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on the Alert Mechanism Report 2013,

prepared in accordance with Articles 3 and 4 of the Regulation on the prevention and correction of macroeconomic imbalances

{SWD(2012) 420 final}
{SWD(2012) 421 final}

1. INTRODUCTION

Persistent macroeconomic imbalances, reflected in large and persistent external deficits and surpluses, sustained losses in competitiveness, and the build-up of indebtedness, have been part at the core of the economic crisis and their current unwinding and adjustment shape the economic land scape. They continue to frame the macroeconomic challenges for the Member States concerned and involve spillovers which contribute to the threats facing the euro area. In December 2011, the "6-pack" entered into force, including the two regulations setting up the Macroeconomic Imbalance Procedure (the MIP)[1]. Surveillance on imbalances under the MIP forms part of the 'European Semester' which takes an integrated and forward-looking approach to macroeconomic surveillance. The MIP was fully implemented for the first time in 2012. On 14 February 2012, the first step in the MIP was taken when the Commission published the first Alert Mechanism Report[2]. On 30 May 2012 in-depth reviews for 12 Member States were published[3] and concluded on the existence of macroeconomic imbalances in the 12 member States reviewed. Appropriate policy responses to the identified imbalances were integrated in the set of country-specific recommendations issued by the Council in July under the European Semester[4].

This is the second Alert Mechanism Report which initiates the MIP for the 2013 European Semester.

The Alert Mechanism Report is the initial screening device whereby the Commission identifies Member States for which it considers that developments warrant further in-depth analysis to determine whether imbalances exist or risk emerging. It should be emphasised that it is not in the Alert Mechanism Report, but in the subsequent in-depth reviews that the driving forces behind the observed developments are analysed in detail[5]. On the basis of the in-depth reviews, the Commission will conclude whether imbalances or excessive imbalances exist, and propose policy recommendations. This second round of the MIP will integrate the findings from the previous cycle and taking into account that the general economic conditions have not improved. The in-depth reviews are foreseen to be published in spring, ahead of the May European Semester package.

The Alert Mechanism Report is based on a scoreboard of indicators. The assessment of the potential existence or the risk of imbalances in Member States does not derive from a mechanical application of the scoreboard indicators. The scoreboard is complemented by additional information and indicators taking due account of country-specific circumstances and institutions, and considering also the conclusions in the in-depth reviews of May 2012. As regards the scoreboard design, an indicator related to the financial sector has been added to the initial set of ten indicators to respond to the call of the Council and the European Parliament to better take into account the financial sector. Annex 1 provides further explanations and background on this year's scoreboard.

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[1] Regulations (EU) of the European Parliament and the Council No 1176/2011 and 1174/2011 (OJ L 306, 23.11.2011, p. 25 and 8, respectively).

[2] COM(2012) 68 final, 14.2.2012.

[3] These Member States were Belgium, Bulgaria, Denmark, Spain, France, Italy, Cyprus, Hungary, Slovenia, Finland, Sweden and the United Kingdom (see *European Economy-Occasional Papers*, 99 to 110, and Commission Communication 'Action for Stability, Growth and Jobs' - COM(2012) 299 final, 30.5.2012).

[4] Council Recommendations of 10 July 2012 (2012/C 219/01 to 27) (OJ C 219, 24.7.2012).

[5] Work to strengthen analytical frameworks and tools for the analysis of imbalances is taken forward by Member States and the Commission in the context of the Economic Policy Committee. This includes for example issues linked to housing, indebtedness and the assessment of external positions.

Section 2 discusses some horizontal and thematic messages from the reading of the scoreboard. In section 3 the reading of the scoreboard is presented per country. Section 4 concludes.

2. PROGRESS IN REBALANCING AND CORRECTION OF IMBALANCES

The EU economies continue to face large challenges to correct the external and internal imbalances accumulated in the pre-crisis period. Several Member States face deleveraging pressures in the private and public sector. These pressures reflect the unwinding of accumulated financial imbalances, which are linked to previous unsustainable expenditure and debt levels. The simultaneous deleveraging is weighing on growth, as spending is reduced and income is directed to debt repayment, while the correction of the external deficits, to be complete and sustainable, requires further improvement in relative competitiveness, including through the reductions in costs and increases in productivity. This adjustment of accumulated internal and external imbalances is expected to be a protracted process shaping the economic landscape for several years to come and framing the surveillance under the MIP. The current growth conditions, including the outlook for next year, are considerably weaker than forecast at the time of the previous Alert Mechanism Report earlier this year, but progress in re-balancing will open up the way for growth and convergence.

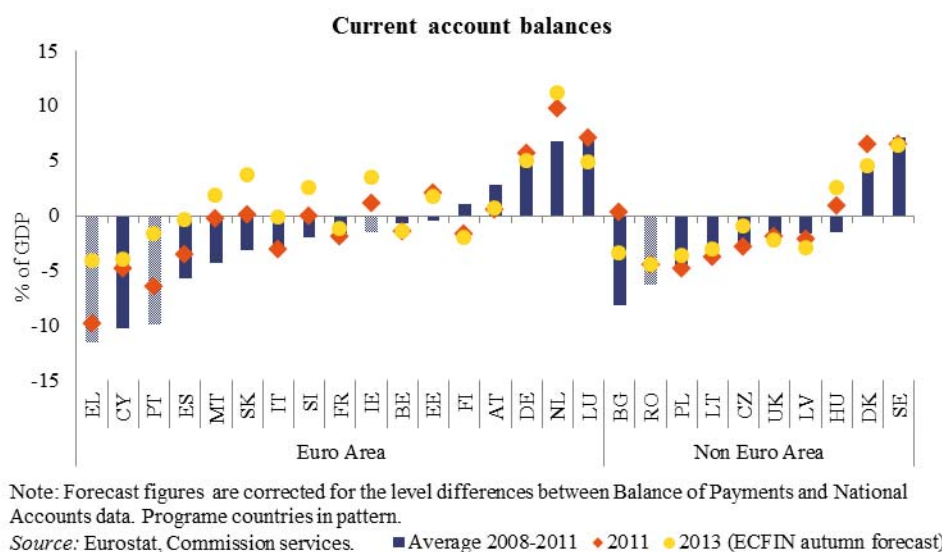
There are positive signs that the rebalancing in the EU economies is progressing, as evidenced by the latest Commission forecasts. The reform efforts appear to bear fruit, and not only in programme countries. Current account deficits are coming down in the countries with the largest external imbalances, supported by gains in competitiveness. However, the necessary adjustment for some countries with large current account deficits is still considerable and needs to be supported by the implementation of the productivity-enhancing structural reforms agreed in the context of the economic adjustment programmes and in the country-specific recommendations. Further intra-euro area (and intra EU) rebalancing would benefit from dynamic domestic demand and wage developments in the surplus countries.

As regards the different areas covered by the scope of the scoreboard the following more specific observations can be made:

- ***Euro-area (and EU) rebalancing of current account positions is on-going.*** This has so far mainly been the result of adjustment in the vulnerable economies although developments in the Member States with large current account surplus also contribute to the rebalancing of the euro area (and EU). Deficit countries have experienced an expansion of exports thanks to gains in competitiveness and a reallocation of resources towards export-oriented industries but also a strong compression of domestic demand and imports. Although, these developments include both cyclical and structural nature, the structural correction appears to predominate in most countries. In parallel with the adjustment in Member States with large current accounts deficits, the external balances of several Member States in surplus have been declining, albeit at a slower pace. The increasing weight of domestic demand in the economic activity of the surplus countries and the relatively dynamic wage increases suggest that the contribution of surplus countries to rebalancing might grow in the coming years.

- ***Nonetheless, the external adjustment in current account deficits is not yet sufficient to ensure sustainable and sound external debt positions.*** A majority of Member States have (negative) net international investment positions beyond the indicative threshold. How much the net international investment position is beyond the threshold differs, however, across countries, ranging from moderate (CZ, EE, LT, PL, SI and

SK, and RO) to substantial (BG, ES, CY, LV and HU, as well as IE, EL and PT) deviations. In catching-up economies, the net external debt is generally lower than the net international investment position reflecting the importance of foreign direct investment (BG, CZ, SK, LT and LV). In many cases, the negative positions have continued to rise, or when declining this has been mainly the result of valuation effects (ES and CY, as well as EL and PT), in particular due to the loss in the market value of domestically-issued securities held by foreigners.



Note: Forecast figures are corrected for the level differences between Balance of Payments and National Accounts data. Programe countries in pattern.
Source: Eurostat, Commission services.

- ***Export performance has been improving slightly in a context of weaker global demand.*** With the exception of catching-up Member States (EE, MT, SK, BG, LV, LT, PL and RO), over the last five years the majority of Member States have lost export market shares at a rate well exceeding the indicative threshold,. Over a longer period of time, these losses partially reflect an EU-wide trend in a global context and need to be viewed in the context of the expansion of world trade. Nevertheless, the pace of market share losses is often reduced compared to a year ago.

- ***Price and non-price competitiveness developments have contributed positively to unwinding external imbalances.*** The recovery in price and non-price competitiveness is key to the adjustment process of the economies with large current account deficits. Many structural reforms have already been adopted. Although the full effects of reforms on the main macroeconomic variables are typically visible only with a time lag, the substantial labour market reforms have started to translate in significant competitiveness gains in several Member States. Changes in the trends of relative unit labour costs and real effective exchange rates give already supportive evidence of competitiveness gains in most Member States. In the scoreboard, the unit labour cost indicator (nominal change in 2009-11) exceeds the threshold only in four Member States (BG, LU, RO, FI) compared to the double in the previous report, reflecting downward pressures on wage growth over the last couple of years.

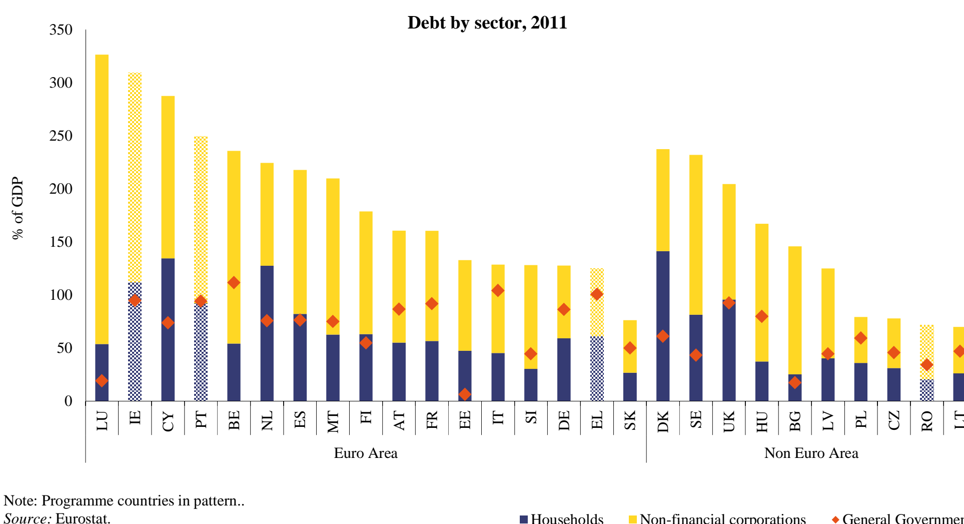
- ***So far, gains in price competitiveness have taken place predominantly in Member States with large imbalances, sparked by intense market pressure.*** Since 2010, the growth rate of nominal unit labour costs in the euro-area periphery has been below the corresponding growth rate in the core surplus economies. The reduction in unit labour costs in vulnerable countries relative to the core euro area stems from increases in

productivity and competitive pressures, labour shedding which now offset the labour hoarding of recent years, and reductions in the nominal remuneration in several sectors.

- ***Deleveraging pressures in the private sector persist in many Member States.*** The unwinding of excessively leveraged positions in the private sector, including corporates and households, started in the aftermath of the financial crisis. Private sector debt exceeds the indicative threshold (160 per cent of GDP) in a majority of Member States (AT, BE, CY, DK, FI, FR, HU, LU, MT, NL, ES, SE and the UK, as well as IE and PT). At a sectorial level, firms' indebtedness is particularly high in some countries (above 120 per cent of GDP in BE, BG, CY, MT, ES and SE, as well as IE and PT). In other cases, such as SI and ES, construction firms account for the bulk of non-financial corporations debt and further housing market correction may lead to an increase in bad loans and impaired assets in the corporate sector. Turning to households, deleveraging pressures are visible in a number of Member States (CY, DK, NL, ES, SE and UK, as well as IE and PT, and are mainly linked to pre-crisis housing market upswings. Downside risks for household balance sheets and consumption are linked to potential further corrections in housing markets.

- ***Lending to the private sector remains weak and private credit flows are subdued.*** In 2011, credit growth figures were generally below the threshold, explained both by credit supply and demand factors. On the one hand, banks downsized their balance sheets and increased their provisioning. Indeed, there was only a moderate increase in the financial sector liabilities in 2011 across the board. Existing structural and liquidity issues in the financial sector also affected the supply of credit. On the other hand, worsening growth prospects coupled with high uncertainty have been holding back demand, particularly in those countries with the biggest adjustment needs.

- ***Complex sectoral inter-linkages among the public, banking and private sectors often add to the underlying imbalances.*** The strong country bias between the financial sector and domestic sovereigns leaves banks largely exposed to sovereigns through holdings of government bonds. Moreover, high sovereign yields can also affect firms via the banking sector, thus affecting negatively their financing conditions. Against this background, financing costs for both public and private sector have been diverging increasingly in Member States resulting in financial fragmentation across national borders. The sovereign debt crisis has triggered deposit outflows from some vulnerable countries and has exerted additional funding and liquidity pressures on their private sector. Small and medium-sized enterprises risk being affected more in this respect as they rely heavily on bank credit. In this context, private sector deleveraging pressures are even more of a concern when this takes place in parallel to on-going and necessary deleveraging in the public sector (BE, ES, HU and IT, as well as IE, EL and PT).



Note: Programme countries in pattern..
Source: Eurostat.

- ***Housing markets are still in correction mode with different implications according to the dynamics of the construction sector.*** Indeed, almost all Member States experienced negative real house price growth rates in 2011 with the notable exception of the Baltic States recovering from the previous boom-bust episodes. Consequently in no country did the house price growth exceed the indicative threshold. This correction has gained speed in some countries, which were already characterised by substantial cumulated falls in house prices (CY, ES and IE) in a context of a sharp deterioration in economic conditions. It has in some cases led to the necessary downsizing of construction sectors, but has also led to higher unemployment and deterioration in banks' balance sheets (SI, ES and IE). Further downward adjustments cannot be excluded (DK, NL, UK), against a background of tightened credit conditions and economic uncertainty.

- ***The on-going adjustment to imbalances is necessary but is costly in the short term and has resulted in higher unemployment.*** Adjustment is taking place but the way forward for a complete and durable rebalancing is still long. Reforms in wage-setting mechanisms are starting to show their effectiveness in improving cost-competitiveness. High or rising unemployment in several Member States, in a context of subdued aggregate demand, points to a labour market adjustment process that is still incomplete. Weak economic activity and, in some cases, the downsizing of important sectors such as construction (SI, ES and IE) are part of the adjustment process inducing a shift of resources from the non-tradable to the tradable sector and the switching of expenditure to domestically-produced goods. The engineering of an expenditure switch to restore growth, job creation and external adjustment depends heavily on sustained structural reform efforts on both labour and product markets as well as on stepping up efforts on the implementation of financial regulation. This is even more important in the context of high internal deleveraging pressures.

3. Country-specific commentaries on the reading of the scoreboard

The commentaries below do not cover Member States which are subject to surveillance under economic adjustment programmes supported by official financing. This concerns Greece, Ireland and Portugal in the euro-area and Romania outside the euro area[6].

Belgium: In May 2012, the Commission concluded that Belgium was experiencing macroeconomic imbalances, in particular as regards developments related to external competitiveness and indebtedness. In the updated scoreboard, a number of indicators exceed their indicative thresholds, namely the change in export market shares; gross private sector debt and general government debt. On the external side, Belgium has continued losing export market shares at a slower pace. The continuous loss of export market shares is due to deterioration in the goods balance since 2003, which has partly been offset by the steady increase of the services balance. The current account position is expected to remain close to balance in the coming years. An important factor explaining the deterioration in export market shares is the decline in cost-competitiveness due to, *inter alia*, stronger accumulated unit labour cost increases compared to the euro-area average. This trend is expected to continue. Concerning internal imbalances, the private sector debt indicator is well above the threshold, although to a large extent driven by intra-company loans. Credit grew relatively strongly in 2011 but has been reduced lately both due to a decline in demand and tightening credit conditions for companies. Government debt is high and increasing due to the accumulation of large deficits over recent years and the interventions in the financial sector. House prices increased rapidly prior to the crisis and the likelihood of a correction needs to be further explored, including the impact such a correction could have on the sustainability of mortgage-related household debt. In 2011, the debt-to-equity ratio of the financial sector increased due to losses in the sector. *Overall, the Commission finds it useful, also taking into account the identification of an imbalance in May, to examine further the persistence of imbalances or their unwinding.*

Bulgaria: In May 2012, the Commission concluded that Bulgaria was experiencing macroeconomic imbalances, in particular as regards developments related to external indebtedness, corporate sector deleveraging and the labour market adjustment process. In the updated scoreboard, some indicators exceed their indicative thresholds, namely the net international investment position and unit labour costs, while the private sector debt indicator is now below the threshold. On the external side, the current account balance has been improving rapidly: it reached a balanced position in 2011 and is projected to remain below the threshold over the forecast horizon. Despite an improvement mirroring steep corrections in the current account, the negative net international investment position is expected to remain

[6] This approach which avoids duplication of procedures and reporting obligations is consistent with the Commission proposal for a regulation on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area - COM(2011) 819 final, 23.11.2011 -, which is a component of the '2-pack.' For a detailed discussion of the economic situation and progress in the unwinding of macroeconomic imbalances, see the latest compliance reports: in *European Economy-Occasional Papers*, 94 (Greece), 115 (Ireland), 116 (Romania) and 117 (Portugal). Spain is discussed in this report though it benefits from official financing for the recapitalisation of banks; see 'The Financial Sector Adjustment Programme for Spain,' *European Economy-Occasional Papers*, 118. Also Hungary and Cyprus are discussed. In November 2011, the Hungary formally requested negotiations leading to a precautionary financial assistance. However, these negotiations have not advanced significantly. Cyprus requested official financing on 25 June 2012 and negotiations for a programme is currently on-going.

significantly above the indicative threshold and accordingly a factor of vulnerability in the foreseeable future. However, this indicator should be interpreted in conjunction with the very high foreign direct investment stock, leading to substantially lower net external debt. Firstly, foreign direct investment inflows remained subdued in 2011 and their recent pick-up is envisaged to stay modest even if foreign direct investment stocks are high. Secondly, Bulgaria has recorded gains in export market shares against a background of improved productivity and a depreciating real effective exchange rate and recently moderate increases in unit labour cost, although the indicator remains above the threshold, and growth in wages and unit labour costs is foreseen to be relatively strong looking forward. The downward adjustment in the housing market is on-going after earlier steep declines in house prices. Credit conditions remain stable providing for an expansion in lending, although the high level of non-performing loans could become a drag on lending. While deleveraging rapidly (2011 data point to a swift drop in short-term loans to non-financial corporations), the private sector remains relatively indebted for a catching-up economy mainly on account of cross-border intercompany loans to non-financial corporations. Since the adjustment in the external imbalances has partly come through a compression of domestic demand, including investment, there is a risk of locking the economy into a low-growth path, thereby making the reduction in debt levels, including net international investment position, more challenging. Concerns over the country's long-term potential growth are also due to labour market weaknesses, which are reflected in a weak labour market performance with negative growth, increasing unemployment rates and high structural unemployment. *Overall, the Commission finds it useful, also taking into account the identification of an imbalance in May, to examine further the persistence of imbalances or their unwinding.*

Czech Republic: In the previous round of the MIP, the Czech Republic was not identified as experiencing imbalances. In the updated scoreboard, the net international investment position is above the indicative threshold. The net international investment position has deteriorated because of sustained, albeit moderate, deficits in the current account balance of around 3 per cent of GDP over the last three years: these are mainly driven by the outflow of dividends on the high stock of foreign direct investment. Overall, the risk of external vulnerabilities is limited because of the relatively low value of gross external debt liabilities. The trade balance recorded a robust surplus in 2011 but gains in export market shares are gradually easing, reflecting the falling share of new green-field projects in foreign direct investment. At the same time import growth is also expected to ease. As domestic demand remains weak, the current account deficit is projected to continue to improve in the coming years and this is expected to contribute to stabilising the net international investment position around the current level. Contrary to the appreciation trend observed before the global financial crisis, the real effective exchange rate has remained broadly stable since 2009. The inflow of capital to the Czech Republic went hand-in-hand with considerable wage growth in all sectors of the economy, even though productivity increases were limited mostly to the tradable sector. While the aggregate nominal unit labour cost growth decreased to close to 3 per cent over the past three years, and is expected to remain subdued in the near future, the cumulative productivity gap in the non-tradable sector may weigh on the competitiveness of the economy: first, because the non-tradable sector provides inputs to other sectors, thus directly affecting their competitiveness of the latter; and second, since higher wage growth in the non-tradable sector may hinder shifts in labour towards export-oriented industries that have more scope for productivity growth. Adjustment, accompanied by falling real house prices, is underway in construction and real-estate activities, which had been boosted by relatively easy lending conditions before the crisis: the share of bank loans to value added in these industries doubled in 2005-8. The largely foreign-owned banking sector in the Czech Republic has

remained resilient, and the moderate levels of private- and public-sector indebtedness have prevented the emergence of any negative feedback loops. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Denmark: In May 2012, the Commission concluded that Denmark was experiencing macroeconomic imbalances, in particular as regards developments related to external competitiveness and household indebtedness. In the updated scoreboard, some indicators are above the indicative threshold, namely the change in export market shares and private sector debt. The loss in export market shares remains well above the threshold and was of the same magnitude in 2011 as in 2010. The in-depth review of May 2012 concluded that Denmark's competitiveness and weak performance in exports of goods was linked to a rise in unit labour cost, relative to main competitors. However, cost-competitiveness, as measured by the percentage change over three years in nominal unit labour cost, has improved and remains below the threshold. Continued muted development of unit labour cost is forecast for the coming years. The percentage change over three years in the real effective exchange rate also reveals a depreciation since 2009, which is expected to continue over the coming years. The sustained decline in market shares despite the improvement in cost-competitiveness may imply that the latter is not yet sufficient in order to restore the cumulative loss in competitiveness which took place over the previous decade. Nevertheless, current account surpluses have continued to increase, driven, in particular, by the balance of trade in goods and services – partly thanks to oil and gas exports which benefit from rising oil prices – but also inflows of income from foreign direct investment abroad. However, as the current account balance partly reflects large savings in the private sector, it is expected to decline in coming years, as domestic demand gradually recovers. The private sector debt ratio remains significantly above the threshold. Admittedly it has been reduced for the second year in a row, partly reflecting a fall in the household debt ratio but remains among the highest. Developments in housing markets have contributed to pushing household debt beyond sustainable levels, potentially exacerbating risks to financial and economic stability. While the risk to financial stability may be relatively low, the risks to economic stability seem more pronounced. Indeed, the excessive swings in house prices and high household debt, which have contributed to large fluctuations in private consumption, are now constraining the economy's ability to recover as households need to deleverage going forward. Real house prices dropped again in 2011, after a stabilisation in 2010. Although they are now arguably close to their long-term trend, the market remains fragile in an environment of tight credit conditions and low wage growth, implying risks of further downward adjustments ahead given the economic outlook. *Overall, the Commission finds it useful, also taking into account the identification of an imbalance in May, to examine further the persistence of imbalances or their unwinding.*

Germany: In the previous round of the MIP, Germany was not identified as experiencing imbalances. In the updated scoreboard a couple of indicators are above their indicative thresholds, namely the change in export market shares and the general government debt ratio. On the external side, losses in export market shares remain above the indicative threshold, reflecting losses recorded in 2010 and which continued to a lesser extent in 2011. These losses appear moderate overall and are consistent with the on-going reduction in the current account surplus. As in the last Alert Mechanism Report, the indicator for current account surplus is just below the threshold in 2011. The reduction in the current account surplus over the last few years, as part of the re-balancing process, has been driven in particular by a declining trade surplus vis-à-vis the rest of the euro area. Looking ahead, the latest forecasts indicate that the current account surplus will decline at a moderate pace in 2012-2014, as

private consumption and investment regain momentum. Also, unit labour costs have increased in recent years and are expected to continue to rise more than the euro area average in the coming years on the back of a still robust labour market. Despite rising labour costs, the real effective exchange rate is still depreciating given firms' limited scope to pass on higher wages to costumers. On the internal side, government debt is projected to be on a downward trend as from 2013, and Germany is making progress towards compliance with the debt reduction benchmark of the SGP. Private sector indebtedness and credit activity remain moderate. House prices have increased moderately with stronger price hikes in some urban areas. Looking forward, investment in housing is expected to grow at a strong rate. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Estonia: In the previous round of the MIP, Estonia was not identified as experiencing imbalances. In the updated scoreboard, a couple of indicators are above the indicative thresholds, namely the net international investment position and unemployment. A third indicator, private sector debt has now moved comfortably below the threshold (133% of GDP in 2011). On the external side, the bulk of the very sharp adjustment of the high external imbalances that accumulated in 2005-7 has been completed. In 2011, the current account position continued to be in sizeable surplus and is expected to remain close to balance in the medium term, supported by gains in export market shares. While the negative net international investment position remains significantly beyond the threshold level, it is improving rapidly, reflecting the sustained current account surplus and a denominator effect since nominal GDP is growing steadily. Moreover, half of the net external liabilities consist of foreign direct investment, which contributes to limiting external liquidity-related risks; the net external debt is only 6 per cent of GDP. Although still high, private sector indebtedness declined substantially in 2010-11, supported by on-going deleveraging and GDP growth. As a result, and although the private sector deleveraging may soon draw to a halt, the private sector indebtedness is expected to have fallen further in 2012. Nevertheless, the relatively high private debt level may impose a drag on growth in the medium term. The unemployment rate peaked at almost 20 per cent in the first quarter of 2010 but diminished rapidly to 10.2 per cent in the second quarter of 2012. It is expected to contract further, although more slowly, reflecting the reappearance of skills mismatches and more moderate output growth. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Spain: In May 2012, the Commission concluded that Spain was experiencing very serious imbalances, in particular as regards developments related to the external position, private sector debt levels and the financial sector. In the updated scoreboard, several indicators are above the indicative thresholds, namely the current account deficit, export market shares, net international investment position, private sector debt, general government debt and unemployment. On the external side the current account deficit has improved in the context of a recovery in export performance and falling domestic demand. The indicator remains above the threshold but the current account is expected to move towards balance in the years to come. Decreasing unit labour costs and some depreciation in the real effective exchange rate contribute to recover part of the loss of competitiveness accumulated during the boom cycle. This has contributed to reduce the losses in export market shares, although the indicator still exceeds the threshold. Unit labour costs are expected to be reduced further this year and growth to be muted in the years to come. While the adjustment of flows is on-going, the stock of external liabilities remains significant, as reflected in the large negative net international investment position and net external debt. This is a particular cause for concern as the Spanish

economy is exposed to liquidity risks. Combined with rapidly increasing government debt, high private sector indebtedness implies substantial deleveraging pressures. In the private sector, deleveraging started in 2011 and is set to continue, thus holding back the economic recovery through subdued domestic demand. The banking sector remains fragile following the housing and construction busts and negative feedback loops with public finances. The weaknesses of the banking sector are being addressed within the framework of the financial sector adjustment programme, which provides official financing for the restructuring and recapitalisation of Spanish banks. Notwithstanding declining unit labour cost, the labour market has deteriorated with record high and increasing unemployment, much beyond the threshold, and continued employment destruction. This presents an additional threat to the on-going adjustment, via its effects on deleveraging, and also impacts negatively on budgetary consolidation efforts. *Overall, the Commission finds it useful, also taking into account the identification of a very serious imbalance in May, to examine further the risks involved and progress in the unwinding of imbalances in an in-depth analysis.*

France: In May 2012, the Commission concluded that France was experiencing serious imbalances, in particular as regards developments related to export performance and competitiveness. In the updated scoreboard, a number of indicators are above their indicative thresholds, namely export market shares, general government debt and this year also private sector debt. On the external side, France has continued losing export market shares although at a slower pace and the indicator is well beyond the threshold. Losses are set to continue looking forward if not decisive policy action is taken. These losses are reflected in the gradual deterioration of the trade balance, as well the current account balance and a negative net international investment position, although the latter two are still below their respective indicative thresholds. This development is linked to the persistent deterioration of both price and non-price competiveness. The unit labour cost indicator is below the threshold but, despite measures taken recently to reduce taxes on labour, looking forward unit labour cost growth is expected to be close to the euro area average in the short term, implying that there would be no relative gains in the near future. The reduction in the profitability of French companies, which reached historically low levels in 2011, weighs on their investment potential as well as their innovation capacity to the detriment of their non-price competitiveness. Besides, the low profitability of firms weighs on their deleveraging capacity and therefore also contributes to the high indebtedness of the private sector as a whole that now exceeds the indicative threshold. The unemployment rate has increased and is expected to move above the threshold level in the years to come. Household debt remains relatively low but house prices increased prior to the crisis and also in 2011; the possibility and implications of a correction in the housing market needs to be further explored. The increase in the level of private debt is particularly worrying in a context of still increasing general government indebtedness, which is now close to 90% of GDP. *Overall, the Commission finds it useful, also taking into account the identification of a serious imbalance in May, to examine further the risks involved and progress in the unwinding of imbalances in an in-depth analysis.*

Italy: In May 2012, the Commission concluded that Italy was experiencing serious imbalances, in particular as regards developments related to the export performance, competitiveness and the implication of high government debt. In the updated scoreboard a couple of indicators are above the indicative thresholds, namely losses in export market shares and general government debt. In particular, since euro adoption, cost and non-cost competitiveness losses have built up and this is reflected in a significant losses of export market shares, well beyond the threshold level. Italy's current account deficit is, however,

narrowing and the trade balance is expected to record a surplus in 2012. This is mainly explained by the sharp fall in imports, given the weakness in domestic demand in the current recession, but also by a positive export performance, especially towards non-EU partners. Weak productivity developments remain the main obstacle to a lasting improvement in Italy's competitiveness position and economic growth outlook. The recently-adopted structural reforms – aimed at fostering market competition, addressing labour market segmentation, making the tax system more growth-friendly and improving the business environment – should help revive productivity growth in the medium term. Meanwhile, wages are still not sufficiently responsive to productivity developments. Nominal unit labour costs are expected to increase in the years to come at a rate close to the euro area average. The high government debt remains a major burden for the Italian economy, especially against the background of slow growth prospects. While low growth rates make it more difficult to achieve and maintain the large primary surpluses required to put the government debt-to-GDP ratio on a steadily declining path going forward, the present and expected high tax burden which is needed to service the high debt hampers domestic demand and economic activity. In addition, in the context of a financial market that is fragmented across national borders, the relatively high interest rates associated with the government risk premium affect the private sector's financing conditions and exacerbates the funding problems of the domestic banking sector. On the positive side, private sector indebtedness remains relatively contained in Italy. In particular, the financial position of Italian households is relatively strong, while their savings ratio has been on a downward trend for over two decades. *Overall, the Commission finds it useful, also taking into account the identification of a serious imbalance in May, to examine further the risks involved and progress in the unwinding of imbalances in an in-depth analysis.*

Cyprus: In May 2012, the Commission concluded that Cyprus was experiencing very serious imbalances, in particular as regards developments related to the external position, public finances and the financial sector. In the updated scoreboard, several indicators are above their indicative thresholds, namely the current account deficit, net international investment position, export market shares, private sector credit flow, private sector debt and general government debt. On the external side, the current account balance indicator remains above the negative threshold despite a recent strong decline in imports due to a compression of domestic demand. Looking forward, the losses in export market shares are in particular explained by the goods balance which has maintained its downward trend, while Cyprus continues to record surpluses in services trade. Overall, the current account deficit is forecasted to decrease in the years to come. Losses in price and cost competitiveness have eased recently, the public sector wage freezes contributed to wage moderation in the private sector and export-oriented sectors. However, structural reforms to underpin sustained improvements in competitiveness have not materialised. In parallel, the negative net international investment position is fast-deteriorating which raise concerns about the sustainability of external position of the country. The net international investment position has deteriorated on the back of current account deficits, but also due to valuation losses on banks' assets abroad. On the internal side, the highly leveraged private sector has continued to unwind its large outstanding debt. This is also indicated by the significant decrease of the private sector creditor flow indicator compared to the year before. The fact that the credit indicator remains above the threshold is primarily associated with the loan rescheduling process taking place, as the rescheduled loans are treated as new flows, rather than provision of new credit. For households, debt levels are matched by substantial assets, but these have been hit by a continuous decline in real and nominal house prices. The public debt is also above the Treaty-based threshold and is expected to increase sharply. At the same time,

unemployment in Cyprus has risen sharply recently, and is expected to increase further looking forward, indicating structural challenges in addition to cyclical factors. Any further fallout from the exposure of the Cyprus banking sector to Greece and further deterioration of economic activity will aggravate the risks and make structural adjustment more difficult. The situation is further exacerbated by negative feedback loops between developments in the housing and financial sectors and government finances. Also the Cyprus's financial sector is among the most leveraged in the whole EU. After requesting official financing on 25 June 2012, Cyprus is currently negotiating a programme of economic policies to address its financial, fiscal and structural challenges. *Overall, the Commission finds it useful, also taking into account the identification of a very serious imbalance in May, to examine further the risks involved and progress in the unwinding of imbalances in an in-depth analysis.*

Latvia: In the previous round of the MIP, Latvia was not identified as experiencing imbalances. In the updated scoreboard, a couple of indicators are above their indicative thresholds, namely the net external investment position and unemployment. After an accumulation of external imbalances and a hard landing in 2008-9, external competiveness improved substantially through the process of internal adjustment, which included wage and employment cuts, fiscal consolidation, deleveraging in the private sector and a wide range of growth-enhancing structural reforms. After a return to high growth rates in 2011-2, the current account balance moved back to a moderate deficit which is expected to remain in the years to come. The country's net liabilities, measured by the net international investment position, remain on a downward path though from a relatively high level. The large negative net international investment position to a large extent explained by the net stock of foreign direct investment (around half of the net international investment position), while the external debt component is rapidly declining. Following the successful completion of the balance-of-payments assistance programme in early-2012, yields on government debt have been steadily decreasing, which contributes to further reducing risks on the country's external position. As regards internal indicators, public debt has stabilised at levels slightly above 40% of GDP, while house prices and credit growth are slowly recovering from the steep correction during the crisis. Despite the recovery, house prices remain well below the pre-crisis levels of 2005-07 while a more significant rebound is observed only in the segment of new construction. In the financial sector, commercial lending in terms of newly approved credits is now stabilised in the household sector and slightly on the rise in the corporate segment. The ratio of private debt to GDP kept falling to 125% of GDP in 2011 but private investments were nevertheless rising at a high rate helped by strong corporate profits. The unemployment rate remains well above the EU average and the indicative threshold but is now gradually shrinking, a trend that is expected to continue in the coming years, helped by the recovery and active labour market policies. The low job vacancy rate does not signal significant structural deficiencies in the labour market, while both employment and participation rates are on the rise. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Lithuania: In the previous round of the MIP, Lithuania was not identified as experiencing imbalances. In the updated scoreboard, a couple of indicators are above their indicative thresholds, namely the net international investment position and unemployment. Lithuania has continued to gain export market shares as real effective exchange rate depreciated, on the back of substantially lower wage costs. Unit labour cost declined but is expected to grow at a low pace in the coming years. While the current account indicator is close to zero strong domestic demand stimulated imports and a negative trade balance pushed the current account balance back into a deficit of almost 4% of GDP in 2011, which was covered mainly by EU

budget-related transfers and foreign direct investment. In the meantime, data up to September 2012 indicate that the current account deficit is being reduced and stabilised looking forward. The net international investment position has improved but remains negative and exceeds the indicative threshold. Net external debt, which takes into account the stability of financing through foreign direct investment, is much lower. Furthermore, public sector debt remains at moderate levels and the private sector has continued to deleverage; domestic credit growth has been negative for households, while it turned slightly positive for non-financial corporations and the government. After a significant correction in previous years, house prices are stable in real terms. However, unemployment remains an issue of concern and the unemployment rate is likely to remain in double digits in the coming years although it has been declining since 2011 and is set to be reduced further. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Luxembourg: In the previous round of the MIP, Luxembourg was not identified as experiencing imbalances. In the updated scoreboard a number of indicators are above their indicative thresholds, namely the current account surplus, nominal unit labour cost, private sector debt and this time also the export market shares indicator. On the external side, the persistent large current account surplus, beyond the indicative threshold, is expected to be reduced in the coming years. It does not appear to be related to an excessively subdued domestic demand, but essentially results from the very high concentration of economic activities in Luxembourg, mainly in the financial sector, attracted by an overall favourable environment (including the tax system). While the current account surplus is unlikely to constitute a harmful imbalance for Luxembourg or its partners, it hides a constant deficit of the goods trade balance, which reflects losses in overall export market shares. At the same time Luxembourg keeps gaining export market shares in services. The evolution of nominal unit labour costs is the likely cause of the weak performance of trade in goods; indeed, the nominal unit labour costs has risen substantially faster than in the euro area since 2000 and more than five times faster than in Germany. Moreover, unit labour cost is expected to grow at a rate higher than the euro area average in the coming years, in spite of recent measures taken by the government on wages. High private sector indebtedness is mainly explained by large lending and borrowing operations inside international non-financial corporations, rather than an excessive indebtedness of the private sector. The household debt level is relatively contained and mainly related to real-estate loans. The growth rate of house prices, while recording a strong cumulated rise in the last decade, is now slowing down and mostly reflects the interplay between strong demand and limited supply. Finally, while the financial sector remains sound overall, the financial crisis appears to have dented its growth potential. Given its large size compared to the overall economy, a question arises regarding the impact of a less dynamic sector for employment and sustainability of public finances. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Hungary: In May 2012 the Commission concluded that Hungary was experiencing serious imbalances, in particular as regards developments related to the net international investment position and implications of high government debt. In the updated scoreboard, several indicators are above their indicative thresholds, namely, as last year the net international investment position and government debt, and this year also, the unemployment rate and private sector debt indicators are slightly above their thresholds. External imbalances have been reduced with the current account in surplus for the third year in a row and the net international investment position improving steadily, although it remains significantly above the threshold. This is expected to be the case also in the coming couple of years. The current

account turnaround was mainly the result of a fall in domestic demand; export competitiveness has not changed substantially. After a marked decline during the 2009 recession, the deficit in the factor income has started to widen again, though it remains below pre-crises levels. Both issues suggest that the external correction is partly cyclical. Private sector deleveraging is necessary to correct imbalances most notably in the household sector. While this has been happening, the rapid fall in corporate credit, against the background of policy uncertainty and extra burdens on the financial sector, has contributed to historically low investment rates, which have in turn eroded the country's growth potential. Investments are set to further decline in 2012 and are only forecasted to stabilise in the years to come. The slightly declining, but still substantial government debt, coupled with policies with a negative impact on the business environment, imply increased vulnerabilities also reflected in relatively high financing cost for both the public and the private sectors. The pick-up in the unemployment rate may be less of a concern than data would suggest, given that it mainly reflects an increased participation rate as employment returned to pre-crisis levels. In November 2011, the government formally requested negotiations leading to a precautionary financial assistance. However, these negotiations have not advanced significantly. *Overall, the Commission finds it useful, also taking into account the identification of a serious imbalance in May, to examine further the risks involved and progress in the unwinding of imbalances in an in-depth analysis.*

Malta: In the previous round of the MIP, Malta was not identified as experiencing imbalances. In the updated scoreboard, a number of indicators are above their indicative thresholds, namely, private sector debt, the current account balance and government debt. Private sector indebtedness exceeds 200% of GDP, mainly reflecting high credit growth to non-financial corporations during the boom years. However, the private sector does not appear overleveraged currently given that households and corporates have sizeable financial assets and the maturity structure of their debt is relatively favourable: around two thirds of it is long-term. The current account has posted sizeable deficits over the past decade, but recent developments suggest that a correction, also reflected in gains of export market shares, is underway, thanks to higher savings and more moderate increases in unit labour cost. In the coming years the current account is expected to remain in a small surplus and unit labour costs are expected to grow at a rate close to the euro area average. Moreover, the sustainability of Malta's external position benefits from its net external creditor position and positive net international investment position. Nevertheless, given the large size of the stocks, the vulnerability of the latter to unfavourable developments needs to be monitored closely. The financial sector is very large in proportion to the domestic economy, with total liabilities close to 900% of GDP in 2011. The growth rate of total financial liabilities has exceeded the indicative threshold several times in the past decade and as a result the accumulated growth in 2011 significantly exceeds the average for the euro area. Risks of negative feedback loops appear to be limited due to the fact that a significant part of these inflows have been to internationally-oriented banks that have very little exposure to the domestic economy. However, in the current deteriorating economic conditions, close monitoring of the domestic banking system is warranted due to its high exposure to the property market, which has seen very dynamic price growth followed by a relatively limited correction over the past decade, and the low level of provisions for loan impairment losses. *Overall the Commission finds it useful to examine further the risks involved in an in-depth analysis with a view to assess whether an imbalance exists.*

Netherlands: In the previous round of the MIP, the Netherlands was not identified as experiencing imbalances. In the meantime, as discussed in the latest Commission forecasts,

there has been deterioration in growth prospects linked to domestic demand. In the updated scoreboard, a number of indicators are above their indicative thresholds, namely the current account surplus, export market shares, private sector debt and general government debt. On the external side, persistently large current account surpluses, well above the indicative threshold, are mainly driven by the trade balance, including positive net gas exports. The surpluses are also increasingly attributable to a rising surplus on trade in services and growing income from outward direct investment, though the Netherlands has lost export market share beyond the indicative threshold. This reflects, in particular, the positive trend in profits received from abroad, boosting the savings of non-financial corporations. In response to these trends, the Dutch net international investment position has improved notably in recent years. Looking ahead, the available forecasts indicate a further increase in the current account surplus to almost 10 per cent of GDP. Moderate losses in competitiveness of domestically-produced goods and services have broadly been offset by the dynamism of re-exports. The overall loss in export market shares has been modest. The unit labour cost indicator is below the threshold and unit labour cost is foreseen to grow in line with euro area average in the short term. Risks to the economy in the Netherlands mainly relate to the housing market and high private household debt, as a result the private sector debt indicator is significantly beyond the indicative threshold. Although households have a strong net financial asset position, the debt-to-asset ratio continues to rise and this is a source of risk for household balance sheets. The high mortgage debt of private households relative to their disposable income is largely due to tax incentives, which for many years encouraged them to take up large mortgages, and financial innovations giving them easier access to credit. This has contributed to the rise in house prices. However, since the crisis, house prices have been declining. The reduction has steepened in the last year and the fall is likely to continue for some time. Although the incoming government has agreed on reform measures, the outlook in the housing market is set to remain unfavourable as long as economic prospects remain clouded. This has an impact on the real economy via wealth and confidence effects and also, indirectly, on the financial sector, implying that the risks involved should be closely monitored. *Overall the Commission finds it useful to examine further the risks involved in an in-depth analysis with a view to assess whether an imbalance exists.*

Austria: In the previous round of the MIP, Austria was not identified as experiencing imbalances. In the updated scoreboard, a number of indicators are breaching their indicative thresholds, namely the change in export market shares, private sector debt and general government debt. Austria's global export market shares declined by 11½% in 2006-11 but the loss of market shares appears to have ceased in 2011. The real effective exchange rate and unit labour cost indicators do not point to problems with price and cost competitiveness and the growth of unit labour cost is expected to remain significantly under the indicative threshold over the 2012-2014 period. Austria has maintained a strong position in terms of absolute productivity (GDP using purchasing power standards per person employed) as well as in exports per person employed. Nevertheless, a recent narrowing of the current account surplus took place, somewhat abruptly, in 2010-11 as exports remained below its pre-crisis level. This cautions against a too-benign appreciation of the situation and may be signalling a need for enhancing the capacity of the Austrian economy to innovate and diversify. Looking forward, the surplus is expected to remain solid as net exports gradually regain strength. Furthermore, general government debt is elevated at 72.3% of GDP. Although the country seems to be on track regarding the correction of the excessive deficit, the debt ratio is not projected to decline before 2014 and will require sustained fiscal effort. While containing the risk of negative feedback loops between the government and the financial sector, the process of restructuring of the nationalised banks is still subject to a certain degree of risk of delays.

Private sector indebtedness moved slightly above the indicative threshold in 2010 following a sustained build-up of corporate liabilities over the course of several years. In 2011, the financial liabilities of both households and corporations grew more slowly than GDP. Private sector credit growth tailed off in the course of 2011, and further in 2012, as the borrowing of corporates and households was subdued. On one hand, corporations accumulated ample own funds; on the other hand, investment and consumer demand have slowed down. Accordingly, the indebtedness ratio in 2011 was only marginally above the threshold, at 160.7% of GDP and is likely to edge further down as credit demand stays weak. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Poland: In the previous round of the MIP, Poland was not identified as experiencing imbalances. In the updated scoreboard, a couple of indicators are above their indicative thresholds, namely the current account balance and the net international investment position. The current account deficit, which is slightly above the threshold, has been largely financed through relatively stable foreign direct investment and EU funds inflows, which support the expansion of export-oriented manufacturing and the development of a modern transport infrastructure network. Moreover, the current account deficit is expected to shrink gradually in the near future as a result of weak domestic demand leading to import compression and improved cost competitiveness. While the net international investment position is above the threshold, net external debt is more limited, although a growing dependence of the sovereign on foreign debt holders might be a source of risk. There have been limited losses in price competitiveness in 2006-8, driven by a nominal exchange rate appreciation, but the trend has reversed somewhat since 2009, as increased global risk aversion amplified volatility and led to the depreciation of domestic currency. Despite these losses, Poland experienced large, though decreasing, gains in export market shares and contained increases in nominal unit labour costs, which are expected to moderate further as labour market situation worsens. Furthermore, the share of private debt in GDP remains moderate, despite sizeable credit growth in 2006-9. In the past, a significant proportion of new loans, especially mortgages, used to be in foreign currency, which increased the risks for the stability of the banking and household sector, especially during the recent period of intensified volatility and currency depreciation. However, overall credit growth slowed considerably and the supply of new loans in foreign currencies decreased sharply in 2010-2. House prices have been falling continuously since 2008, although at a moderate pace, and the repercussions on the financial sector have been manageable, with non-performing loans originating mostly from the corporate sector and consumption credit. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Slovenia: In May 2012, the Commission concluded that Slovenia was experiencing serious macroeconomic imbalances, in particular as regards developments related to corporate sector deleveraging, banking stability and to some extent also external competitiveness. Slovenia has since made some progress with bank recapitalisations and fiscal consolidation but the situation remains fragile. In the updated scoreboard, a couple of indicators are above their indicative thresholds, namely the net international investment position and this year also changes in export market shares. On the external side, the net international investment position remains above but close to the indicative threshold. In the absence of any large valuation changes, the projected increase in the current account surplus would tend to reduce this imbalance. The unit labour cost indicator is no longer above the indicative threshold, as a result of continued stability of nominal wages combined with continued labour productivity growth and this trend is expected to continue. At the same time the indicator for losses in export market shares have moved marginally to just above the threshold. However, Slovenia

is more vulnerable than these indicators might suggest, due to the significant risks stemming from the banking system and the difficulties of the on-going deleveraging process, which are not fully captured in the modest decline in the new indicator on financial sector liabilities. The construction sector has shrunk to a fraction of its pre-crisis size but high house prices and low transaction volumes suggest that the housing market is still not clearing. This could imply potential further adjustments, particularly as regards collateral valuations. Non-financial corporations remain over-leveraged and problem loans in these segments continue weighing on the banking sector. Finally, in a context of heightened sovereign funding stress, the difficulties in actually implementing reforms are a constant source of vulnerability. *Overall, the Commission finds it useful, also taking into account the identification of a serious imbalance in May, to examine further the risks involved and progress in the unwinding of imbalances in an in-depth analysis.*

Slovakia: In the previous round of the MIP, Slovakia was not identified as experiencing imbalances. In the updated scoreboard, a couple of indicators are above the indicative thresholds, namely the net international investment position and the unemployment rate. In 2011, the net international investment position recorded a marginal improvement, but most of the external liabilities are in non-debt instruments (notably foreign direct investment, which has been directed primarily towards export-oriented industries). An improving position on the goods and services balances and an increasing outflow of income has contributed to a stable current account balance since 2009. Due to strong growth in manufacturing export, the trade balance and the current account are expected to improve from 2012 onwards. The indicators for the real effective exchange rate and the nominal unit labour cost are now below their respective thresholds, as the impact of the strong nominal appreciation prior to euro adoption and the recession-induced drop in productivity in 2009 is fading away. With unemployment expected to remain well above the pre-crisis level in the coming years, wage pressures are accordingly forecast to remain in check. The continued relatively favourable development of competitiveness indicators is also reflected in an on-going increase in labour productivity and export market shares. The largely foreign-owned banking sector avoided a strong expansion in lending, which spared Slovakia from excessive credit growth, and helped to keep public and private debt relatively contained. However, the public debt ratio has increased substantially in recent years. The unemployment rate – well above the threshold – remains one of the most pressing structural issues weighing on the domestic economy. Persistently high unemployment reflects a lack of labour market improvements since the outbreak of the crisis and the persistence of major regional disparities in economic growth and employment. *Overall, the Commission will at this stage not carry out further in-depth analysis in the context of the MIP.*

Finland: In May 2012, the Commission concluded that Finland experienced macroeconomic imbalances, in particular as regards developments related to competitiveness. A number of scoreboard indicators are above the indicative thresholds, namely changes in export market shares, nominal unit labour costs, private sector debt and the growth rate of financial sector liabilities. On the external side, the competitiveness issues persist, with Finland continuing to experience important losses of export market shares, albeit at a slightly lower pace compared to the sharp falls in 2009-10. Before 2009 there were small yearly losses in Finland's export market shares, sometimes interrupted by small gains. However, in 2009-2010 large losses were registered and further losses, although at a slower pace, took place in 2011. The decline in Finland's export market shares partly reflects challenges related to non-price competitiveness factors and the declining exports of the electronics sector. This evolution has been accompanied by rising nominal unit labour costs and a gradual move from surplus to a

small current account deficit in 2011. Unit labour costs are projected to continue to grow faster than the euro area average and the current account deficit is expected to remain and widen somewhat. On the internal side, the economy appears more balanced than last year: private sector debt (of non-financial corporations) declining but still remaining above the threshold. The non-financial corporate sector has started to deleverage, households are expected to slightly start deleveraging in 2013. Meanwhile real house prices, which grew above the indicative threshold in 2010, instead declined slightly in 2011, supporting the assessment in the previous in-depth review that there was a limited risk of overheating in the housing market. The financial sector remains strong with solid solvency positions while liquidity could be improved. There has been a strong growth in financial liabilities of the financial sector but a large part of the growth rate is due to the decision by one financial institution to centralise its derivatives in the Finnish subsidiary. *Overall, the Commission finds it useful, also taking into account the identification of an imbalance in May, to examine further the persistence of imbalances or their unwinding.*

Sweden: In May 2012, the Commission concluded that Sweden experienced macroeconomic imbalances, in particular as regards developments related to private sector debt and the housing market. In the updated scoreboard, a number of indicators are above their indicative thresholds, namely the current account surplus, the change in export market shares and private sector debt. The current account surplus has been on a declining trend since 2007 and is expected to decrease further in the medium term. The strong surpluses reflect ambitious fiscal rules and high pension-related savings by households, rather than policies that would artificially hold back domestic demand. The significant losses in export market shares in 2005-9 slowed down considerably in 2010-11. These losses do not appear to be rooted in unfavourable domestic price and cost developments, as prices and unit labour costs have been growing more slowly than in the country's main trading partners, as for other Member States, the losses reflect rather the integration of fast-growing economies into the global market. Looking forward, unit labour costs are expected to grow moderately. On the internal side, the high level of private debt deserves attention and is significantly above the threshold. Corporate debt adjusted somewhat in 2009-11, but remains high even if intercompany loans are excluded. The level of household debt implies, despite some mitigating factors, a heightened risk to macroeconomic stability by making households' balance sheets more sensitive to negative shocks. Although house prices stabilised in 2011 and the 2012 in-depth review did not identify any significant misalignment in house prices, the previous house price increases calls for caution. The housing market continues to be prone to imbalanced development due to policies that tend to create upward pressure on prices and contribute to the build-up of household debt. Despite the high level of private debt, the risks for banks are constrained by their high capitalisation and liquidity buffers, a good debt-servicing ability of companies and households, and a long period of very low default rates. On the other hand, the high level of private debt makes Swedish banks more vulnerable to a possible loss in investor confidence in the event of a larger drop in house prices. In the short to medium term, private debt-to-GDP and nominal house prices are likely to remain broadly stable in view of slowing credit to households and corporations and recent policy action in the housing market. *Overall, the Commission finds it useful, also taking into account the identification of an imbalance in May, to examine further the persistence of imbalances or their unwinding.*

United Kingdom: In May 2012, the Commission concluded that the UK was experiencing macroeconomic imbalances, in particular as regards developments related to household debt, the housing market and to some extent also external competitiveness. In the updated scoreboard, a number of indicators are above their indicative thresholds, namely, the change

in export market shares, general government debt and private sector debt. On the external side, export market shares experienced large losses in 2007-8, which pushed the indicator well beyond the threshold, but remained broadly stable in 2011. The current account deficit was 1.9 per cent of GDP in 2011, contributing to keep the indicator within the threshold. However, the current account balance is likely to deteriorate in 2012 due to weaker-than-expected net trade outturns in 2012, explained in turn by weak external demand and surprisingly buoyant imports. However, in the coming years the deficit is expected to narrow as the economy continues to slowly rebalance towards net exports, though with a significant goods trade deficit persisting. Important structural challenges still confront the UK in improving its trade performance. These include the need to boost the productivity and non-price competitiveness of the goods-producing sector, sustaining the pre-crisis dynamism of service exports and continuing to reorient exports towards fast-growing markets. The UK's net external position is slightly negative but sustainable, with the net international investment position improving in 2011. As regards the internal dimension, households continued to gradually deleverage as housing market activity stayed depressed and credit to the private sector remained anaemic. However, private sector debt is still considerably above the indicator threshold. Deleveraging may lose momentum if the economy recovers since a tight housing supply means that house prices are likely to remain high in the medium term, and mortgage debt could rise again once credit conditions improve. Alternatively if house prices were to fall sharply, it could hit consumer spending and create risks for lenders. The high and increasing level of government debt remains a concern and, although the government deficit is still forecast to fall gradually, progress on fiscal consolidation has slowed in a context of weak economic growth. Finally, continuing balance sheet repair in the financial sector– which is among the most highly leveraged in the EU - means that bank liabilities are not expected to expand rapidly, although the scarcity of credit is in turn holding back economic growth and hence progress on fiscal consolidation. *Overall, the Commission finds it useful, also taking into account the identification of an imbalance in May, to examine further the persistence of imbalances or their unwinding.*

4. CONCLUSIONS

Macroeconomic imbalances like large and persistent external deficits and surpluses, losses in competitiveness, and the build-up of private and public indebtedness have contributed to aggravate the crisis. The second implementation of the Macroeconomic Imbalance Procedure takes place against the background of continued financial tensions, uncertainty and low growth prospects. The unwinding of imbalances shapes the economic landscape. Member States continue to adjust to the impact of the crisis, although their individual challenges and spillovers differ in terms of scope and severity. As the Commission's Annual Growth Survey[7] explains, in addition to correcting significant imbalances that built up over previous years, the Union and Member States are also dealing with the interrelated challenges of tackling low growth and high unemployment, ensuring sustainable public finances and restoring stability to the financial system. A well-functioning Single Market also contributes to improve the growth potential and the unwinding of imbalances[8].

[7] COM(2012) 750, 28.11.2012.

[8] This requires a swift delivery of the key actions included in the Single Market Acts I and II and increased reform efforts at country level, as laid down in the Communication on the Annual Report on Single Market Integration - COM(2012) 752, 28.11.2012.

An adjustment of macroeconomic imbalances is underway in many Member States, especially those which have had high external deficits and large imbalances in household and/or corporate balance sheets and in their public sectors. This process still has some way to go, and has led in a number of Member States to a significant rise in unemployment levels and a reduction in the level of economic activity in the short term.

In the previous round, the Commission identified twelve Member States warranting an in-depth analysis[9] and in all these cases the existence of imbalances under the preventive arm of MIP was confirmed. The broad approach taken reflected the fact that last year was the first application of surveillance under this procedure and that it, therefore, had to cater also for the adjustment to previously accumulated imbalances. Some Member States need to correct accumulated imbalances on both the internal and external side. They will have to reduce high levels of overall indebtedness and regain competitiveness so as to improve their growth prospects and export performance. In-depth analysis will help to assess the drivers of productivity, competitiveness and trade developments as well as the implications of the accumulated level of indebtedness and the degree of related imbalances in several Member States. Some countries are experiencing rapid adjustment partly due to catching-up effects and these developments also require a closer examination.

Given the conclusions in May 2012 on the existence of macroeconomic imbalances, and the updated scoreboard, the Commission considers that it is necessary to analyse in further detail developments in the accumulation and unwinding of imbalances and the related risks in 14 Member States: **Belgium, Bulgaria, Denmark, Spain, France, Italy, Cyprus, Hungary, Malta, Netherlands, Slovenia, Finland, Sweden and the United Kingdom.** Countries that are currently implementing a programme of reforms negotiated with the Commission and supported by external financial assistance are already under enhanced economic surveillance, and therefore their economic situation and policies are not examined under MIP. This concerns Greece, Ireland, Portugal and Romania.

The 14 Members States for which the Commission intends to initiate an in-depth review have different challenges and potential risks including spillover effects. The in-depth reviews will contribute to assess risks involved, which of these Member States have imbalances or excessive imbalances, and progress in unwinding imbalances.

In the context of multilateral surveillance and in line with Article 3(5) of the Regulation, the Commission invites the Council and the Euro Group to discuss this report. The Commission is also looking forward to feedback from the European Parliament and other stakeholders. Taking into account these discussions, the Commission will start to prepare in-depth reviews for the relevant Member States.

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[9] These Member States were Belgium, Bulgaria, Denmark, Spain, France, Italy, Cyprus, Hungary, Slovenia, Finland, Sweden and the United Kingdom.

Annex 1: The alert mechanism scoreboard definitions and developments

The MIP scoreboard is established and made public by the Commission in line with Article 4 of Regulation No 1176/2011. In the February 2012 Alert Mechanism Report the scoreboard consisted of ten indicators covering the scope of surveillance in line with Article 4(3) of the Regulation[10]. As previously agreed, for this year's round an eleventh indicator on the growth rate of financial sector liabilities has been added related to the scoreboard[11]. The definitions of the other ten indicators have remained unchanged.

Although the first vintage of the MIP scoreboard already captured a number of financial issues (like private sector credit flow, private sector debt and public sector debt) the European Parliament[12] and the Council[13] supported the Commission's intention of adding to the scoreboard, in time to the second round of MIP, an additional indicator aimed at better capturing the interlinkages between the real economy and the financial sector[14]. Also the ESRB provided comments and their view on the initial design of the scoreboard as well as on the plans for an additional financial sector indicator[15].

The scoreboard aims to allow for an early identification of imbalances. To this end the choice of indicators focuses on the most relevant dimensions of external and internal imbalances: it includes in particular data on current account balances, net international investment positions, real effective exchange rates, export market shares, as well as asset prices, including housing, public and private indebtedness, credit growth and unemployment. Indicative thresholds were set at prudent levels with a view to avoid excessive numbers of 'false alarms' but which are not set so stringently set as to only identify problems once they have become entrenched[16].

The definitions of the scoreboard indicators are shown in Table A1. Table A2 shows the values of the updated scoreboard indicators, and the respective indicative thresholds. Values of indicators for previous years are reported in the accompanying Statistical Annex[17]. The shaded areas mark where the indicator value surpasses the indicative thresholds. These thresholds are the same for all countries (except for indicators on real effective exchange rates and unit labour costs where a differentiation has been made between euro area and non-euro area countries). It should be noted that the assessment also takes into account the most recent

[10] See also 'Scoreboard for the Surveillance of Macroeconomic Imbalances,' *European Economy¬— Occasional Papers*, 92.

[11] See the accompanying document on 'Completing the Scoreboard for the MIP: Financial Sector Indicator,' SWD (2012) 389.

[12] Point 9 of the European Parliament Resolution of 15.12.2011: 'The European Parliament (…) [T]akes note of the Commission's intention to provide, by the end of 2012 and in time for the subsequent European Semester, a new set of indicators and related thresholds for the financial sector'.

[13] Point 9 of the ECOFIN Council Conclusions of 8.11.2011: '(…) The Commission is also requested to present, before the end of 2012 and in line with the Regulation, suggestions on an indicator related to the financial sector, with a view to its inclusion for the 2013 European Semester.'

[14] Article 4(3)(a) of Regulation (EU) No 1176/2011 calls for the scoreboard to encompass, *inter alia*, '(…) internal imbalances, including those that can arise from public and private indebtedness, financial and asset market developments including housing (...).'

[15] '*Views of the ESRB on the Envisaged Scoreboard Indicators Relevant for Financial Market Stability*,' available at http://www.esrb.europa.eu/pub/html/index.en.html.

[16] The scoreboard thresholds have been kept at the same level as in the previous AMR. The threshold for the new indicator has been defined as the third quartile of the available distribution. This is the same statistical approach used for other indicators (bar the public debt indicator).

[17] See the accompanying document 'Statistical Annex to the Alert Mechanism Report - SWD(2012) 421; see also *Eurostat News Release* of 28 November 2012.

data, as well as the economic outlook in the Commission's autumn forecast published on 7 November 2012[18].

The assessment of imbalances – or more precisely, the assessment whether the situation of a given Member State warrants a more detailed scrutiny in an in-depth review – does not derive from a mechanical application of the scoreboard indicators and the related thresholds. Such an assessment by the Commission is the outcome of an economic reading of the scoreboard complemented by additional information and indicators taking due account of country-specific circumstances and institutions, and considering also the conclusions in the in-depth reviews of May 2012.

In line with the Regulation, additional indicators are considered; these are presented in Table A3. These additional indicators cover aspects linked to the general macroeconomic situation (including economic activity and investment) nominal and real convergence inside and outside the euro area, including additional aspects of trade performance, and more detailed data on the external liabilities, including foreign direct investment and net external debt. They also reflect the potential for the development of imbalances, as well as the adjustment capacity of an economy such as productivity. The set of auxiliary indicators now also include an additional indicator on the financial sector leverage, which should help interpreting the new indicator on the growth rate of financial sector liabilities.

The scoreboard is, and should remain, a simple and clear tool to work as a filter that helps to focus the surveillance under the MIP. In this context, stability over time is valuable. At this point in time, the Commission does not foresee the addition of new indicators to the scoreboard. Having said this, the Commission is committed to improving the quality of the scoreboard. To this end the Commission will continue to liaise at a technical level with the Member States, the ECB and the ESRB to ensure that the scoreboard remains up to date in its design. This may lead to technical adjustments in the definitions of the variables in the scoreboard. Moreover, the Commission (Eurostat) is committed to assuring a reliable and legally binding quality procedure for the scoreboard statistics and other MIP-relevant data[19].

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[18] *European Economy*, 8/2012.

[19] In the course of 2012, the Commission (Eurostat) has pursued work on a number of statistical issues identified during the first round of MIP, in particular the statistics of private sector debt and credit flows. On special purpose entities, Eurostat conducted missions in several Member States in order to collect detailed data and information on the statistical sources and methods used. On intercompany loans, work was carried out in the context of the ECB sub-group on private debt. The information gathered in these exercises will support the work of the two task forces that have been set up for developing more specific guidelines on holding companies, head offices and special purpose entities, and on non-consolidated versus consolidated data. Concerning house price indices, work is on-going in cooperation between the Commission (Eurostat), OECD, ECB and BIS in order to extend back in time the quarterly series and improve metadata. While several headline indicators are subject to a detailed quality scrutiny framework, other headline indicators and additional relevant indicators require more precise quality monitoring frameworks and improvement actions.

Table A1. Scoreboard indicators and their indicative thresholds

	External imbalances and competitiveness					Internal imbalances					
Indicator	3-year average of **current account balance** as a % of GDP	**Net International Investment Position** as a % of GDP	% change (3 years) of **Real Effective Exchange Rate,** HICP deflators relative to 35 industrial countries (a)	% change (5 years) in **export market shares**	% change (3 years) in **nominal unit labour cost** (b)	y-o-y % change in **deflated house prices** (c)	**private sector credit flow** as % of GDP (d), (e)	**unemploy-ment rate - 3-year average**	**private sector debt** as % of GDP (d), (e)	**general government debt** as % of GDP (f)	y-o-y % change in **Total Financial Sector Liabilities,** non-consolidated data
Data source	EUROSTAT (Balance of Payments statistics)	EUROSTAT (Balance of Payments Statistics),.	DG ECFIN (data base Price and Cost competitivenes s).	EUROSTAT (Balance of Payments Statistics),.	EUROSTAT (National Accounts)	EUROSTAT,.	, EUROSTAT (National Accounts)	EUROSTAT (Labour Force Survey)	, EUROSTAT (National Accounts)	EUROSTAT (EDP – treaty definition).	, EUROSTAT (National Accounts)
Indicative thresholds	*-4/+6%* Lower quartile (also used as a reference for upper threshold)	*-35%* Lower quartile	*+/-5% for €A* *+/-11% non€A* Lower and Upper Quartiles of EA -/+ s.d. of EA	*-6%* Lower quartile	*+9% €A* *+12% non-€A* Upper Quartile €A +3%	*+6%* Upper quartile	*+15%* Upper Quartile	+10%	*160%* Upper Quartile	*+60%*	16.5%
Period for calculating thresholds	1970-2007	First available year (mid-1990s)-2007	1995-2007	1995-2007	1995-2007	First year available-2007	1995-2007	1994-2007	1994-2007		1991-2007
Some Additi-onal indicators to be used in economic reading	Net lending/borrowing vis-à-vis ROW (CA+KA) as % of GDP	Net External Debt as % GDP	Real effective exchange rate vis-à-vis rest of the euro area	Export market shares based on volumes of goods; Labour productivity; Trend TFP growth	Nominal unit labour costs (changes over 1, 5, 10 years); Effective unit labour cost relative to the rest of euro-area	Real house price changes (cumulated over 3 years); Nominal house price index Value-added in residential construction	Change in private debt		Private sector debt based on consolidated data		Debt over equity ratio

Notes: (a) for EU trading partners HICP is used while for non-EU trading partners, the deflator is based on a CPI close to the HICP in methodology; (b) index providing ratio of nominal compensation per employee to real GDP per person employed; (c) changes in house prices relative to the consumption deflator of EUROSTAT; (d) private sector is defined as non-financial corporations; households and non-profit institutions serving households; (e) sum of Loans, and Securities other than shares; liabilities, non –consolidated; (f) the sustainability of public finances will *not* be assessed in the context of the MIP given that this issue is already covered by the SGP. However this indicator is part of the scoreboard because public indebtedness contributes to total indebtedness of the country and therefore to the overall vulnerability of the country.

Table A2: The MIP scoreboard with values for 2011

Year 2011	External imbalances and competitiveness					Internal imbalances					
	3 year average of **Current Account Balance** as % of GDP	**Net International Investment Position** as % of GDP	% Change (3 years) of **Real Effective Exchange Rate with HICP deflators**	% Change (5 years) in **Export Market Shares**	% Change (3 years) in **Nominal unit labour cost**	% y-o-y change in deflated **House Prices**	**Private Sector Credit Flow** as % of GDP	**Private Sector Debt** as % of GDP	**General Government Debt** as % of GDP	**Unemployment rate - 3-year average**	y-o-y % change in **Total Financial Sector Liabilities,** non-consolidated data
Thresholds	**-4/+6%**	**-35%**	**±5% & ±11%**	**-6%**	**+9% & +12%**	**+6%**	**15%**	**160%**	**60%**	**10%**	**16.5%**
BE	-0.3	65.7	-0.5	-10.2	6.2	-0.1	11.6	236	98	7.8	4.7
BG	-3.4	-85.6	3.1	17.2	20.3	-9.0	-6.7	146	16	9.4	5.6
CZ	-3.0	-49.3	0.3	8.4	3.3	0.0	2.5	78	41	6.9	3.8
DK	5.0	24.5	-1.7	-16.9	4.7	-4.9	-2.2	238	47	7.0	4.7
DE	5.9	32.6	-3.9	-8.4	5.9	1.4	4.8	128	81	6.9	2.1
EE	2.8	-57.8	0.8	11.1	-6.2	3.3	6.8	133	6	14.4	-4.4
IE	0.0	-96.0	-9.1	-12.2	-12.8	-15.2	4.0	310	106	13.3	-0.6
EL	-10.4	-86.1	3.1	-18.7	4.1	-5.1	-5.5	125	171	13.2	-3.4
ES	-4.3	-91.7	-1.3	-7.6	-2.1	-10.0	-4.1	218	69	19.9	3.7
FR	-1.6	-15.9	-3.2	-11.2	6.0	3.8	4.0	160	86	9.6	7.3
IT	-2.9	-20.6	-2.1	-18.4	4.4	-2.0	2.6	129	121	8.2	3.8
CY	-8.4	-71.3	-0.9	-16.4	8.8	-8.5	16.1	288	71	6.6	-0.2
LV	3.1	-73.3	-0.6	23.6	-15.0	4.9	-2.5	125	42	18.1	-4.5
LT	0.0	-52.6	3.6	25.2	-8.4	2.4	-0.8	70	39	15.6	8.9
LU	7.5	107.8	0.8	-10.1	12.5	1.5	2.5	326	18	4.8	11.3
HU	0.6	-105.9	-3.3	-2.8	3.7	-4.1	6.4	167	81	10.7	-2.6
MT	-4.3	5.7	-3.0	11.7	5.8	-2.3	2.2	210	71	6.8	1.4
NL	7.5	35.5	-1.6	-8.2	5.8	-4.0	0.7	225	66	4.2	7.2
AT	2.2	-2.3	-1.0	-12.7	5.9	-8.0	4.1	161	72	4.4	-0.3
PL	-4.6	-63.5	-10.9	12.8	4.3	-5.7	7.1	80	56	9.2	4.4
PT	-9.1	-105.0	-1.9	-9.5	0.9	-3.6	-3.2	249	108	11.9	-0.7
RO	-4.3	-62.5	-2.4	22.8	12.9	-18.9	1.8	72	33	7.2	4.3
SI	-0.4	-41.2	-0.3	-6.1	8.3	1.0	1.9	128	47	7.1	-1.3
SK	-2.1	-64.4	4.3	20.9	4.4	-5.6	3.3	76	43	13.4	1.2
FI	0.6	13.1	-1.3	-22.9	9.1	-0.3	4.6	179	49	8.1	30.8
SE	6.6	-8.3	3.9	-11.6	1.2	1.0	6.3	232	38	8.1	3.6
UK	-2.2	-17.3	-7.1	-24.2	8.1	-5.4	1.0	205	85	7.8	8.5

Note: Cut-off date 1 November 2012.

Table A3: Additional indicators used in the economic reading of the MIP scoreboard, 2011

	% y-o-y growth of real GDP	Gross fixed capital formation as % GDP	Gross domestic expenditure on R&D as % GDP	Current Account balance as % of GDP, BoP data	Net lending / borrowing % GDP, BoP data	Net external debt as % GDP	foreign direct investment Inflows as % GDP	Net Trade Balance of energy products as % GDP	% Change (3 years) in real effective exchange rate vs. EA (17)	% y-o-y change in Export Market Shares, volumes	% y-o-y growth of Labour Productivity	% y-o-y growth of Employment	% Change (10 years) in Nominal unit labour cost	% Change (10 years) in Effective unit labour cost vs. EA (17)	% Change (3 years) in Nominal house Prices	Residential Construction as % GDP	Private Sector Debt as % GDP, consolidated data	Financial sector leverage (debt to equity)
Year	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**
BE	1.8	20.7	2.0	-1.4	-1.7	-127.6	20.1	-3.7	1.4	-1.6	0.4	1.3	20.3	3.7	5.1	na	143	641
BG	1.7	20.9	0.6	0.3	1.6	33.9	4.5	-0.6		5.2	6.1	-4.2	69.5		-32.4	na	136	414
CZ	1.9	23.9	1.8	-2.8	-2.5	1.1	2.5	-1.4		5.2	1.6	0.6	23.2		-5.0	3.8	73	624
DK	0.8	17.2	3.1	5.6	5.9	18.0	3.8	0.7		1.2	1.2	-0.5	29.3		-11.9	4.7	238	377
DE	3.0	18.1	2.8	5.7	5.7	-2.9	1.1	-19.8	-0.9	2.5	1.6	1.4	5.5	-14.1	5.4	5.6	109	524
EE	8.3	21.7	2.4	2.1	6.3	6.5	1.2	na	3.2	25.7	1.2	6.7	64.4	44.8	-28.0	3.5	132	373
IE	1.4	10.1	1.7	1.1	1.0	-339.2	5.2	na	-6.5	-1.7	3.6	-2.1	15.4	0.1	-38.7	2.6	281	158
EL	-7.1	15.1	na	-9.9	-8.6	-98.0	0.4	-2.7	4.6	-6.0	-1.6	-5.6	31.1	11.5	-3.5	4.7	125	2728
ES	0.4	21.1	1.3	-3.5	-3.0	93.5	2.0	-8.5	0.4	3.2	2.2	-1.6	25.3	4.3	-15.3	6.4	204	941
FR	1.7	20.1	2.3	-2.0	-2.0	36.1	1.5	-12.7	-0.4	-0.8	1.2	0.5	22.3	5.1	3.5	6.1	139	461
IT	0.4	19.6	1.3	-3.1	-3.0	49.0	1.6	-13.9	0.9	-0.2	0.3	0.3	28.3	11.1	0.4	5.5	126	1172
CY	0.5	16.3	0.5	-4.7	-4.5	37.9	5.5	na	0.7	-2.3	0.0	0.4	34.6	12.4	-16.7	5.0	281	2539
LV	5.5	21.3	0.7	-2.2	0.0	46.4	5.1	-0.2		6.8	14.8	-8.4	94.4		-38.7	1.5	118	704
LT	5.9	17.8	0.9	-3.7	-1.3	32.3	3.4	-0.5		7.9	3.8	2.0	33.6		-30.8	1.8	67	633
LU	1.7	19.0	1.4	7.1	6.8	-3022.2	645.3	na	2.0	-2.2	-1.2	2.6	35.7	14.0	6.5	3.4	267	50
HU	1.6	17.9	1.2	0.9	3.3	52.6	3.7	-1.4		2.7	1.2	0.8	44.3		-8.5	1.8	147	562
MT	1.9	14.8	0.7	-0.3	0.7	-158.3	4.7	0.0	1.8	-4.8	-0.5	2.5	23.7	7.0	-4.6	2.5	169	362
NL	1.0	17.7	2.0	9.7	9.7	36.8	1.6	-4.6	0.0	-1.9	0.5	0.6	20.0	3.2	-7.5	4.9	224	231
AT	2.7	21.4	2.8	0.6	0.4	24.4	3.5	-2.8	1.2	0.9	1.3	1.7	13.2	-1.6	-2.9	4.4	146	378
PL	4.3	20.3	0.8	-4.9	-2.9	35.8	3.7	na		1.5	3.3	1.1	5.7		-7.6	2.6	77	377
PT	-1.7	18.1	na	-6.5	-5.3	83.4	4.4	na	-0.5	2.7	-0.1	-1.9	19.4	1.4	2.0	3.4	223	542
RO	2.5	24.6	0.5	-4.4	-3.9	38.0	1.3	-0.7		4.1	2.0	-1.3	154.9		-39.5	na	71	662
SI	0.6	18.5	2.5	0.0	-0.3	37.5	2.0	-0.5	0.4	1.0	2.2	-1.4	38.9	21.0	-6.8	3.0	116	639
SK	3.2	23.1	0.7	0.1	1.3	21.7	2.2	-1.0	5.0	5.0	1.4	1.5	28.8	12.6	-17.8	2.3	76	1079
FI	2.7	19.6	3.8	-1.6	-1.5	30.9	1.0	-1.4	2.2	-6.6	1.6	1.1	21.9	3.8	11.1	6.8	153	616
SE	3.9	18.4	3.4	6.4	6.3	62.4	2.7	-1.6		0.6	1.6	2.2	8.1		13.8	3.7	216	305
UK	0.9	14.2	1.8	-1.9	-1.7	45.2	2.3	-2.2		-1.2	0.4	0.5	26.2		-2.0	3.2	na	1187

Note: Cut-off date 1 November 2012. **Source:** EUROSTAT except for deflated House Prices (Eurostat data completed with ECB), Export Market Shares volumes (WEO IMF), Real Effective Exchange Rate with HICP deflators (DG ECFIN), Effective unit labour cost vs EA (DG ECFIN).