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NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee (part 2)/Council
Subject: EFC President Letter: Review of the 2021 in-depth reviews under the
Macroeconomic Imbalance Procedure

Delegations will find attached the letter from the President of the EFC addressed to the President of the ECOFIN Council on the Review of the 2021 in-depth reviews under the Macroeconomic Imbalance Procedure.



ECONOMIC AND FINANCIAL COMMITTEE

THE PRESIDENT

2 July 2021
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Mr. Andrej ŠIRCELJ
President of the Economic and Financial Affairs Council

Review of the 2021 in-depth reviews under the Macroeconomic Imbalance Procedure

Dear Andrej,

I would like to report to you on the Committees' review work on the Commission's 2021 in-depth reviews under the Macroeconomic Imbalance Procedure. On the basis of the review and the preparation by the Economic Policy Committee, the Economic and Financial Committee agreed draft Council conclusions on the 2021 in-depth reviews.

The Committees agreed with the Commission assessment that the COVID-19 crisis has not fundamentally altered the nature of Member States' imbalances. At the same time, the crisis has implied a setback in the previously observed reduction of imbalances and may increase the risks to macroeconomic stability. Vulnerabilities, particularly relating to the public and private debt (notably of companies), and related risks have increased. Possible scarring effects of the pandemic could result in credit defaults and higher non-performing loans, once the support measures are phased out.

The Committees underlined that the assessment of macroeconomic imbalances continues to be affected by elevated uncertainties related to the COVID-19 crisis implications. The Committees acknowledged that full and timely implementation of the Recovery and Resilience Facility could help to reduce macroeconomic imbalances. At the same time, the Committees noted risks and uncertainties that could undermine the effective implementation of the planned measures.

Complementing the horizontal review, the Economic Policy Committee prepared summaries of the review of each individual in-depth reviews, conducted on 12 Member States (annexed to the letter, for your information).

The Committees stressed the need for full implementation of the Macroeconomic Imbalance Procedure, including the importance of continued surveillance of imbalances and of a potential emergence of new imbalances. The Committees will continue discussions on the EU economic governance issues after the summer break.

Yours sincerely,

Tuomas Saarenheimo
President of the Economic and Financial Committee

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Germany

Commission conclusions from the in-depth review analysis

Germany is experiencing imbalances. The current account surplus persists at high levels reflecting a subdued level of investment relative to savings and has cross-border relevance. Following a gradual decline since 2015, the current account surplus is expected to increase in 2021 and to adjust again downwards in 2022, remaining elevated but below its pre-crisis level. In 2020, public investment growth accelerated further as a response to the crisis, while private investment fell. In 2020, higher net savings of the private sector were largely offset by a higher government deficit, leading to limited changes to the overall current account. Moreover, investment remains moderate as a share of GDP despite the favourable financing conditions and persistent investment needs already before the COVID-19 crisis and the low risk to fiscal sustainability in the medium term. The net savings of households further increased in 2020 amid absent spending possibilities and are expected to broadly return to their pre-pandemic level in 2022.

Overall EPC conclusion

The EPC broadly *concur*s with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances and considers the topics identified in the 2021 report appropriate.

The EPC *concur*s that the in-depth review analysis supports the assessment that Germany is experiencing imbalances.

The EPC *finds* that the focus of the IDR on the current account surplus and the relationship with savings relative to investment as well as its forward-looking perspective in context of COVID-19 crisis is *appropriate*. The thematic chapter with a flow of funds analysis between sectors was welcomed.

The EPC *broadly agrees* that the IDR made use of the appropriate series of analytical tools to support the Commission's analysis and that the methodologies applied are generally supportive of the assessment of imbalances. It was noted that the discussion based on current account benchmarks could better reflect unexplained variation and estimation uncertainty. It was also suggested that further model-based analysis could be used to analyse the current account including the possible impact of policies. Other issues that could be further analysed include drivers of corporate investment and the implications of recent increases in house prices could be further analysed.

The EPC *acknowledges* that the German current account surplus is expected to remain high. The persistent current account surplus reflects, among others, excess savings and relatively weak private and public investment despite recent increases. While the current account remains clearly above what assessment tools can explain by fundamentals; it was discussed to what extent policies could influence its determinants.

France

Commission conclusions from the in-depth review analysis

France is experiencing imbalances. Vulnerabilities relate to high government debt, weak competitiveness and low productivity growth, which have cross-border relevance. In 2020, government debt increased visibly with the recession and with the comprehensive measures to contain the COVID-19 crisis and is expected to edge down in 2022. Private debt is high and has also been growing for several years even if, in 2020, nominal debt increases were matched by an increase in firms' liquidity buffers. Despite positive developments before the COVID-19 crisis, previous competitiveness losses have not been regained. In addition, long-term productivity growth remains moderate, which also prevents further competitiveness gains, hampers potential growth and that way limits the room for public and private deleveraging.

Overall EPC conclusion

The EPC concurs with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances and considers the topics identified in the 2021 report appropriate.

The EPC concurs that the in-depth review analysis supports the Commission assessment that France is experiencing macroeconomic imbalances.

The EPC finds that the main focus of the IDR on indebtedness and competitiveness in a context of low productivity growth is appropriate. Some members welcomed the detailed analysis on private debt developments and the attention devoted to the specific impact of the COVID-19 crisis.

The EPC broadly agrees that the IDR made use of the appropriate series of analytical tools to support the Commission's analysis and that the methodologies applied are supportive of the assessment of imbalances. Several issues were raised that could warrant further analysis, including corporate debt developments and the role of spending reviews in fiscal consolidation. One member questioned the interpretation of the use of macro-prudential tools by the HCSF.

The EPC acknowledges that the COVID-19 crisis has led to an increase in public debt, in light of support to cushion the impact of the COVID-19 crisis. It was noted that a too rapid fiscal consolidation would hamper the recovery. Competitiveness, as measured by unit labour costs, deteriorated, although this seems to be an EU-wide phenomenon and should therefore be seen in a broader context. The increase in the private debt to GDP ratio in 2020 reflects only in part the sharp drop in GDP during the COVID-19 crisis.

Ireland

Commission conclusions from the in-depth review analysis

Ireland is experiencing imbalances. Vulnerabilities relate to large private and government debts and net external liabilities remain. Government debt remains high according to various metrics, with downside risks relating to possible changes in corporate taxation rules and reforms in international taxation. Private debt remains high. Corporate debt is inflated by the presence of multinational companies, most of which have very few linkages to the domestic economy. Household debt as a share of household gross disposable income remains amongst the highest in the EU. The net international investment position is still highly negative but improving and mostly reflects the activities of multinational firms and mutual funds with little connection to the domestic economy.

Overall EPC conclusion

The EPC *concur*s with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances and considers the topics identified in the 2021 report appropriate.

The EPC *concur*s that the in-depth review analysis supports the assessment that Ireland is experiencing imbalances.

The EPC *finds* that the focus of the in-depth review on public and private debt, external sustainability and developments in the housing market as well as its forward looking perspective in context of COVID-19 crisis is *appropriate*. One Member noted that the focus of the analysis shifted from the housing market, which could have been further analysed, towards external sustainability and private debt. It was also noted that the analysis could have been enriched by an evaluation of the potential Brexit effects, given the tight connections of Ireland with the UK.

The EPC *broadly agrees* that the in-depth review made use of the appropriate series of analytical tools to support the Commission's analysis and that the methodologies applied are supportive of the assessment of imbalances. The use of modified statistics and the decomposition of non-financial corporate debt in the case of Ireland was welcomed and the sensitivity of the analysis to the use of different metrics must be highlighted. One Member noted that it could have been made clearer that non-financial corporate debt excluding multinationals and re-domiciled PLCs falls below the prudential benchmark.

The EPC *acknowledges* that vulnerabilities linked to large private debt remain, however in the case of corporate debt the risks are mitigated by the fact that a significant part of it relates to multinationals and re-domiciled PLCs with limited links to the domestic economy. Regarding household debt, gross disposable income developments have supported deleveraging in 2020, but uncertainties regarding corporate insolvencies and future labour market developments remain. There may also be some risk to housing market, from supply side issues in construction materials.

Spain

Commission conclusions from the in-depth review analysis

Spain is experiencing imbalances. Vulnerabilities relate to high external and internal debt, both government and private in a context of high unemployment and have crossborder relevance. The net international investment position remains negative but should resume its gradual improvement in 2021. The negative impact of the COVID19 crisis on tourism has been significant. The current account has worsened with the crisis but is expected to be around balance this year and next. Government debt increased substantially in 2020 as a result of the recession and of the support measures put in place to cushion the impact of the crisis; it is forecast to decrease more significantly next year on account of continuously high, yet improving, government deficits. The deleveraging by both the corporate and the household sectors halted in 15 light of the COVID-19 crisis. The unemployment rate went up in 2020 and is forecast to start falling in 2022.

Overall EPC conclusion

The EPC *concur*s with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances and considers the topics identified in the 2021 report appropriate.

The EPC *concur*s that the in-depth review analysis supports the assessment that Spain is experiencing imbalances.

The EPC *finds* that the focus of the in-depth review on the net international investment position, private and public debt and labour market developments is *broadly appropriate*.

The EPC *broadly agrees* that the IDR made use of the appropriate analytical tools to support the Commission's analysis and that these methodologies are supportive of the assessment of imbalances. Several issues were raised that could warrant further analysis, including labour market issues – notably short-time work schemes and gender issues – and the housing market. Moreover, a sectoral analysis of foreign direct investment and a decomposition of the current account balance and its drivers could yield useful insights. One member argued that corporate debt developments may warrant further analysis, given the nature of the shock and support measures put in place.

The EPC *acknowledges* that the COVID-19 crisis has led to an increase in public, private and external debt to GDP ratios. It was noted that the increase in the private and external debt ratios reflects to a large extent the sharp drop in GDP in 2020. Unemployment is still high, although the increase in 2020 has been relatively small given the magnitude of the crisis, partly due to the use of short-time work schemes (ERTE). One member noted that the composition of the net international investment position (NIIP) will continue to mitigate the vulnerabilities stemming from the external sector.

Greece

Commission conclusions from the in-depth review analysis

Greece is experiencing excessive imbalances. Vulnerabilities relate to high government debt, incomplete external rebalancing and high non-performing loans, in a context of high unemployment and low potential growth. The COVID-19 crisis has interrupted the adjustment process initiated in previous years. Government debt increased sizeably in 2020 and is expected to edge down only in 2022. Government debt is mostly held by official sector creditors, which, together with the large cash buffer, insulates Greece from short-term fluctuations. The current account deficit has widened recently and is forecast to remain large, in large part because of the impact of the COVID-19 crisis on the sizeable tourism sector. Despite marked decreases in recent years, non-performing loans remain large and risk increasing once temporary support measures are phased out. Efforts to strengthen growth prospects face headwinds from the depleted capital stock, an ageing population and outward migration of skilled labour. Low potential growth weighs on debt deleveraging.

Overall EPC conclusion

The EPC *concur*s with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances in the IDR and considers the topics identified in the 2021 report appropriate.

The EPC *concur*s that the in-depth review analysis supports the assessment that Greece is experiencing excessive imbalances.

The EPC *finds* that the focus of the IDR on external and public debt, the banking sector and non-performing loans, potential growth, and labour market developments is *appropriate*. Welcomes that the in-depth review has taken into account the context of the COVID-19 crisis.

The EPC *agrees* that the in-depth review made use of the appropriate series of analytical tools to support the Commission's analysis and that the methodologies applied are supportive of the assessment of imbalances. Nonetheless, one Member has signalled that the analysis has been understandably much shorter this year than in previous years. Another Member would have welcomed the use of model simulations to assess the impact of structural reforms.

The EPC *acknowledges* that the positive trends in the Greek economy were interrupted by the pandemic. High public debt to GDP ratio increased in 2020 because of lockdowns and fiscal measures to support the economy. The external position remains weak, but exposure to external shocks or to shifts in market sentiment remains limited. One Member noted that the recovery and the resilience plan has the potential to help reduce imbalances, inter alia by having a positive impact on private investment and potential growth.

Croatia

Commission conclusions from the in-depth review analysis

Croatia is experiencing imbalances. Vulnerabilities relate to government, private and external debt, in a context of low potential growth. The current account turned negative in 2020, reflecting the impact of the COVID-19 crisis on Croatia's sizeable tourism sector, and is expected to recover only slowly. The negative net international investment position should resume its gradual improvement in 2021. The moderately high government debt ratio increased markedly in 2020 as a result of the recession and of the support measures put in place to cushion the impact of the crisis but is expected to return to a declining path this year. The private debt-to-GDP ratio increased in 2020, after several years of improvements, reflecting a sharp drop in GDP, accompanied by higher corporate borrowing needs. The banking sector has become more resilient, also since Croatia joined the Single Supervisory Mechanism, yet nonperforming loans may increase once policies to protect corporates from the impact of the COVID-19 crisis are phased out.

Overall EPC conclusion

The EPC *concur*s with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances in the in-depth review and considers the topics identified in the 2021 report appropriate.

The EPC *concur*s that the in-depth review analysis supports the assessment that Croatia is experiencing imbalances.

The EPC *finds* that the focus of the in-depth review analysis on external, public and private debt and potential growth as well as its forward looking perspective in context of COVID-19 crisis is *appropriate*.

The EPC *agrees* that the in-depth review made use of the appropriate series of analytical tools to support the Commission's analysis and that the methodologies applied are supportive of the assessment of imbalances. One Member signalled that further analysis on the drivers of low potential growth, including productivity developments, would have been warranted.

The EPC *acknowledges* that the COVID-19 pandemic disrupted the favourable developments towards the correction of Croatia's imbalances during the previous period, which should resume as the recovery takes hold. However, it was noted that risks remain, including low potential growth slowing down the deleveraging process, a slower recovery of tourism, and potential scarring effects from the COVID-19 crisis, such as an increase in corporate insolvencies. It was also noted that the high dependence on tourism remains an important vulnerability.

Italy

Commission conclusions from the in-depth review analysis

Italy is experiencing excessive imbalances. Vulnerabilities relate to high government debt and protracted weak productivity dynamics, which have cross-border relevance in a context of labour market and banking sector fragilities. The government debt ratio increased sharply in 2020, reflecting the fall in GDP and the fiscal response to the COVID-19 crisis, and is expected to edge down only in 2022. Labour productivity increased in 2020 but long-term productivity growth remains constrained by barriers to private and public investment and by limits to growth of the most productive firms. Activity and employment rates remain below the EU average. The very sluggish productivity growth, together with low employment rates, hamper potential growth, which in turn limits the room for debt deleveraging. While the Italian banking sector became more robust and resilient in the pre-COVID-19 crisis years, vulnerabilities remain. Notably, non-performing loans declined in recent years but are still relatively high and risk increasing once temporary support measures are phased out.

Overall EPC conclusion

The EPC *concur*s with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances in the in-depth review and considers the topics identified in the report appropriate.

The EPC *concur*s that the in-depth review analysis supports the assessment that Italy is experiencing excessive imbalances.

The EPC *finds* that the continued focus of the in-depth review on productivity growth, public indebtedness, banking sector fragilities, and the labour market is *appropriate*. One member emphasized the importance of taking a more forward looking perspective of the analysis in the current context.

The EPC *broadly agrees* that the in-depth review made use of the appropriate series of analytical tools to support the Commission's analysis and that the methodologies applied are supportive of the assessment of imbalances. Several issues were raised that could warrant further analysis, including the drivers of the economic recovery in international comparison and the role of structural reforms; and the link between the COVID-19 pandemic and public finances, as well as the role of New Generation EU also when considering productivity prospects. One member called for caution when using recent labour force survey figures to compare labour market developments across countries.

The EPC *acknowledges* that the COVID-19 crisis has led to an increase in the public debt to GDP ratio, partly reflecting the sharp drop in GDP in 2020. One member argued that the economic outlook is improving implying a positive impact on public debt/GDP ratio developments. The moderate reaction of the labour market to the COVID-19 crisis partly reflects the successful use of short time work schemes. The high gross non-performing loans ratio remains a source of vulnerability that warrants attention, although one member argued that most recent figures show significant improvement.

Cyprus

Commission conclusions from the in-depth review analysis

Cyprus is experiencing excessive imbalances. Vulnerabilities relate to high stocks of external, government, and private debt, and still high non-performing loans, alongside a substantial current account deficit. The current account deficit deteriorated substantially in 2020 to a double-digit reading reflecting a marked drop in tourism exports amid the COVID-19 crisis and it is forecast to improve only slightly in the near term. External debt remains high and the negative net international investment position, even when excluding special purpose entities, is worsening in part due to the large current account deficits. The COVID-19 crisis interrupted the private sector deleveraging as the high debt ratios increased in 2020 mostly on account of the drop in GDP. Non-performing loans remain among the highest in the EU, despite visible reductions in recent years and risk increasing again once temporary support measures are phased out. The government debt ratio increased significantly in 2020 but is expected to return to a declining path already this year.

Overall EPC conclusion

The EPC *broadly concurs* with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances in the in-depth review and considers the topics identified in the 2020 report appropriate.

The EPC *concur*s that the in-depth review analysis supports the assessment that Cyprus is experiencing excessive imbalances.

The EPC *finds* that the focus of the in-depth review on external, government, and private debt developments as well as financial sector developments including non-performing loans is *appropriate*. The forward looking perspective in context of the COVID-19 crisis is welcome.

The EPC *broadly agrees* that the in-depth review made use of the appropriate series of analytical tools to support the Commission's analysis and that the methodologies applied are supportive of the assessment of imbalances. One Member noted that more details on the effects of the COVID-19 pandemic on macroeconomic imbalances and associated risks could have been provided. Another Member pointed to the need to highlight more clearly when external statistics are or are not adjusted for the presence of special purpose entities.

The EPC *acknowledges* that the COVID-19 crisis has led to an increase in private debt ratios in Cyprus, mostly due to the steep decline in GDP, as credit flows to the private sector remained subdued in 2020 in comparison to 2019, after continued adjustment in previous years. The deterioration of the current account, due in great part to the decline in tourism revenues, represents a vulnerability and underscores the need for further diversification of the economy. Further reduction of non-performing loans and improvement in the payment discipline hinges on the effectiveness of the foreclosure and insolvency frameworks.

The Netherlands

Commission conclusions from the in-depth review analysis

The **Netherlands** is experiencing imbalances. Private debt and the current account surplus remain high, and have cross-border relevance. The current account surplus declined in 2020. Nonetheless, it remains well above levels justified in light of the country's economic fundamentals and is expected to remain high. Despite an ongoing pension reform and recent tax changes addressing incentives to retain earnings within small and medium size enterprises, the structural drivers underpinning high household and corporate savings remain in place. Part of the external surplus can be attributed to statistical features linked to the role of multinational firms and is not expected to attenuate in the near future. Private-sector debt remains high, partly due to intra-group debt of multinationals, and increased further as a share of GDP in 2020. Household debt is increasing from an already high level on the back of continued house price rises.

Overall EPC conclusion

The EPC *concur*s with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances and considers the topics identified in the 2021 report appropriate.

The EPC *concur*s that the in-depth review analysis supports the assessment that the Netherlands is experiencing imbalances.

The EPC *finds* that the focus of the in-depth review on the current account surplus (and the contribution of the corporate sector to this) and private (household) debt as well as its forward looking perspective in context of COVID-19 crisis is *appropriate*.

The EPC *agrees* that the in-depth review made use of the appropriate series of analytical tools to support the Commission's analysis and that the methodologies applied are supportive of the assessment of imbalances. Some areas were noted that could warrant further investigation. On the external side, a closer investigation of the statistical impact on the current account from pension funds retained earnings as well as further analysis on the role of policies in driving and addressing the current account surplus. As regards housing and private debt, the potential further use of macroprudential policies, the impact of the taxation regime on owner occupied housing and housing supply constraints were pointed to.

The EPC *acknowledges* that vulnerabilities linked to the large current account surplus and high private-sector debt in context of distortions in the housing market remain. The current account surplus declined in 2020 but remains high. Structural drivers underpinning high household and corporate savings remain in place. The relevance of the ongoing pension reform was noted.

Portugal

Commission conclusions from the in-depth review analysis

Portugal is experiencing imbalances. Vulnerabilities relate to large stocks of net external liabilities, private and government debt, and non-performing loans remain high, against a backdrop of low productivity growth. Government debt increased substantially in 2020 as a result of the recession and of the support measures put in place to cushion the impact of the crisis but it is forecast to decline moderately this year and next with narrowing budget deficits. The impact of the COVID-19 crisis on tourism is important, including for the near future. The current account turned into a deficit driven by the impact of the COVID-19 crisis on tourism. The negative net international investment position worsened in 2020 but should resume its gradual improvement this year. After the rapid deleveraging of recent years, private debt increased in 2020, reflecting a sharp drop in GDP and financing needs of corporates in light of the crisis, while mortgage growth turned positive in 2020. Non-performing loans risk increasing once temporary support measures are phased out.

Overall EPC conclusion

The EPC *concur*s with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances and considers the topics identified in the 2021 report appropriate.

The EPC *concur*s that the in-depth review analysis supports the assessment that Portugal is experiencing imbalances.

The EPC *finds* that the focus of the in-depth review on external, public and private debt, banking sector vulnerabilities and weak labour productivity is *appropriate*. The chapters with in-depth analysis of selected topics were welcomed.

The EPC *broadly agrees* that the in-depth review made use of the appropriate series of analytical tools to support the Commission's analysis and that the methodologies applied are supportive of the assessment of imbalances. The discussion pointed to some issues that could warrant further analysis, including possible investment gaps in the health sector and the role of the services sector – namely, tourism – in the possible correction of imbalances.

The EPC *acknowledges* that the decline in debt stocks witnessed until 2019 was paused due to the COVID-19 pandemic. Nevertheless, with the expected economic recovery, debt stocks are projected to start decreasing again. One member argued that the risks surrounding the high level of non-performing loans could be given greater emphasis, also because insolvencies may increase with the phasing-out of public support.

Romania

Commission conclusions from the in-depth review analysis

Romania is experiencing imbalances. Vulnerabilities relate to a persistent sizeable current account deficit in a context of large government deficits, while previous overheating pressures are receding. The large current account deficit is forecast to remain high even if moderating marginally, and the negative net international investment position is no longer improving. The large fiscal deficit is forecast to decline only gradually this year and next, owing to the recovery and some fiscal consolidation. Net savings by the domestic private sector are not enough to cover those high fiscal deficits, and financing has become more reliant on the accumulation of external debt. In contrast, competitiveness losses seem to be abating as overheating pressures of earlier years cooled with the COVID-19 crisis. Legislative unpredictability continues to weigh on the broader business environment.

Overall EPC conclusion

The EPC *concur*s with the technical analysis and the main findings of the in-depth review with regard to the gravity of imbalances in the in-depth review and considers the topics identified in the 2021 report appropriate.

The EPC *concur*s that the in-depth review analysis supports the assessment that Romania is experiencing imbalances.

The EPC *finds* that the focus of the in-depth review on the external position and the widening current account deficit, competitiveness, all in the context of an unpredictable legislative and business environment as well as its forward looking perspective in context of COVID-19 crisis is *appropriate*.

The EPC *broadly agrees* that the in-depth review made use of the appropriate series of analytical tools to support the Commission's analysis and that the methodologies applied are supportive of the assessment of imbalances. One member indicated that analytical tools of the Macroeconomic Imbalance Procedure should be designed so to sufficiently account for rapid changes in economic conditions, as witnessed during the COVID-19 pandemic, also to assess drivers of inflation dynamics.

The EPC *acknowledges* that the current account balance deteriorated but is likely to improve with the economic recovery. The fiscal position has continued to deteriorate and accounts for a significant part of the large external financing needs. However, one member argued that the economic recovery and containment of public expenditure should help to put public finances on a more sustainable footing, while acknowledging that the financing of a high debt stock was a potential source of risk that deserved monitoring. Cost competitiveness pressures seem to be dissipating, reflecting restrained wage growth. Legislative unpredictability might pose a threat to the banking sector, although some corrective legislative measures have already been adopted.

Sweden

Commission conclusions from the in-depth review analysis

Sweden is experiencing imbalances. Vulnerabilities relate to high and rising household debt and overvaluation risks in the housing market remain. Household debt has increased further and mortgage growth to households has remained strong. House prices have continued to increase, even faster than before the COVID-19 crisis, thereby compounding the risks of overvaluation. The banking sector is resilient, with relatively high profitability, ample liquidity, and comfortable capital levels, but elevated exposure to the commercial real estate market warrants attention.

Overall EPC conclusion

The EPC *concur*s with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances and considers the topics identified in the 2021 report appropriate.

The EPC *concur*s that the in-depth review analysis supports the assessment that Sweden is experiencing imbalances.

The EPC *finds* that the focus of the in-depth review on high household debt, house price developments and the functioning of the housing market is *appropriate*.

The EPC broadly agrees that the in-depth review made use of the appropriate series of analytical tools to support the Commission's analysis and that the methodologies applied are supportive of the assessment of imbalances.

The EPC *acknowledges* that the high and rising household debt and the development of house prices continue to warrant close attention. The continued increase of household debt and house prices, including during the pandemic, is noted. Some members pointed to the relevance of the macroprudential measures taken in previous years, whereas it was also noted that several measures have been temporarily eased and some others suspended during the pandemic to preserve liquidity and mitigate the impact on economic activity.