The recovery is gradually taking hold, but domestic demand is expected to remain sluggish, especially in advanced Europe. Fiscal consolidation plans across Europe are rightfully differentiated: economies facing market pressure or external financing constraints have larger and more front-loaded adjustments than those with more manageable debt dynamics. Economic prospects are closely connected via cross-border bank flows and trade linkages, especially with Germany.

Sources: Bank for International Settlements; Haver Analytics; IMF, Direction of Trade Statistics; and IMF staff estimates.

1Change in structural balance in percent of potential GDP. Vulnerable euro area comprises Greece, Ireland, Italy, Portugal, and Spain. Other euro area comprises euro area economies excluding vulnerable euro area. Other advanced comprises advanced Europe excluding the euro area.

2BGR: Bulgaria; CZE: Czech Republic; EST: Estonia; HRV: Croatia; HUN: Hungary; LTU: Lithuania; LVA: Latvia; POL: Poland; ROM: Romania; SVK: Slovak Republic; SVN: Slovenia; TUR: Turkey.