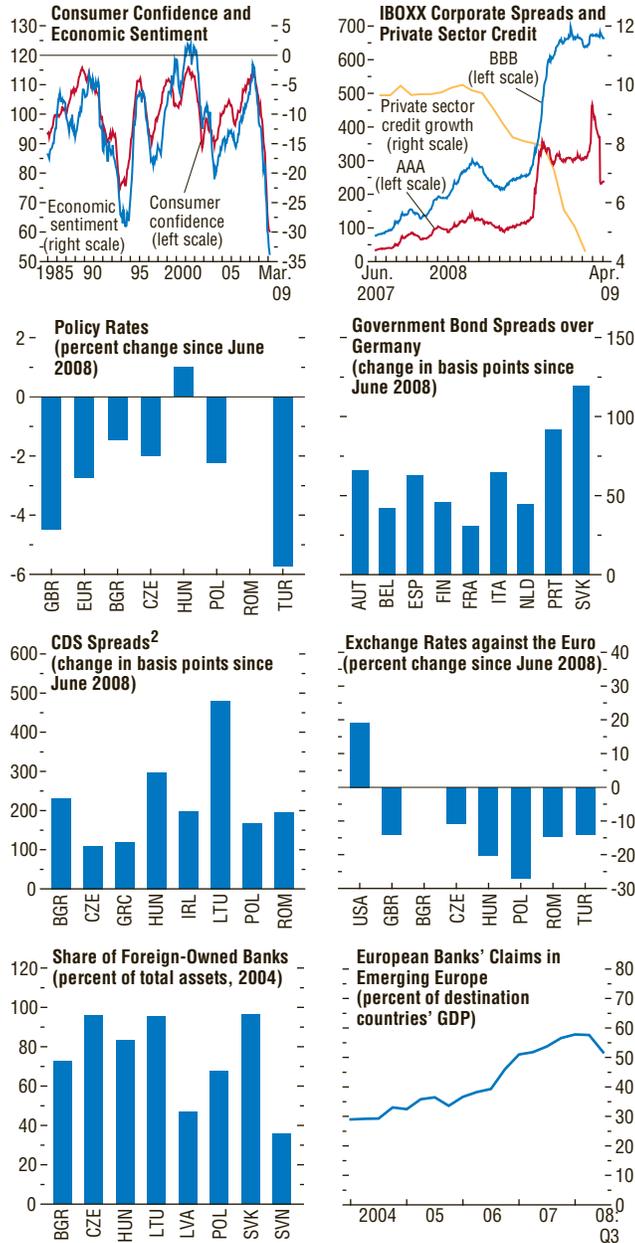


Figure 2.3. Europe: Developing a Common Response¹

Economic sentiment has plunged, and borrowing costs have risen sharply, despite widespread monetary easing. Soaring fiscal deficits have led to widening sovereign risk premiums. Amid the flight from risk, exchange rates in emerging Europe have generally depreciated. A key challenge is to avoid a disorderly unwinding of leverage, including for western European banks, given their large cross-border exposure to emerging Europe.



Sources: Bank for International Settlements; European Central Bank; European Commission; Eurostat; Haver Analytics; Thomson Datastream; and IMF staff estimates.
¹AUT: Austria; BEL: Belgium; BGR: Bulgaria; CZE: Czech Republic; ESP: Spain; EUR: euro area; FIN: Finland; FRA: France; GBR: United Kingdom; GRC: Greece; HUN: Hungary; ITA: Italy; LVA: Latvia; LTU: Lithuania; NLD: Netherlands; POL: Poland; PRT: Portugal; ROM: Romania; SVK: Slovak Republic; SVN: Slovenia; TUR: Turkey; USA: United States.
²CDS: Credit default swap.