

© OECD, 2004.

© Software: 1987-1996, Acrobat is a trademark of ADOBE.

All rights reserved. OECD grants you the right to use one copy of this Program for your personal use only. Unauthorised reproduction, lending, hiring, transmission or distribution of any data or software is prohibited. You must treat the Program and associated materials and any elements thereof like any other copyrighted material.

All requests should be made to:

Head of Publications Service,
OECD Publications Service,
2, rue André-Pascal,
75775 Paris Cedex 16, France.

II. Reducing the risk of instability from the housing market

Introduction

Over the last couple of years the housing market has been a major consideration in the setting of monetary policy as demonstrated by numerous references in the minutes of the Monetary Policy Committee (MPC). The high interest rate sensitivity of the housing market strengthens considerably the transmission channel of monetary policy, in marked contrast with most continental European countries. On the other hand, there are a number of episodes over the last three decades when developments in the housing market have either been a cause of, or exacerbated, macroeconomic instability. The challenge is therefore to retain the inherent strength of the current framework, *i.e.* a strong reactivity to interest rate changes, while reducing its drawbacks in terms of potential instability and possible misallocation of resources in the long run. The government is committed to a comprehensive programme to improve the functioning of the housing market, addressing both supply and demand issues. Such measures are seen as encouraging greater convergence with the euro area economies, but are also considered “beneficial in their own right to improve the stability and flexibility of the United Kingdom housing market and wider economy”. The remainder of this chapter puts the UK housing market in international context, evaluates it as a source of macroeconomic instability, and finally considers what the appropriate policy response is, both in the current cycle and over the longer term.

The housing market in international context

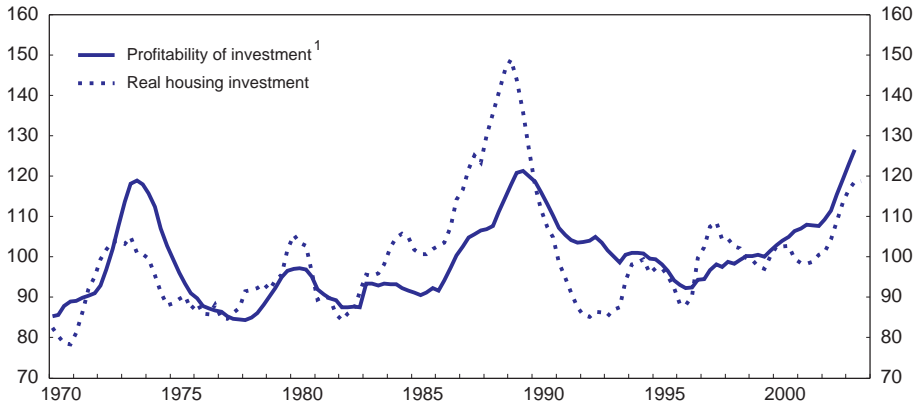
The share of the housing stock that is owner-occupied is 70 per cent in the United Kingdom, slightly higher than the EU average, but much higher than in France (55 per cent) or Germany (43 per cent) (Ball, 2003). The share that is rented from private landlords has remained roughly stable at about 10 per cent over the last two decades, following a substantial post-war decline. This levelling off partly reflects the removal of rent controls as well as the gradual phasing out of the most blatant tax advantages in favour of owner-occupation, such as tax relief on mortgage interest payments. The share of the housing stock rented from local authori-

ties has more than halved over the last two decades to 14 per cent, mainly as a result of “right to buy” discounted sales to sitting tenants as well as sales to social housing institutions. The latter are mainly non-profit making housing associations and trusts that now account for about 7 per cent of the housing stock.¹

The UK mortgage market is amongst the most liberalised in the OECD and there is a high degree of competition among mortgage lenders.² The availability of 100 per cent loans places the United Kingdom at the least restrictive end of the wide range of loan-to-value ratios that are applied across OECD countries (Girouard and Blondal, 2001).³ Transaction costs associated with buying a house are also relatively low: comparisons for the mid-1990s suggest that, for an average – priced property, transactions costs were about 2 per cent of the purchase price in the United Kingdom, compared to over 7 per cent in Germany and Italy and nearly 14 per cent in France.⁴ The high degree of liberalisation of the mortgage market, as well as the relatively high level of housing transactions (associated with low transactions costs), is also reflected in the scale of “mortgage equity withdrawal”,⁵ as households use the increased value of their property as collateral to borrow at rates of interest that are substantially below those on unsecured loans. At the end of 2002 a typical consumer taking out a loan secured on property would face an interest rate of 5½ per cent compared to 10½ per cent on an unsecured bank loan or 15½ per cent using a credit card.⁶ In contrast, in many countries where deregulation of the mortgage market has been less extensive, the household sector has been permanently injecting equity into housing (Girouard and Blondal, 2001). The high level of mortgage debt and high share of variable rate mortgages also means that the monetary transmission mechanism acting through the housing market is relatively strong in the United Kingdom, certainly in comparison to the major continental European countries, as emphasised in the Treasury’s EMU study (H.M. Treasury, 2003a).

The United Kingdom also stands out in international comparison in another respect. Estimates of the elasticity of housing supply with respect to real house prices are typically much lower than for other OECD countries (Swank *et al.*, 2002 and Malpezzi and Maclennan, 2001) and are particularly low for the South of England (Meen, 1996). There has been some recent pick-up in real housing investment in response to the increased profitability of housing investment, proxied as the differential between indices of house purchase prices and the housing investment deflator (Figure 2.1). Nevertheless, despite the increase in house prices since the mid-1990s, housing investment has averaged less than 4 per cent of GDP, lower than in most other OECD countries and little changed compared to the depressed housing market years of the early 1990s. In terms of houses completed the supply response is even more muted with the number of dwellings completed falling to a post-war low in 2001, but recovering slightly in 2002 (Figure 2.2). The fall in the late 1990s in part reflects the decline in council house building by local authorities. At the regional level the extent of the supply constraint is even more

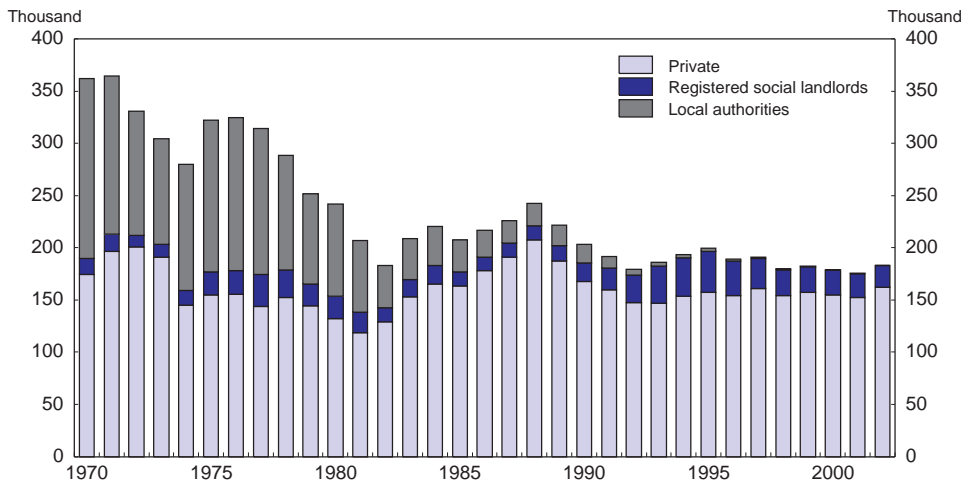
Figure 2.1. **Housing investment and profitability**
Index, sample average = 100



1. The profitability of housing investment is measured as the ratio of residential property prices to the implicit residential investment deflator. A 4-quarter moving average of both series is taken to smooth high frequency volatility.

Source: Office for National Statistics, Office of the Deputy Prime Minister and OECD.

Figure 2.2. **House building**
Permanent dwellings completed, by tenure



Source: Office of the Deputy Prime Minister.

apparent with new house building falling in the South-East where price pressures have been most acute. To a large extent this reflects land constraints and the high population density of the United Kingdom as well as the regional concentration of economic activity. However, as discussed further below, there is also evidence that planning restrictions may be hampering supply.

The housing market as a source of macroeconomic instability

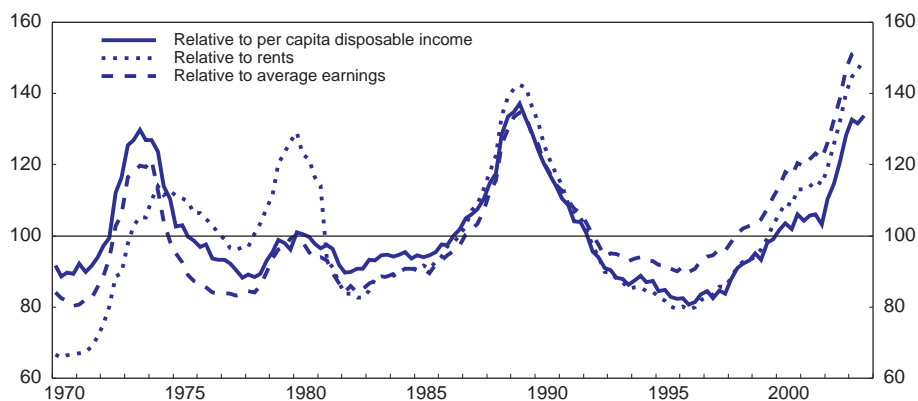
Inelastic housing supply has meant that the trend increase in real house prices (relative to the private consumption deflator) has been among the strongest in the OECD (Girouard and Blondal, 2001). Periods of rising house prices have sometimes gathered momentum and led to speculative bubbles, a feature which may be more likely in a liberalised mortgage market. This occurred most notably in the early 1970s and late 1980s: between 1971 and 1973 real house prices rose 46 per cent and then fell 36 per cent over the following four years; between 1986 and 1989 real house prices rose by 50 per cent and fell by 31 per cent over the following four years. Some empirical modelling of UK house prices has captured such speculative effects through the inclusion of a non-linear term in the predicted rate of return applied as a *cubic* specification of the previous period's capital appreciation.⁷

More recently, real house prices have risen 50 per cent in the five years to 2002, and nominal house price inflation in mid-2003 was running at an annualised rate of around 15 per cent,⁸ having repeatedly exceeded the MPC's predictions of an imminent slowdown.⁹ In relation to average earnings and personal disposable income the current level of house prices has, respectively, exceeded and is close to the peak that occurred at the height of the late 1980s housing boom prior to the subsequent sharp fall (Figure 2.3). This has led a number of commentators to conclude that house prices are over-valued and a sharp correction is due although others cite structural reasons why the house price to earnings ratio may have increased.¹⁰ In relation to rents, at least as measured by the rent component of the retail prices index, house prices are also close to their late 1980s peak, although this may provide a less reliable benchmark as much of the rental sector, particularly up until the 1990s was regulated. Rents on private "assured" tenancies (for which rents are not regulated), data for which are only available over a shorter sample, have been rising less quickly than house prices: in the three years to 2002 the average annual rate of increase of such rents was about 6 per cent whereas the average rate of increase of house prices was roughly double that.¹¹

There are a number of channels by which instability in the housing market could either lead to general macroeconomic instability, or else could magnify the consequences of another adverse shock. One set of concerns focuses on the increased indebtedness of households and the consequences of coping with higher debt service if interest rates rise or there is some other adverse shock to

Figure 2.3. **House prices relative to personal disposable income, average earnings and rents¹**

1970-2002 = 100



1. House prices are those provided by the Office of the Deputy Prime Minister; rents are the rent component of the retail prices index.

Source: Office of the Deputy Prime Minister, Office for National Statistics and OECD.

demand.¹² Between 1999 and 2002 the increase in household financial liabilities in the United Kingdom, both as a percentage of disposable income and in relation to financial assets, has been the most rapid of any G7 country over this or any other 3- year period since 1990 (Table 2.1). The level of financial liabilities is now among the highest in the G7, second only to Japan in relation to disposable income and to Germany in relation to financial assets. The rise in household liabilities has been heavily influenced by developments in the housing market, with long-term loans secured on dwellings making up nearly three-quarters of household financial

Table 2.1. **Household financial liabilities**

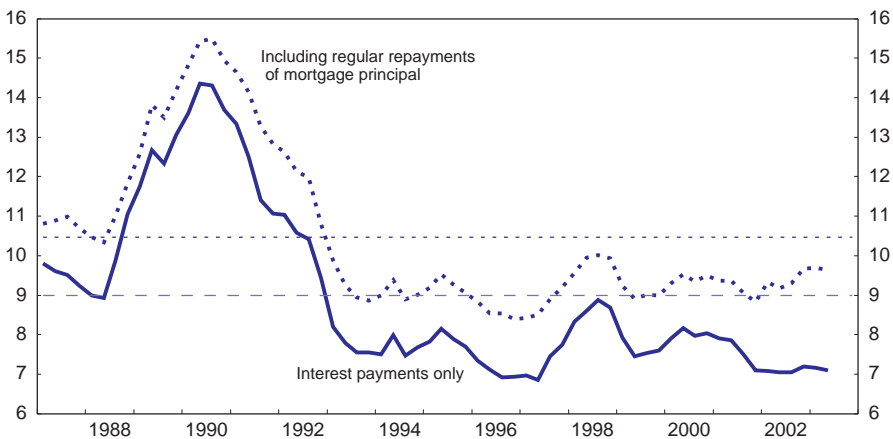
	Per cent of income		Per cent of financial assets	
	2002 level	Change 1999-2002	2002 level	Change 1999-2002
Japan	136.7	11.6	28.3	0.0
United Kingdom	129.2	17.4	34.6	13.1
Germany	112.0	-2.2	41.4	0.6
Canada	111.7	-0.1	32.1	0.9
United States	108.8	4.9	25.0	5.3
France	76.0	0.7	21.9	0.9
Italy	35.3	1.5	12.3	2.0

Source: OECD.

liabilities. While the strong rise in house prices over recent years has led to increased borrowing for house purchase, it has also significantly boosted the value of housing wealth. The increase in household liabilities as a percentage of total household assets has been far more muted at only 3½ per cent.

The rise in debt service payments following the collapse of the housing market and rising interest rates at the end of the 1980s led to a sharp increase in the savings ratio and a substantial increase in mortgage arrears and repossessions. An important difference, however, between the current situation and that prevailing in the late 1980s is that interest rates and inflation are much lower. The low level of nominal interest rates means that despite the record level of indebtedness, household interest payments (dominated by mortgage interest payments) remain a relatively low proportion of personal disposable income, and well below the level prevailing at the beginning of the 1990s (Figure 2.4). Even so, if regular payments of mortgage principal are included, there has been a steady rise in a broader measure of debt service payments in relation to disposable income since the mid-1990s. But for this wider measure of debt service to rise to a similar proportion of household disposable income as experienced at the beginning of the 1990s, interest rates would have to rise by 8 to 9 percentage points.¹³ This would seem highly unlikely given the current low inflation. Consistent with the relatively low level of interest repayments, there are few signs yet of

Figure 2.4. **Household interest payments relative to disposable income**¹
Per cent of post-tax income



1. Dashed lines indicate averages over period shown.

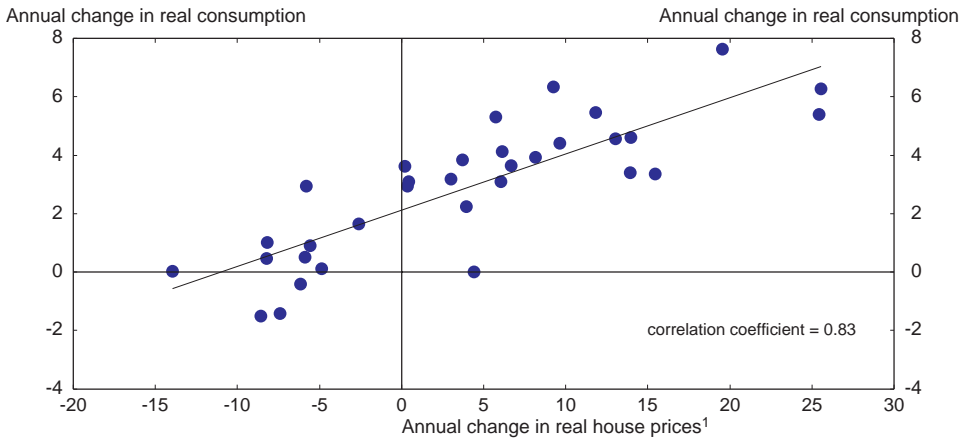
Source: Bank of England estimates; Office for National Statistics.

widespread financial distress in the household sector in terms of repossessions or mortgage arrears, both of which remain close to historical lows.

While households appear much less exposed to an adverse shock than in the late 1980s, aggregate data may disguise the extent to which individual households are exposed. Information from the British Household Panel Survey (BHPS) for 2000, the latest available year, suggests that, although the households with the highest *absolute* levels of debt tended also to have the highest incomes and net wealth, the youngest and lowest – income households increased their debt-to-income ratios by most – and from the highest levels – between 1995 and 2000 (Cox *et al.*, 2002). These are also the households that are most vulnerable to financial and other shocks likely to increase financial stress, such as unemployment or increases in interest rates.¹⁴ However, according to a more recent survey conducted by NMG Research for the Bank of England¹⁵ on holdings of unsecured debt, the share of households reporting debt to be a burden seems little changed in recent years. In the BHPS surveys from 1995 to 2001, around 10 per cent reported their debts to be a heavy burden and 29 per cent somewhat of a burden, similar to the NMG survey. The rapid growth of unsecured debt in recent years has not, therefore, as yet led to any overall increase in the degree of financial distress reported by households, although the survey does point to a small group of heavily indebted individuals who continue to face substantial problems in servicing their debt.

A further reason for concern is that recent rates of house price inflation are unsustainable, and an abrupt change could have a large and rapid effect on consumers' spending, as evidenced by the high correlation between short – run changes in consumption and real house prices (Figure 2.5). Indeed, statistically annual changes in consumers' expenditure are better correlated with contemporaneous changes in house prices than with changes in real personal disposable income.¹⁶ The rapidity of this response probably reflects the importance of the transmission mechanism through mortgage equity withdrawal. Econometric analysis by both the Treasury and the Bank of England, as well as similar work reported in Annex 2.A1, confirms that changes in housing wealth have a relatively large short – run impact on consumption behaviour which "over-shoots" the long-run effect.¹⁷ An implication of the large short-run effects of house wealth on consumption is that a sharp slowdown in the growth rate of house prices, and especially an abrupt fall, would have a large effect on consumption. For example, the consumption equation reported in Annex 2.A1 suggests that from the current situation where house prices have been running at 15 to 20 per cent per annum, an immediate levelling off in nominal house prices (*i.e.* zero house price inflation) would lead to a fall in the consumption-income ratio by about 2 percentage points over four quarters. The full impact on GDP of this decline in consumption would however be muted both because of a partial offset as imports fall and due to the likely policy response. To explore this option more fully a scenario of falling house prices is

Figure 2.5. **Correlation between real house price growth and consumption**
1970-2002



1. Real house prices are measured as the house price series from the Office of the Deputy Prime Minister deflated by the private consumption deflator.

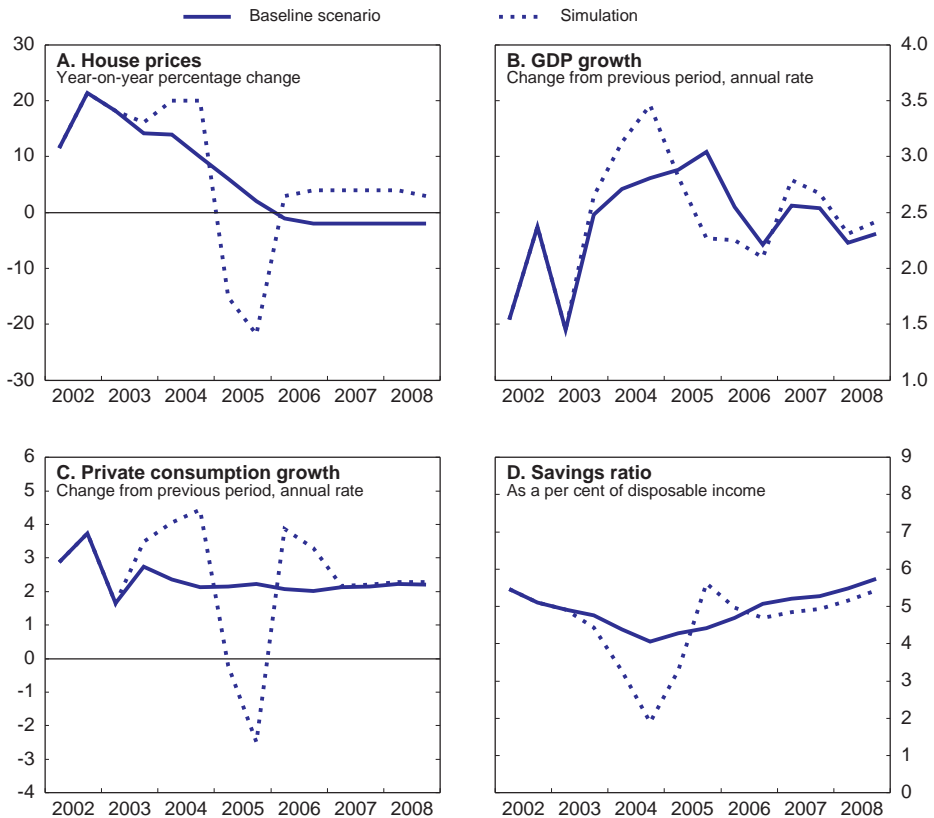
Source: Office of the Deputy Prime Minister and OECD.

examined using the OECD's Interlink model as a variant to the central projection described in Chapter I.¹⁸

A scenario with falling house prices

The central projection considered in the previous chapter was based on a gradual decline in house price inflation over the coming years. However, historical experience suggests that following periods of exceptional growth, asset price adjustments are rarely smooth.¹⁹ An alternative is considered here, whereby house price inflation rebounds to rates of around 20 per cent until end-2004 at which point there is an abrupt fall in the absolute *level* of house prices by 20 per cent.²⁰ Reflecting the large short-term impact of housing wealth there is a rapid effect on consumption with the savings ratio rising by around 4 percentage points in the space of a year. In the absence of any policy response GDP growth would be lowered by around 1 percentage point in 2005, with much of the negative impact of the shock to consumption offset by lower imports. If it is assumed that short-term interest rates are cut by 100 basis points over the course of the year following the start of the fall in house prices, but are restored to the same level as in the base scenario by the end of 2006, then GDP growth would still be reduced by about ½ a percentage point in 2005 (Figure 2.6). The general point illustrated by the scenario is that an abrupt fall in the level of house prices, particularly if

Figure 2.6. Effect of an abrupt fall in house prices



Source: Simulations of Interlink model (see text for details).

immediately preceded by a period of high house price inflation, would be likely to have substantial effects on the real economy, and it is doubtful that monetary policy reactions would be able to impact quickly enough to offset them.

What is the appropriate policy response?

In line with the current consensus among central banks, the MPC has repeatedly rejected the idea that monetary policy should explicitly respond to changes in asset prices, *except* insofar as they affect future inflationary pressures.²¹ The arguments against a more pro-active policy towards asset prices include the difficulty of assigning a single instrument to more than one target, the difficulty in

identifying what the equilibrium level of asset prices is (or equivalently whether a bubble has developed) as well as the unpredictable response of asset prices to monetary policy. There is now a compelling case for raising interest rates further on the grounds of impending inflationary pressures, as argued in Chapter I, and the case for doing so is further strengthened to the extent that an early and more gradual tightening would reduce the risks of an abrupt correction in the housing market. This still, however, raises the issue of whether there are either alternative policy instruments or reforms that might be better used to target the housing market with a view to reducing the risk of it becoming a serious source of macroeconomic instability.

Should fiscal instruments be used to counter instability in the housing market?

The manner in which housing is taxed can influence the variability of housing prices. Van den Noord (2003) provides clear evidence that among euro area countries those with more generous income tax treatment of mortgage repayments also tend to have greater variability in house prices. However, tax relief on mortgage interest payments has already been phased out in the United Kingdom.

Another possibility is to vary stamp duty as a discretionary instrument to damp housing market fluctuations by changing the rates in relation to the house price cycle.²² Recent experience from Ireland suggests that changes in stamp duty can indeed have a marked influence on house prices (OECD, 2003), as highlighted by the speed with which a recent increase was subsequently reversed. There is also evidence for the United Kingdom that a temporary stamp duty “holiday” in 1992 reversed a downward trend in property transactions (H.M. Treasury, 2003b). However, using a transactions tax to address macroeconomic instability may have a cost in terms of reduced labour mobility. Cross-country evidence suggests that there is an inverse relationship between residential mobility and the level of transactions costs associated with buying a property, and recent empirical analysis for the Netherlands suggests that transaction costs have a very strong negative effect on the owners probability of moving: a 1 percentage point increase in transactions costs reduces residential mobility rates by 8 per cent (Van Ommeren and Van Leuvensteijn, 2003).²³

The sale of a principal private residence is exempt from capital gains tax in the United Kingdom as in most other OECD countries. However, some countries, for example Germany, charge capital gains tax if the property is sold within a certain period of the initial acquisition. While such a tax might be expected to reduce the variability of house prices it would also tend to have an adverse effect on mobility.

In general, taxes on property values have an advantage over transactions-based taxes, such as stamp duty and capital gains tax, because they do not penalise mobility as they are neutral with respect to the length of ownership. The

“council tax” on property values raised around £16 billion (1½ per cent of GDP) in financial year 2002, around one-quarter of all local authority revenue, being paid on the capital value of property (with some exemptions). It is, however, highly regressive, not increasing in proportion to property values: the *absolute* level of council tax payments on properties valued at £30 000, £300 000 and £3 million varies in ratio of 1 to 2½ to 3.²⁴ The tax is also currently based on 1991 housing valuations and although there are plans for work to begin in 2005 on revaluing properties, this will not be complete until 2007. Updating these valuations more regularly, say every two to three years, is now technically feasible.²⁵ In these circumstances, introducing a constant rate or even progressive structure might contribute to reducing macroeconomic instability caused by the housing market. Rising house prices would then generate higher taxes and if homeowners anticipate this, the upswing may be automatically damped. Given the historical experience of repeated episodes where real house prices have risen by the order of 50 per cent over a period of a few years, it is clear that such a tax could have a large effect on consumption behaviour.²⁶

Muellbauer (2003a, 2003b) argues that property taxes have contributed to stability of the housing market and private consumption in Denmark and that they might serve as a model for reform of the council tax in the United Kingdom. In Denmark there is a flat-rate tax of 1 per cent on the annually assessed market value of owner-occupied housing up to a threshold at which a higher rate is paid.²⁷ For the purposes of the property tax the value of dwellings is assessed every second year, and in the year in-between these assessment values are adjusted according to the general index for the price of dwellings.²⁸ The Danish economy has indeed been very stable over recent years without any major swings in house prices despite having a relatively liberalised housing market. Simulations of a multi-country macroeconomic model suggest that following a shock to consumption the operation of automatic stabilisers in Denmark are the strongest for any EU country.²⁹ Moreover, the house price equation in the Bank of Denmark’s macroeconomic model suggests that a 1 percentage point increase in the property tax would reduce house prices by around 7 per cent over four quarters acting solely through the user – cost of housing, which would be additional to any effect the tax change had on disposable income (Bank of Denmark, 2003).

Do mortgage markets need reforming?

The UK mortgage market, as previously noted, is more liberalised and competitive as compared to most OECD countries. Given the benefits to consumers as well as the wider economy, particularly through promoting labour mobility from easy access to mortgage credit, there should be a reluctance to impose restrictions. Nevertheless, there is a concern that during the period of a boom, criteria for lending may become overly relaxed. For example lending at higher multi-

ples of income – over 3 times single income or 2¾ times joint income – roughly doubled over the four years to 2002 to over 40 per cent of new mortgage loans (FSA, 2003). Whilst lending at higher income multiples exposes borrowers to greater risks, these risks need to be considered in the context of lower and more stable interest rates than in previous decades. The advent of statutory regulation of mortgage lenders and intermediaries will provide protection to consumers. From October 2004 the selling of mortgages will be regulated by the Financial Services Authority (FSA). Their rules will require lenders to lend responsibly and in particular lenders must “be able to show that... account was taken of the customers’ ability to repay the loan”. The FSA have a range of sanctions to enforce their rules including fines, public statements of censure, and ultimately, the removal of a firm’s permission to carry on mortgage business. The financial authorities may also have an important public information role to play in emphasising that in a low inflation environment the real value of debt payments will be eroded much more slowly than in the past.

The government has recently set up a review of the mortgage market, headed by David Miles, to establish why the share of longer-term fixed rate mortgages is so low compared with many other EU countries, and whether there are obstacles to the development of a larger market for longer-term fixed-rate mortgages. A greater proportion of fixed rate mortgages might reduce the sensitivity of the housing market to movements in short term interest rates and so contain its overall instability.³⁰ An interim report by David Miles was published in December 2003 and found little evidence that the UK mortgage market has any obvious flaws or that there are signs of anti-competitive behaviour. On the demand side the report identifies a number of factors preventing the emergence of a larger market in longer-term fixed-rate mortgages: borrowers attaching too great a weight to initial monthly payments; a poor appreciation of risk among borrowers; and the practice of mortgage lenders competing for new business to offer discounted short-term variable mortgages, against which longer-term fixed rate mortgages appear expensive. Some supply-side constraints such as capital requirements, accounting rules and legislative constraints on building societies might require a policy response to enable the market to develop properly. The final report will be published at the time of the Budget 2004. If there are indeed legislative constraints or accounting rules that discriminate against the provision of fixed-rate mortgages then policy intervention might be justified, but beyond that providing some form of tax incentives in favour of fixed-rate mortgages should be resisted as it would risk introducing other distortions.

Improving housing supply

The government has recently commissioned a review of issues underlying the lack of supply and responsiveness of housing in the United Kingdom, headed

Box 2.1. The Barker review of housing supply

An interim report was published in December 2003 and identifies a range of factors which reduce housing supply including:

- The key constraint on housing output is land supply, reflecting restrictions imposed by the planning system as well as the industry's response to housing market volatility.
- Local authorities have few positive incentives to encourage house building and face few sanctions if they fail to meet targets.
- Consequently, competition in the industry tends to focus on land. Once land is acquired house builders have little incentive to compete for consumers or innovate. This raises the question as to whether a land tax might improve the responsiveness of housing supply.
- The house building industry is thus characterised by low levels of responsiveness to demand, low levels of brownfield investment, and low levels of innovation.
- Infrastructure barriers hold up construction, particularly in the South-East.
- Institutional investment in property is limited. The Review suggests the government should consider tax transparent property investment trusts to encourage investment.

There will be a final report with policy recommendations in spring 2004.

by Kate Barker, which will look at the role of competition, capacity and finance of the house building industry, possible fiscal instruments and the interaction of these factors with the planning system, see Box 2.1.

Probably the most important policy factor that has restricted housing supply, and highlighted in the interim Barker report, is the planning system. The current planning system gives less weight to economic considerations than in most other countries, is overly complex and has too many overlapping tiers of decision-making. The lack of responsiveness of house building since the mid-1990s is partly due to tighter planning regulations. In particular, supply has been reduced by the direction towards brownfield and away from greenfield sites and use of Section 106 of the 1990 Town and Country Planning Act. According to the latter, local authorities can negotiate with the developer for a proportion of the planning gain to be provided to the local authority in the form of social housing, schools or other social objectives. In some areas, such as Greater London as much as half of the gain has been the target of some local authorities, with protracted negotiations adding further delays to the planning process.

The government has outlined proposals for changes to the planning system (ODPM, 2002), with the aim of simplifying and speeding up the planning

process as well as making it more predictable. The government has also made it clear that it will be willing to intervene where local authorities do not meet housing targets in areas of high demand. There will be a new role for the Audit Commission in assessing local authorities' performance against Regional Planning Guidance, with possible sanctions in the form of reduced funding for those authorities failing to comply. The government has also outlined proposals for four new growth areas in the South East of England to accommodate 200 000 extra homes by 2016, although these proposals are long term in nature.

Assessment

Reforms of the planning system which improve the responsiveness of housing supply, particularly in those areas of the country where demand is greatest are to be welcomed, not only because they would reduce the amplitude of house price cycles, but also because they are highly desirable from an overall economic performance perspective. The government should also ensure that local authorities do meet objectives for house building. Consistent with these objectives the use of "Section 106" should be reconsidered as its use clearly contradicts the aim of encouraging new development, and the lack of transparency in terms of the additional costs it imposes on developers, while the delays it introduces are also undesirable.

Nevertheless, given the probable lags before there is an appreciable effect on the housing stock, other measures acting on the demand side should also be considered, not least because reducing instability of house prices may itself be an important factor in encouraging housing supply. While it is possible that variations in stamp duty might exercise a strong influence on house price developments they might have harmful effects on labour mobility. A more promising option would be the reform of the council tax to relate it more closely to current valuations of property and at the same time make it less regressive.

Statutory regulation of the mortgage market by the FSA is to be welcomed. There is a need, in particular, to ensure that prudent lending requirements are not relaxed during a house price boom. In many respects the liberalised mortgage market in the United Kingdom should be seen as being of considerable benefit to the economy. EMU countries with more restrictive housing and mortgage markets would benefit from further deregulation and at the same time differences in the transmission of monetary policy across member countries would be reduced.

Notes

1. See Ball (2003) for further details and discussion of the UK housing system and the characteristics of the different tenures.
2. New entrants into the mortgage market are common. Many lenders offer introductory cut-price offers and, because there are often no penalties for pre-payment, borrowers often switch in order to find the best deal.
3. In many cases the cross-country variation in loan-to-value ratios reflects the ease with which the law allows lenders to repossess property in the case of default.
4. See Table 5.2 on page 51 of H.M. Treasury (2003a).
5. Mortgage equity withdrawal is borrowing that is secured on the housing stock but not invested in it, so it represents additional funds available for reinvestment or to finance consumption or investment.
6. The interest rate figures on different forms of borrowing were average rates in their categories at the end of 2002, as reported by Nickell (2003).
7. The cubic term was first used in a house price equation by Hendry (1984). Muellbauer and Murphy (2000) report that such non-linear terms explain past house price bubble episodes well, and that without such a non-linear term or dummies for spikes in the data, the equation standard error more than doubles.
8. Based on the house price index from the Office of the Deputy Prime Minister.
9. For example in the minutes of their November meeting the MPC notes: "It remained difficult to explain the continuing rise in the ratio of house prices to earnings, and hence to assess the prospects for the housing market."
10. In May 2003 The Economist magazine predicted a house price correction of 25 per cent (Woodall, 2003). The IMF (2003) estimated that house prices exceeded their long-run equilibrium by 26 per cent in the second quarter of 2002. Conversely, Meen (2003) argues that the low level of interest rates coupled with other factors, including the inelastic supply of housing, implies that at the national level the housing market is not over-valued.
11. For assured tenancies the rent is a market rent that is freely negotiated between landlord and tenant and may be reviewed regularly. This is now the most common form of tenancy in the private sector, although in the early 1980s most tenancies were regulated. Data on assured rents are collected by the Office of the Deputy Prime Minister.
12. The Netherlands, which in many respects has a similar housing market as the United Kingdom, also experienced a combination of a rapid build up in mortgage debt, consumption-led growth and high house price inflation. However the housing market peaked in early 2000 with house prices falling in real terms recently, and consumption

- and output growth stagnating as households have become wary about the risks of negative housing equity and high debt service since the ending of the housing boom.
13. A 1 percentage point change in short term interest rates would increase the average household's mortgage interest payment by about 0.38 per cent of GDP, according to estimates reported on pages 26-27 of H.M. Treasury (2003a). This would be equivalent to about 0.55 per cent of disposable income.
 14. Using the British Household Panel Survey, Bean (2003) estimates that roughly one-third of households had "no liquid assets to speak of". However this estimate should be treated with caution because while the debt to income ratio implied by aggregating the survey data is similar to whole economy measures, the implied liquid asset to income ratio from the survey is less than one-third of the most obvious whole economy measures, perhaps suggesting some ambiguity in the way in which the survey question was posed.
 15. Bank of England (2003), Financial Stability Review, December 2003.
 16. Regressing the annual growth in real consumption on a constant and the contemporaneous change in real house prices, measured as the nominal ODPM house price series deflated by the consumers' expenditure deflator, gives an R-squared of 0.68 compared to an R-squared of 0.54 if the contemporaneous change in real personal disposable income is used.
 17. The estimates reported in Annex 2.A1 suggest that a 1 per cent change in housing wealth raises consumption by between 0.12 and 0.3 per cent in the short-run. In all cases these short-run effects are substantially larger than the estimated long-run effects.
 18. The Interlink model does not include housing or financial wealth, so instead the effect of the shock to house prices on consumption has been calculated according to the estimated consumption equation reported in Annex 2.A1 and this shock has been applied to the Interlink consumption equation.
 19. While asset price adjustments are rarely smooth, for forecasting purposes this remains a convenient assumption given the impossibility of reliably predicting the timing of any future abrupt correction. This also serves to emphasise the uncertainty of both the magnitude and especially the timing of the correction considered in the simulation exercise.
 20. Although the profile is very different, the level of house prices is approximately the same in the two scenarios by 2007.
 21. Past or present members of the MPC who have elucidated the argument against a more pro-active monetary policy against asset prices include Vickers (1999), Allsopp (2002), King (2002), Nickell (2003), Bell (2002) and Bean (2003).
 22. Stamp duty in the United Kingdom is currently paid at 4 rates (0, 1, 3 and 4 per cent) depending on the price of the property.
 23. Residential mobility rates are here defined as the number of yearly owner moves divided by the number of owners.
 24. Properties are banded according to an assessment of their market value (as at April 1991), with local authorities determining the rate levels levied on these bands subject to a constraint regarding the ratio of tax paid in each band relative to a reference band. Thus, for example, within any particular local authority the absolute level of council tax on a property valued at £300 000 will only be 2½ times that levied on a

- property valued at £30 000 (rather than 10 times as would be implied by a constant tax rate). See Adam and Kaplan (2002) for further details.
25. Reforming the council tax in this way would, however, reduce the discretionary powers of local authorities to raise revenue, suggesting that it would need to take place in the context of a review of local government finances. On the other hand, reforming the council tax could have other significant benefits, such as easing unemployment and poverty traps (Muellbauer and Cameron, 2000).
 26. If the council tax were reformed in a revenue-neutral way as a constant tax rate on the value of all household property with frequent revaluations, and some approximation based on a national index of prices applied in intervening years, then a 20 per cent increase in house prices would automatically reduce real personal disposable income by nearly $\frac{1}{2}$ a per cent.
 27. A higher tax rate of 3 per cent is paid on properties over a threshold valuation of DKK 3 040 000 (about EUR 400 000).
 28. When the current Danish government took office in late 2001, it introduced a nominal ceiling on the property value tax, so that an increase in the property value could not lead to higher tax payments for the individual homeowner. The recent OECD Survey of Denmark argued that a better economic outcome could be obtained by adjusting property tax payments in line with inflation while gradually reducing the high marginal taxes on earned income instead.
 29. Simulations of the European Commission's QUEST model suggest that across all European countries for a shock to consumption the automatic stabilisers operate most strongly in the case of Denmark and Sweden (EC, 2001).
 30. The European Mortgage Finance Agency has recently announced plans to create a new agency that would aim to establish a European-based version of the US-based Fannie Mae or Freddie Mac (Thomas, 2003). It would act as a source of funding for mortgage lenders while leaving the business of selling loans to lenders in each national market. If it were to be given some form of guarantee by the European Union, then it is claimed that the option of a long-term fixed rate mortgage without redemption penalties could be provided to European consumers. However, it remains to be seen whether the EU will provide such guarantees, and few institutions based in the United Kingdom have so far shown an interest in the new venture.

Bibliography

- Adam, S. and G. Kaplan (2002), "A Survey of the UK Tax System", Institute for Fiscal Studies, *Briefing Note*, No.9, available from www.ifs.org.uk/taxsystem/taxsurvey.pdf.
- Allsopp, C. (2002), speech delivered to the Conference on 'Policy Rules – The Next Steps', Cambridge University, Cambridge on 19 September, available from www.bankofengland.co.uk/Links/setframe.htm.
- Ball, M. (2003), RICS European Housing Review 2003, RICS Policy Unit and RICS Residential Property Faculty, www.rics.org/resources/research/.
- Bank of Denmark (*Danmarks Nationalbank*) (2003), *MONA – en kvartalsmodel af dansk økonomi*, documentation for the quarterly macroeconomic model of the Danish Central Bank.
- Bank of England (2000), "Economic Models at the Bank of England – September 2000 Update", pp. 29-30, available from www.bankofengland.co.uk.
- Bank of England (2003), Financial Stability Review, December, 2003.
- Bean, C. (2003), "Assets Prices, Financial Imbalances and Monetary Policy: Are Inflation Targets Enough?", July, available from www.bankofengland.co.uk/Links/setframe.html.
- Bell, M. (2002), "Six months on the MPC: A reflection on Monetary Policy", speech to the CBI South East in Crawley, Sussex on Monday 9 December, available from www.bankofengland.co.uk/Links/setframe.htm.
- Cox, P., J. Whitley and P. Brierty (2002), "Financial Pressures in the UK Household Sector: Evidence from the British Household Panel Survey", Bank of England Quarterly Bulletin, Winter, available from www.bankofengland.co.uk/qb/qb020405.pdf.
- EC (European Commission) (2001), "Public Finances in EMU – 2001", *European Economy*, No. 3.
- FSA (Financial Services Authority) (2003), *Financial Risk Outlook 2003*, www.fsa.gov.uk/pubs.
- Girouard, N., and S. Blondal (2001), "House Prices and Economic Activity", OECD Economics Working Paper, No. 279, www.oecd.org/.
- Hamilton, R. (2003), "Trends in Household Secured Debt", *Bank of England Quarterly Bulletin*, Autumn.
- Hendry, D.F. (1984), "Economic Modelling of House Prices in the United Kingdom", in *Econometrics and Quantitative Economics*, D.F. Hendry and K.F. Wallis (eds.), Basil Blackwell, Oxford.
- H.M. Treasury (2003a), "Housing, Consumption and EMU", EMU study to inform the assessment of the five economic tests, www.hm-treasury.gov.uk/documents/the_euro/euro_index_index.cfm.
- H.M. Treasury (2003b), "Fiscal Stabilisation and EMU", EMU study to inform the assessment of the five economic tests, www.hm-treasury.gov.uk/documents/the_euro/euro_index_index.cfm.
- IMF (International Monetary Fund) (2003), *United Kingdom, Selected Issues*, February.

- King, M. (2002), speech to the London School of Economics on Tuesday 19 November 2002, available from www.bankofengland.co.uk/Links/setframe.html.
- Malpezzi, S. and D. Maclennan (2001), "The Price Elasticity of Supply of New Residential Construction in the United States and the United Kingdom", *Journal of Housing Economics*, No. 10.
- Meen, G. (1996), "Ten Propositions in UK Housing Macroeconomics: An Overview of the 1980s and Early 1990s", *Urban Studies*, No. 33 (3).
- Meen, G. (2003), "Can House Prices Remain so High?," *Economic Outlook*, Vol. 27, No. 2, January, Oxford Economic Forecasting and London Business School.
- Muellbauer, J., and G. Cameron (2000), "Five Key Council Tax Reforms and Twelve Reasons to Enact Them", *New Economy*, June, Vol. 7, No. 2.
- Muellbauer, J., and A. Murphy (2000), "Booms and Busts in the UK Housing Market", March, available from www.housingoutlook.co.uk.
- Muellbauer, J. (2003a), "The UK and the Euro: The Role of Asymmetries in Housing and Credit Markets", Submission to the EMU study to inform the assessment of the five economic tests.
- Muellbauer, J. (2003b), "Housing, Credit and the Euro: the Policy Response", *Economic Outlook*, Vol. 27, No. 4, July, Oxford Economic Forecasting and London Business School.
- Nickell, S. (2003), "House Prices, Household Debt and Monetary Policy" , *Quarterly Bulletin*, Vol. 43, No. 1, Spring, Bank of England.
- Van den Noord, P. (2003), "Tax Incentives and House Price Volatility in the Euro Area; Theory and Evidence", *OECD Economics Department Working Paper*, No. 356, www.oecd.org/
- OECD (2003), *Economic Survey of Ireland*, Vol. 2003/9, July, OECD, Paris.
- ODPM (Office of the Deputy Prime Minister) (2002), "Sustainable Communities: Delivering through Planning", July, www.odpm.gov.uk/
- van Ommeren, J. and M. van Leuvensteijn, (2003), "New Evidence of the Effect of Transaction Costs on Residential Mobility", *CPB Discussion Paper*, No.18, May, <http://ideas.repec.org/p/cpb/discus/18.html>.
- Swank, J., J. Kakes and A. Tieman, (2002), "The Housing Ladder, Taxation and Borrowing Constraints", *DNB Staff Reports*, No.9 available from: <http://netec.mcc.ac.uk/WoPEc/data/Papers/dnbwormem688.html>.
- Thomas, R. (2003), "Bringing Europe's Mortgage Markets under one Roof", *Financial Times*, November 21.
- Vickers, J. (1999), "Monetary Policy and Asset Prices", speech delivered to the Money, Macro and Finance Group 31st Annual Conference, Oxford University, 22 September, available from: www.bankofengland.co.uk/Links/setframe.html.
- Woodall, P. (2003), "Close to Bursting. A Survey of Property", *The Economist*, 31 May, The Economist Newspaper Limited, London.

Annex 2.A1.

Consumption equation including housing wealth

This annex reports an estimated equation explaining real consumption (C) in terms of real disposable income (Y), real housing wealth (HW), real financial wealth (FW) and nominal short – term interest rates (IRS). The equation is estimated on quarterly data over a sample period from 1981 Q1 to 2003 Q1. The sample was not extended back into the 1970s both because of problems of ensuring a consistent data set and to avoid instability in the equation responses due to financial market deregulation.

$$\begin{aligned} \Delta \ln C = & -0.0114 + 0.1983 \Delta Y - 0.0874 \Delta \text{IRS}_{-1} - 0.0791 \Delta \text{IRS}_{-2} - 0.0765 \Delta \text{IRS}_{-3} \\ & (-2.0) \quad (4.6) \quad (-1.5) \quad (-1.4) \quad (-1.3) \\ & +0.1343 \Delta \ln \text{HW} + 0.1555 \Delta \ln \text{HW}_{-2} + 0.0188 \Delta \ln \text{FW}_{-1} \\ & (4.2) \quad (4.2) \quad (2.3) \\ & -0.1494 \ln(C/Y)_{-1} + 0.0039 \ln((\text{HW} + \text{FW})/Y)_{-1} \\ & (-4.7) \quad (1.3) \end{aligned}$$

Rsquared-adjusted = 0.55, t-statistics reported in brackets, Standard error of regression = 0.0048

LM – test for up to second order serial correlation = 1.39 (p-value =0.25),

Ramsey RESET test = 1.93 (p-value = 0.15),

Jarque-Bera test for normality of residuals = 1.78 (p-value =0.41),

White heteroskedasticity test = 1.22 (p-value =0.27).

The restriction that financial and housing wealth have the same long-run effect on consumption is readily accepted at the 5 per cent significance level and is imposed in this equation, although the freely estimated long – run effect of housing wealth is higher than for financial wealth.

Of particular interest, as discussed in the main text, are the relative magnitudes of the short and long-run responses to housing wealth which are compared to the responses from similar equations reported in recent empirical work by both the Treasury and Bank of England (Table 2.A1.1). In all cases the short-run response is much larger than the eventual long-run response. Some caution must, however, be attached to the long-run estimates of housing wealth from the current equation above, which is not well determined.

Table 2.A1.1. **Response of consumption to housing wealth¹**

Consumption equation	Short-run response Per cent	Long-run response Per cent
Equation reported in this annex	2.5 (after 3 quarters)	0.3
Bank of England	1.2 (after 1 quarter)	0.5
H.M. Treasury	3.0 ("in short-run")	1.0

1. Single equation effect following a 10 per cent increase in housing wealth.

Source: H.M. Treasury (2003a), "Housing, Consumption and EMU", pp 71-73, EMU study, available from www.hm-treasury.gov.uk, and Bank of England (2000), "Economic Models at the Bank of England – September 2000 Update", pp. 29-30, available from www.bankofengland.co.uk.

Glossary of acronyms

BETTA	British Electricity Trading and Transmission Arrangements
BHPS	British Household Panel Survey
BSP	Basic State Pension
CAT	Competition Appeal Tribunal
CC	Competition Committee
CCAs	Climate Change Agreements
CCL	Climate Change Levy
CHP	Combined Heat and Power
CPI	Consumer price index
DFID	Department for International Development
DTI	Department of Trade and Industry
EC	European Commission
EMU	Economic and Monetary Union
EU	European Union
FDI	Foreign direct investment
FRS17	Financial Reporting Standard #17
FSA	Financial Services Authority
FTSE	Financial Times Stock Exchange Index
GAD	Government Actuary Department
GAP	Output gap
GDP	Gross domestic product
GHG	Greenhouse gases
GNI	Gross national income
G7	Group of seven countries (France, Germany, Italy, Japan, United Kingdom, United States, Canada)
HICP	Harmonised index of consumer prices
H.M. Treasury	Her Majesty's Treasury
ICT	Information and communication technology
LLU	Local loop unbundling
MDGs	Millennium development goals
MIG	Minimum income guarantee
MNOs	Mobile network operators
MPC	Monetary Policy Committee
NAO	National Audit Office
NDDP	New Deal for disabled people
NDLP	New Deal for lone parents
NDYP	New Deal for young people
NETA	New Electricity Trading Arrangements
NGC	National Grid Company

NHS	National Health Service
ODA	Official Development Assistance
Ofcom	Office of Communications
Oftel	Office of Telecommunications
OFT	Office of Fair Trading
OPRAF	Office of the Passenger Rail Franchising
ORR	Office of the Rail Regulator
PC	Pension credit
PISA	Programme for International Student Assessment
PPP	Purchasing power parity
QC	Queen's Council
R&D	Research and Development
RECs	Regional Electricity Company
RIA	Regulatory Impact Assessments
ROSOCs	Rolling stock companies
RPIX	Retail Price Index excluding mortgage interest payments
RUO	Reference unbundling offer
SBP	System buy price
SFO	Serious Fraud Office
SGP	Stability and Growth Pact
SRA	Strategic Rail Authority
SSP	System sell price
TOCs	Train Operating Companies
TR	Tax rate
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNFCCC	United Nations Framework Convention on Climate Control
US	United States
USD	United States dollar
WFTC	Working Families Tax Credit

Table of contents

Assessment and recommendations	9
I. Macroeconomic developments, prospects and policy challenges	23
Introduction	23
Recent developments	23
The outlook: growth revives again	35
The main policy challenges	37
Notes	41
Bibliography	42
II. Reducing the risk of instability from the housing market	43
Introduction	43
The housing market in international context	43
The housing market as a source of macroeconomic instability	46
What is the appropriate policy response?	51
Assessment	56
Notes	57
Bibliography	60
<i>Annex 2.A1. Consumption equation including housing wealth</i>	62
III. The fiscal challenge: complying with the fiscal rules while raising standards in health and education	65
Introduction	65
The aggregate fiscal position	66
Rising public spending on health care and education	74
Performance management, targets and incentives	82
Long-term public finances	91
Assessment	91
Notes	94
Bibliography	97
<i>Annex 3.A1. An equation for corporation tax receipts</i>	99
<i>Annex 3.A2. Potential output growth estimates</i>	100
IV. Policies to enhance potential growth	103
Introduction	103
Labour utilisation	103
Closing the productivity gap	110
Assessment	125
Notes	127

Bibliography	129
<i>Annex 4.A1. Funding of tertiary education in OECD countries</i>	133
V. Product market competition and economic performance	141
Overview	141
Product market competition and macroeconomic performance	142
Competition legislation and enforcement	150
Regulatory policies	155
Summary and recommendations	181
Notes	185
Bibliography	189
VI. Some aspects of sustainable development	193
Climate change	193
Improving living standards in developing countries	198
Sustainable retirement income	204
Notes	211
Bibliography	213
Glossary of acronyms	217
<i>Annex A. Progress on structural reforms</i>	219
Boxes	
1.1. Evaluation of the case for EMU entry	26
2.1. The Barker review of housing supply	55
3.1. The 2002 and 2003 Budgets and the 2003 Pre-Budget Report	68
3.2. The fiscal framework	70
3.3. Public Administration Select Committee report on performance targets	86
3.4. Activity-based funding, incentives and waiting times in health care	89
4.1. New Deal Programmes	108
4.2. Upgrading the skills of adults	116
4.3. The London Congestion Charge	125
5.1. Competition institutions	152
5.2. The rail industry – key players and relationships	178
5.3. Rolling stock	180
6.1. The integration of policies across sustainable development areas	194
Tables	
1.1. Recent outcomes and short-term projections	36
2.1. Household financial liabilities	47
2.A1.1. Response of consumption to housing wealth	63
3.1. Public sector finances: selected summary indicators and official projections	67
3.2. Employment growth in the public sector	78
3.3. Examples of targets in the Public Service Agreements for health care and education	83
3.A2.1. Decomposition of trend growth	101
4.1. New Deal summary statistics	109
4.2. Educational attainment of the young studying and graduating now	114
4.3. Continued adult training and education	115

4.A1.1. Funding of tertiary education in OECD countries	136
5.1. Output, employment and productivity	143
5.2. Hirshman-Herfindahl indices of industry concentration	145
5.3. Import penetration by manufacturing industry	147
5.4. Gross domestic expenditure on R&D as a percentage of GDP	149
5.5. Share of high-technology R&D spending in manufacturing	151
5.6. Key structural features of the retail distribution sector	159
5.7. Own-label penetration in European packaged grocery	160
5.8. Measures of profitability in food retailing	161
5.9. Regulation indices for professional services	163
5.10. Prices for unbundled local loop	169
5.11. Competencies and resources of energy sector regulators	170
5.12. Electricity market indicators and implementation of the EU Electricity Directive	171
5.13. Gas market indicators and implementation of the EU Gas Directive	172
5.14. Electricity and gas retail prices	173
5.15. Rail infrastructure investment in EU countries	176
5.16. Rail traffic on the British national rail network	179
5.17. Percentage of trains arriving on time	180
6.1. Main indicators: climate change	195
6.2. Main indicators: trade	200
6.3. Main indicators: development co-operation	201
6.4. Producer support equivalents and their components	202
6.5. Performance indicators: sustainable retirement income	206

Figures

1.1. Key indicators in long-term and international perspective	24
1.2. Magnitude of recent output gaps	25
1.3. Contributions to growth	27
1.4. Real and nominal growth differentials between consumption and GDP growth	27
1.5. The real exchange rate and terms of trade	28
1.6. Real household wealth	28
1.7. Consumption, disposable income and mortgage equity withdrawal	29
1.8. Relative performance of manufacturing and services	29
1.9. External trade	30
1.10. The change in monetary and fiscal stance	31
1.11. RPIX and HICP inflation	33
1.12. The wage share and inflation	34
1.13. Real UK per capita GDP compared to other major OECD countries	38
1.14. The sources of real income differences	38
1.15. Labour utilisation and productivity gaps	39
1.16. The contributions of labour utilisation and productivity to trend GDP per capita growth	39
2.1. Housing investment and profitability	45
2.2. House building	45
2.3. House prices relative to personal disposable income, average earnings and rents	47

2.4.	Household interest payments relative to disposable income	48
2.5.	Correlation between real house price growth and consumption	50
2.6.	Effect of an abrupt fall in house prices	51
3.1.	Tax-to-GDP ratio	71
3.2.	Non-North Sea corporation tax receipts	72
3.3.	OECD projections of general government finances	73
3.4.	Health and education expenditure in international perspective	74
3.5.	Speed limits have been reached for public spending	75
3.6.	Earnings and working time in health care and education	77
3.7.	Teacher salaries from an international perspective	79
3.8.	Performance in health care and education	80
3.9.	Waiting times, spending and incentives	90
4.1.	Unemployment and inactivity rates	104
4.2.	Working age claimants of incapacity-related benefits and unemployment	105
4.3.	Inactivity of older workers due to illness or disability	106
4.4.	Human capital explains part of the productivity gap	111
4.5.	Basic literacy of the adult population and of the young	112
4.6.	Educational attainment of the adult population	113
4.7.	Expenditure on tertiary education institutions	118
4.8.	Business investment per worker	121
4.9.	Regulation and investment in information and communication technology	122
4.10.	Pick-up in multi-factor productivity growth and increase in ICT investment	123
4.11.	Government investment	124
4.A1.1.	Tuition fees in tertiary education	134
4.A1.2.	Public loans to students in tertiary education	135
5.1.	Indicators of product market regulation	144
5.2.	Average mark-ups by market structure	146
5.3.	Foreign direct investment outflows and inflows	148
5.4.	R&D expenditure in manufacturing by technology intensity	150
5.5.	Summary indicators of regulation in retail distribution	157
5.6.	Five-firm market concentration in food retailing in EU countries	158
5.7.	New retail floor space in town centres and out of town	159
5.8.	Estimates of incumbent operators' market share	167
5.9.	Average monthly telephone charges	168
5.10.	Costs of internet access	169
5.11.	Funding and oversight of the rail industry	178
6.1.	Greenhouse gas emissions	196
6.2.	Effect of reforms on public pensions	208

BASIC STATISTICS OF THE UNITED KINGDOM (2002)

THE LAND

Area (1 000 km ²):		Major cities (thousand inhabitants, 2001):	
Total	243	Greater London	7 188
Agricultural (2001)	186	Birmingham	976
		Leeds	716
		Glasgow (local government district)	579

THE PEOPLE

Population (thousands, mid-2002)	59 207	Total labour force (thousands, 2002)	29 934
Number of inhabitants per km ²	244	Civilian employment (% of total, 2002):	
Net increase in population, 1991-2001, estimated annual average (thousands)	136	Agriculture, forestry and fishing	1.4
		Industry and construction	24.1
		Services	74.5

PRODUCTION

Gross domestic product:		Gross fixed capital investment	
In £ billion	1 043.9	As a % of GDP	16.3
Per head (USD)	26 453	Per head (USD)	4 307

THE GOVERNMENT

Public consumption (% of GDP)	20.0	Composition of House of Commons (number of seats):	
General government (% of GDP)		Labour	408
Current and capital expenditure	40.5	Conservatives	163
Current revenue	39.0	Liberal	54
Net debt	31.9	Other	34
Last general election: 7 June 2001		Total	659

FOREIGN TRADE

Export of goods and services (% of GDP)	26.1	Imports of goods and services (% of GDP)	29.1
Main commodity exports (% of total):		Main commodity imports (% of total):	
Chemicals	15.2	Manufactured goods and articles	28.2
Manufactured goods and articles	23.5	Electrical machinery	21.3
Electrical machinery	20.7	Road vehicles	12.2
Mechanical machinery	12.2	Mechanical machinery and other transport equipment	12.4

THE CURRENCY

Monetary unit: Pound sterling		December 2003, average of daily rates:	
		£ per USD	0.544
		£ per euro	0.669

This survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

•

The economic situation and policies of the United Kingdom were reviewed by the Committee on 16 December 2003. The draft report was then revised in light of the discussions and given final approval as the agreed report of the whole Committee on 5 January 2004.

•

The Secretariat's draft report was prepared by David Turner, Jens Lundsgaard, Maria Maher, Douglas Sutherland, and Michael Wise under the supervision of Peter Hoeller.

•

The previous Survey of the United Kingdom was issued in January 2002.



From:
OECD Economic Surveys: United Kingdom 2004

Access the complete publication at:
https://doi.org/10.1787/eco_surveys-gbr-2004-en

Please cite this chapter as:

OECD (2004), "Reducing the Risk of Instability from the Housing Market", in *OECD Economic Surveys: United Kingdom 2004*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_surveys-gbr-2004-4-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.