do, or because Irish households are making bad decisions, but because the architecture of the outstanding mortgage stock was built before the eurozone existed, and no policy adopted today can retroactively change the contracts already signed.



Assumes Ireland issues only fixed-rate mortgages from 2024. Outstanding tracker/variable stock decays at ~7% per year (shorter Irish average mortgage term). Every ECB tightening cycle until the mid-2040s will still hit Irish households harder than German ones. Stylised model for illustrative purposes.

WHO BENEFITS, AND HOW

The most important question in this analysis is not simply that Irish households pay more than German ones. It *is why that gap exists and who it serves* — because the distribution of costs across the eurozone is not an unfortunate side effect of monetary union. It is a *structural subsidy*, running in a consistent direction, that was built into the architecture before anyone thought to ask who would pay for it.

Consider what happens when the ECB raises rates:

In Ireland, tracker mortgage holders feel almost the full rate rise in their monthly repayments within weeks, and variable-rate holders feel it within months. Household spending contracts, and demand falls, easing inflationary pressure.

In Germany, most mortgage holders feel almost nothing, and their spending is largely undisturbed. Thus, their contribution to the ECB's demand-cooling objective is minimal.

This means that Ireland — and Spain, and Portugal — are doing more of the demand-destruction work per basis point of rate rise than Germany, the Netherlands, or France.

It is a fact that high-transmission economies absorb more monetary tightening per unit of ECB action. And simply because there are some countries that absorb more, the ECB does not need to raise rates as high as it would if the whole eurozone transmitted like Germany. Hence, a lower peak rate is sufficient to hit the inflation target precisely because some member states are bearing a disproportionate share of the adjustment.

That lower peak rate benefits every eurozone member: German households benefit from lower inflation and a stable currency without their mortgage bills moving. French businesses benefit from the demand stabilization that Irish and Spanish household spending cuts helped deliver. The public good — price stability — is shared equally across the union. The household-level cost of producing it is not.

Irish households absorb more monetary tightening per basis point than German ones — and because they do, the ECB never needs to raise rates as high as it would if the whole eurozone transmitted like Germany. Price stability is a public good shared across the union. The household cost of producing it is not.

The high-transmission economies are, in effect, the *load-bearing members of eurozone monetary policy*.

In fact, their architectural exposure makes them efficient instruments of ECB demand management. And the economies that free-ride on that efficiency — absorbing the benefits of price stability without bearing the transmission costs — are, structurally, the wealthier, more financially developed member states whose fixed-rate mortgage architectures took centuries to build.

Unfortunately, therefore, the burden falls where the infrastructure is weakest, and the benefit flows where it is strongest.

This was not negotiated, nor does it appear in any fiscal account of eurozone membership. The ECB is not at fault, as it sets rates for the aggregate, as mandated. Nor is the Central Bank of Ireland at fault — its consumer protection role, including the tracker examination, operated precisely as it should at the level of individual contract rights.

But consumer protection enforcement cannot change the structural architecture of the market, and it cannot equalise the distribution of ECB transmission costs. That is a different order of problem entirely.

WHAT LIES BEYOND ANY SINGLE INSTITUTION'S REMIT

The structural architecture problem has a clearly defined institutional solution space, but it is located at the European level, not the national one. Three interventions would make a material difference, and none of them can be implemented by a national central bank acting alone.

The first is a genuinely deep **covered bond market across the eurozone periphery**, supported by a harmonised legal framework, common regulatory treatment, and deliberate development of institutional investor bases in markets where they are currently thin. This would give Irish, Spanish, and Portuguese banks the long-duration funding tools they need to offer competitive fixed-rate mortgages without bearing crippling interest rate risk. It requires European Capital Markets Union to move from aspiration to implementation; a project that has been in development since 2015 and remains incomplete.

The second is an **explicit fiscal stabilization mechanism** designed to offset transmission asymmetry. When the ECB tightens and the architectural gradient means that some member states absorb disproportionate household-level costs, a eurozone-level fiscal instrument could compensate directly. This is not as a general transfer, but as a targeted offset for a structural feature of monetary union that was never priced in. This is conceptually distinct from existing European solidarity mechanisms, because it addresses a systematic unfairness built into the *architecture* of the union itself rather than a cyclical shock.

The third is slower, more structural, and genuinely generational; the **convergence of mortgage market design** across member states. This requires not just financial product development but legal reform, consumer behaviour change, and the long-term construction of the institutional investor base that makes deep fixed-rate markets possible.

Ireland has begun this transition, and the question now is whether the European institutional architecture can accelerate and coordinate it, rather than leaving each member state to rediscover the same structural constraints independently.

None of these interventions is quick or politically easy. The covered bond harmonisation project has encountered sustained resistance, and the fiscal stabilization mechanism faces the same political economy obstacles that have delayed every eurozone risk-sharing proposal since 2010. Mortgage market convergence is measured in decades, not years.

But the starting point for any of them is to stop treating transmission asymmetry as a *technical management problem* — a ‘transmission imperfection’ to be smoothed with better communication or supplementary instruments — and to name it for what it is: a *distributional feature* of monetary union that imposes *systematic costs* on specific member states, was never negotiated, and will not resolve itself.

Irish households are paying more for eurozone membership than the official account of that membership suggests, and making that visible is the precondition for addressing it.

This article draws on two working papers: ***Institutions as Coordination Architectures: Adaptive Bandwidth*** *and* ***Market Formation as a Systems Engineering Problem****. Both develop the formal models underlying the arguments presented here. Copies at s@sinead.co.*