Summary for non-specialists
Occasional Papers No. 143 / April 2013
Occasional Papers index

Macroeconomic Imbalances – United Kingdom 2013

On 28 November 2012, the European Commission presented its second Alert Mechanism Report (AMR-2013) in accordance with the Regulation (EU) No. 1176/2011 on the prevention and correction of macroeconomic imbalances. The AMR serves as an initial screening device to identify Member States that warrant further in depth analysis into whether imbalances exist or risk emerging. According to Article 5 of Regulation No. 1176/2011, these country-specific "in-depth reviews" should examine the nature, origin and severity of macroeconomic developments in the Member State concerned, which constitute, or could lead to, imbalances. On the basis of this analysis, the Commission concludes whether it considers that an imbalance exists or not, and if so whether it is excessive or not, and what type of follow-up it will recommend to the Council to address to the Member State.

The 2013 in-depth reviews (for Belgium, Bulgaria, Denmark, Spain, France, Italy, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom) were published on 10 April 2013 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

THE UNITED KINGDOM is *experiencing macroeconomic imbalances, which deserve monitoring and policy action.* In particular, macroeconomic developments in the areas of household debt, linked to the high levels of mortgage debt and the characteristics of the housing market, as well as unfavourable developments in external competitiveness, especially as regards goods exports and weak productivity growth, continue to deserve attention.

More specifically, the UK faces tensions between the needs for deleveraging, maintaining financial stability and avoiding compromising investment and growth. The primary cause of the growth in household debt was high and volatile house prices, linked to an insufficient and rigid supply of housing. Household deleveraging continued in 2012 and house prices corrected further but this may not be sustained once the economy improves and housing transactions return to more normal levels. Policy measures have been introduced aiming at increasing residential construction, although it is not yet clear whether they will prove effective. As a consequence of a combination of high house prices and the widespread and growing use of variable-rate mortgages, households are particularly exposed to interest rate changes. The stock of UK corporate debt is modestly high yet some firms are having difficulty accessing adequate funding for investment. The UK is also confronted with the twin challenge of sustaining the pre-crisis dynamism in service exports and boosting the underlying drivers of productivity in the industrial sectors in order to regain the external competitiveness that was partly eroded in the pre-crisis years. The net trade outturn for

2012 was lower than expected. Overall public investment remains low and it is not clear when and to what extent private investment will pick-up. On current policies, the flow of credit may only be normalised once broader macroeconomic conditions improve. Skill gaps persist and closing them will require a substantial long-term investment. Given the size of the British economy, the imbalances may generate spill-overs to the other European economies.