

Macroeconomic Imbalances

United Kingdom 2014

On 13 November 2013, the European Commission presented its third Alert Mechanism Report (AMR) 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, presented on 5 March 2014, the Commission will conclude 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 2014 in-depth reviews (for Belgium, Bulgaria, Germany, Denmark, Ireland, Spain, France, Croatia, Italy, Luxembourg, Hungary, Malta, Netherlands, Slovenia, Sweden, Finland and the United Kingdom) were published on 5 March 2014 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** continues to experience *macroeconomic imbalances, which require monitoring and policy action*. In particular, developments in the areas of household debt, linked to the high levels of mortgage debt and structural characteristics of the housing market, as well as unfavourable developments in export market shares, continue to warrant attention.

More specifically, while recent growth in economic activity is welcome, it is driven mostly by household consumption and is accompanied by a rising current account deficit. Business investment and net exports are yet to pick up from their current low levels. Containing high indebtedness, in particular of the household sector, while minimising the impact on investment and growth, would help limit medium-term risks and vulnerability to rises in the cost of borrowing. Credit growth for mortgage loans has been modest but rising from high pre-existing levels of household indebtedness. The risks in the housing sector relate to a continuing structural under-supply of housing; the relatively slow response of supply to increases in demand results in high house prices, particularly in London and the Southeast, and in household mortgage indebtedness. While the declining export market share is unlikely to pose short-term risks, together with the current account deficit, it still points to structural challenges. These are related to skills gaps and a low level of infrastructure endowment. As regards public finances, the UK seems to continue missing its headline deficit targets and its structural adjustment targets by wide margins.