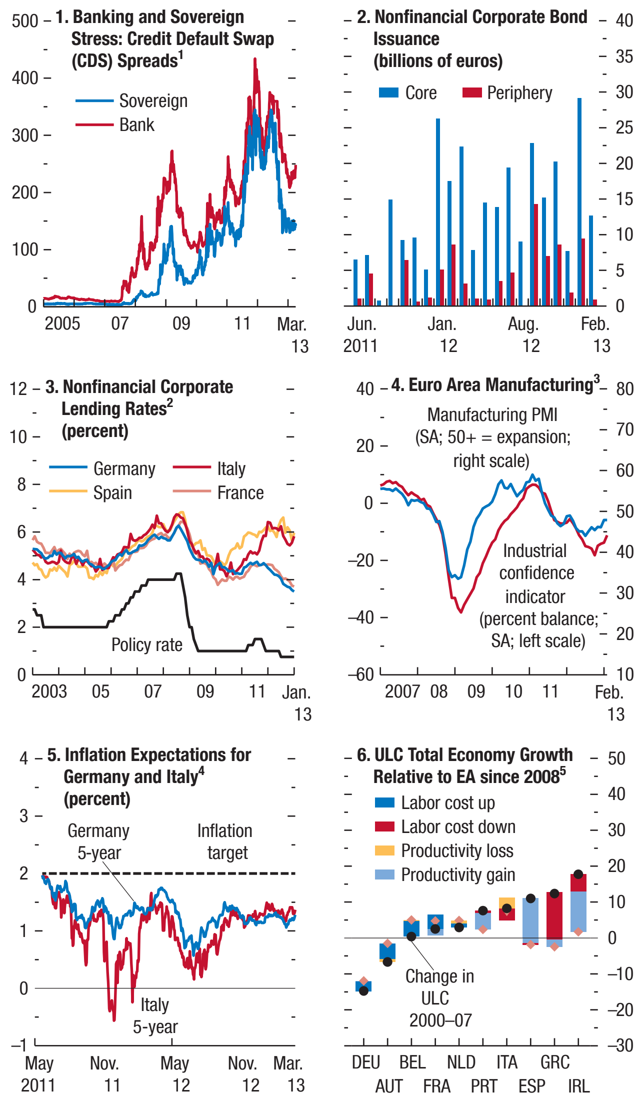
Figure 2.3. Advanced Europe: Diminished Crisis Risks amid Prolonged Stagnation

Financial stresses have moderated in response to policy actions. But economic activity remains weak because the weakness of the periphery economies has spilled over into the core. Inflation expectations remain subdued. There has been some progress toward internal rebalancing within the euro area.



Sources: Bloomberg, L.P.; European Central Bank (ECB); European Commission; Eurostat; Markit/Haver Analytics; and IMF staff calculations.
Note: Core: Austria (AUT), Belgium (BEL), Estonia, Finland, France (FRA), Germany (DEU), Luxembourg, Netherlands (NLD); periphery: Greece (GRC), Ireland (IRL), Italy (ITA), Portugal (PRT), Spain (ESP). SA = seasonally adjusted.
[1]Five-year CDS spreads in basis points weighted by general government gross debt. All euro area countries included, except Greece.
[2]New loans with maturities of one to five years up to 1 million euros, and the ECB policy rate.
[3]Manufacturing Purchasing Managers' Index (PMI): 50+ = expansion and 50– = contraction. The euro area composite comprises eight member countries only: Austria, France, Germany, Greece, Ireland, Italy, Netherlands, and Spain. This is estimated to be 90 percent of the euro area manufacturing activity.
[4]Inflation expectations were derived from market rates for five-year-ahead inflation-linked and nominal government bonds.
[5]In percentage points. ULC = unit labor cost; EA = euro area. Change in ULC from 2008 to latest available data (mostly 2012:Q3) is represented by the distance between a circle and a diamond.