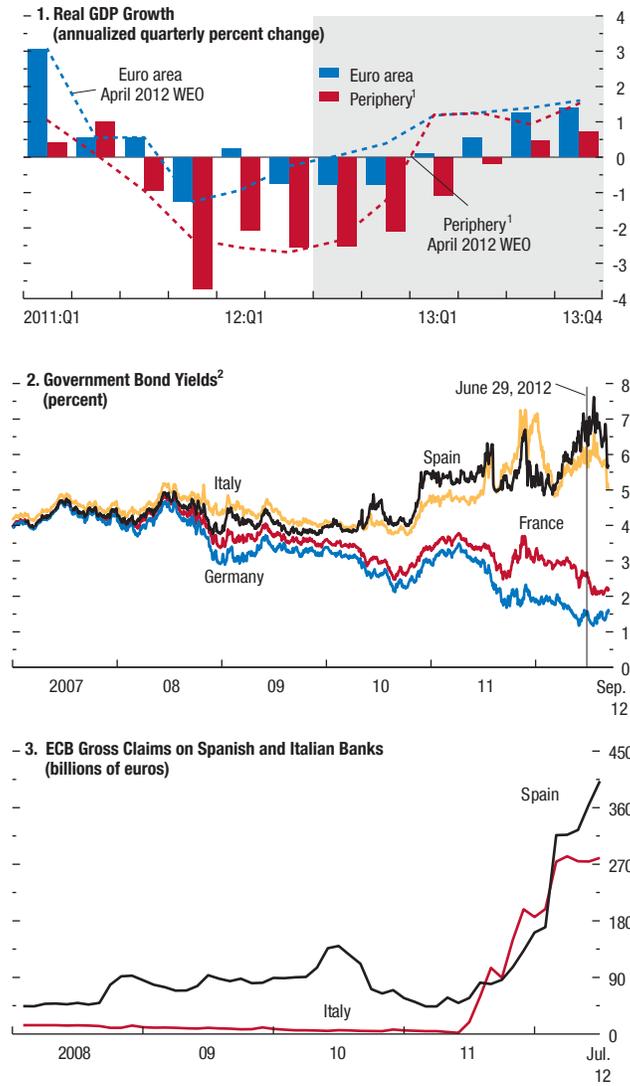


**Figure 1.2. Euro Area Developments**

The crisis in the euro area has deepened. Activity is contracting, mainly due to deep cutbacks in production in the periphery economies, because financial and fiscal conditions are very tight. Sovereign issuers and banks in the periphery are struggling to attract foreign investors. Their sovereign debt spreads have risen appreciably, and their banks rely increasingly on the European Central Bank (ECB) for funding. As a result, they have cut back domestic credit.



Sources: Bloomberg Financial Markets; national central banks; and IMF staff estimates.  
<sup>1</sup>Greece, Ireland, Italy, Portugal, and Spain.  
<sup>2</sup>Ten-year government bonds.