

# Macroeconomic Imbalances

## Sweden 2014

On 13 November 2013, the European Commission presented its third Alert Mechanism Report (AMR) in accordance with the Regulation (EU) [No. 1176/2011](#) on the prevention and correction of macroeconomic imbalances. The AMR serves as an initial screening device to identify Member States that warrant further in depth analysis into whether imbalances exist or risk emerging. According to Article 5 of Regulation No. 1176/2011, these country-specific “in-depth reviews” should examine the nature, origin and severity of macroeconomic developments in the Member State concerned, which constitute, or could lead to, imbalances. On the basis of this analysis, presented on 5 March 2014, the Commission will conclude whether it considers that an imbalance exists or not, and if so whether it is excessive or not, and what type of follow-up it will recommend to the Council to address to the Member State.

The 2014 in-depth reviews (for Belgium, Bulgaria, Germany, Denmark, Ireland, Spain, France, Croatia, Italy, Luxembourg, Hungary, Malta, Netherlands, Slovenia, Sweden, Finland and the United Kingdom) were published on 5 March 2014 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

**Sweden** continues to experience *macroeconomic imbalances, which require monitoring and policy action*. In particular, developments regarding household indebtedness, coupled with inefficiencies in the housing market, continue to warrant attention. Although the large current account surplus does not raise risks similar to large deficits, and is partly linked to the need for deleveraging, the Commission will follow the developments of the current account in Sweden in the context of the European Semester.

More specifically, household debt has increased again after a period of stabilisation, as the main contributing factors – low interest rates on mortgages, debt-bias in taxation, slow mortgage amortisation and limited housing supply – remain in place. Various indicators of credit supply and demand conditions do not indicate imminent deleveraging pressures. After stabilising in recent years, house prices increased again in 2013, driven by favourable demand conditions and supply inefficiencies. Moreover, rental market inefficiencies, cumbersome planning procedures and little competition in construction, have also contributed to the house price dynamics. More stable house prices are needed to limit private indebtedness and reduce macroeconomic risks, once debt service costs increase. The recent macroprudential measures are instrumental, but likely not enough, to reduce macroeconomic risks. In particular, strong tax incentives for debt financing are perceived as key drivers of house prices. Higher residential investment would also improve the savings-investment balance. As regards the non-financial corporate sector indebtedness the analysis finds that it does not give rise to macroeconomic risks. Moreover, recent reforms in company taxation are likely to further reduce the level of corporate debt by limiting tax minimisation by multinationals.