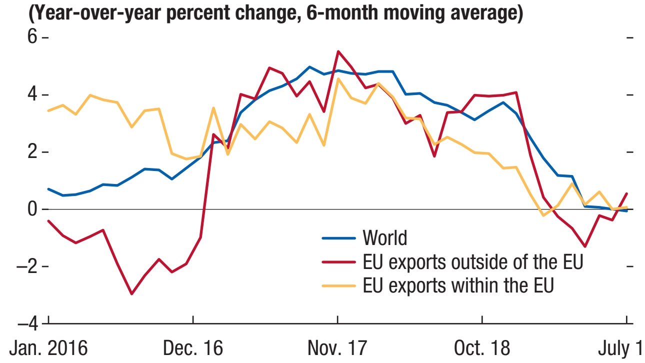
1. Facing Spillovers from Trade and Manufacturing

Global trade and manufacturing have weakened and so have these sectors in Europe. The evolution of European growth depends on two forces. On the one hand, European exports are softening and prospects for a recovery in global trade are not as strong as they were six months ago. On the other hand, easier financial conditions, expansionary fiscal policy in many countries, and still-strong labor markets are supporting domestic demand. This support is stronger in the newer European Union (EU) Member States (NMS). On balance, near-term growth in Europe is projected to moderate from 2.3 percent in 2018 to 1.4 percent in 2019—the lowest growth rate since 2013—and rebound to 1.8 percent in 2020. This forecast, broadly unchanged from the April 2019 World Economic Outlook, *reflects differences between advanced Europe, where growth has been revised down by 0.1 percentage point to 1.3 percent and 1.5 percent in 2019 and 2020, respectively, and emerging Europe, where growth has been revised up by 0.5 and 0.2 percentage point to 1.8 percent and 2.5 percent in 2019 and 2020, respectively. Amid high uncertainty, risks to the outlook remain to the downside, with a no-deal Brexit the key risk in the near term. Monetary policy should remain accommodative where inflationary pressures are still subdued, which is the case in most European economies. The potential side effects from such policy on financial stability should be carefully monitored. Fiscal policy should continue to be guided by medium-term objectives. But plans for stimulus in case of a sharper downturn should be at the ready, not least because the scope for effective monetary action has diminished. Countries with ample fiscal space should implement fiscal measures that boost potential growth. Reinvigorating structural reforms remains vital to raise subdued potential output growth and address long-term challenges, such as demographics.*

This chapter was prepared by Raju Huidrom and Svitlana Maslova with input from Vizhdan Boranova and Nemanja Jovanovic, under the supervision of Jörg Decressin and the guidance of Emil Stavrev and Laura Papi. Petia Topalova provided useful advice and comments. Nomelie Veluz provided administrative support. This chapter reflects data and developments as of October 25, 2019.

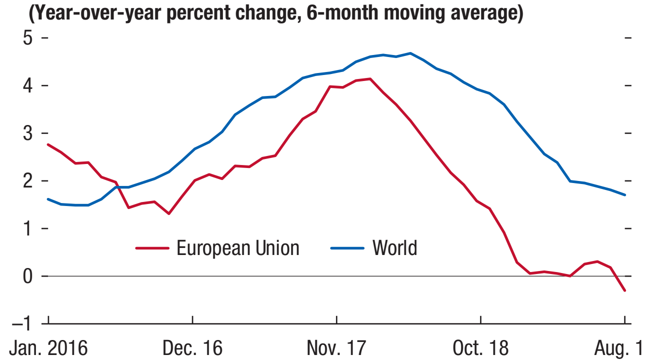
Figure 1.1. Global Trade and Manufacturing

1. Export Volume
(Year-over-year percent change, 6-month moving average)



Sources: CPB World Trade Monitor; Eurostat; and IMF staff calculations.
Note: EU = European Union.

2. Industrial Production
(Year-over-year percent change, 6-month moving average)



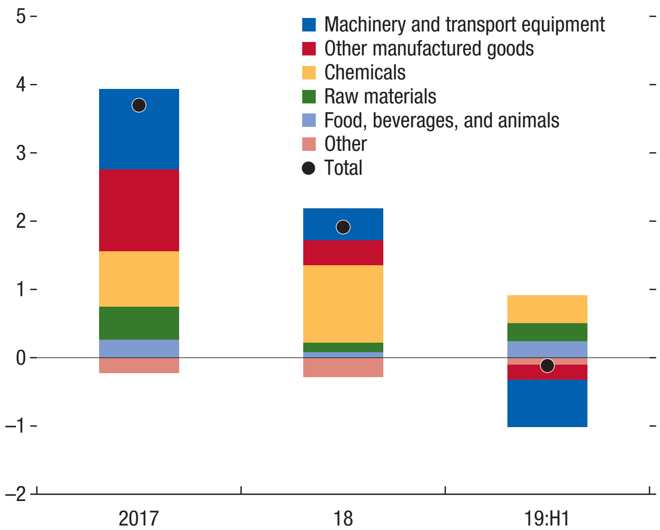
Sources: IMF, *Global Data Source*; and IMF staff calculations.

A Trade- and Industry-Driven Slowdown

The slowdown in global trade and industrial activity that began in early 2018 has continued (Figure 1.1). It came on the back of slower capital expenditure in Asia and sluggish production in the vehicle and technology sectors. Trade tensions have intensified, and Brexit-related uncertainty has continued, also weighing on trade. Growth in global export volumes has slowed significantly from about 4½ percent in 2017 to close to zero in the first half of 2019 (Figure 1.1, panel 1).

Figure 1.2. Contribution to Growth in European Union Export Volume: Product Composition

(Total in percent; contributions in percentage points)



Sources: Eurostat; and IMF staff calculations.

Industrial production is now expanding at a rate that is less than half of its early 2018 peak (Figure 1.1, panel 2).

European trade and industry have closely followed these global trends. Given Europe's deep integration into global trade,[1] European exports, both within and outside the region, stalled in the first half of 2019 after decelerating in 2018. The slowdown in European exports within the region is pronounced in intermediate goods, suggesting that the weakness in global trade has seeped into European supply chains. Overall, the slowdown in Europe's exports has mainly stemmed from softening exports of machinery and transport equipment, and other manufactured goods (Figure 1.2).

The sluggish demand for and production of cars have had an important effect on European activity, reflecting both structural factors (for example, tighter emissions standards) and sluggish world demand. Car production remains particularly weak in *Germany*, while it has held up among car producers in *Central Europe,* such as the *Czech Republic*, *Hungary*, and the *Slovak Republic* (see Box 1.1).

[1]See Huidrom and others (2019) for an in depth discussion of Europe's integration into global trade and expected spillovers.

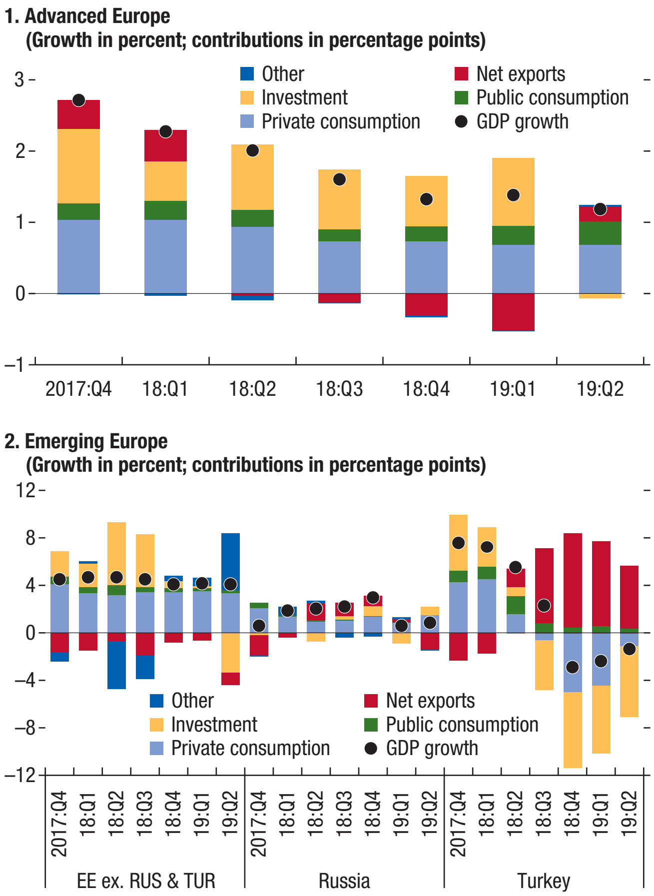
The weakness in European exports has meant that external surpluses in some advanced European economies have declined slightly but remain high, for example in *Germany* and the *Netherlands*. In the NMS and several Southeastern European non-EU countries, still-strong domestic demand generally led to a small deterioration in current account balances, though market shares generally held up well, suggesting no significant loss in competitiveness. *Turkey* saw a sharp current account improvement mainly on import compression. *Russia's* current account weakened on lower oil prices.

Amid weakening global demand, growth in *advanced Europe* slowed in the first half of 2019, despite an uptick in the first quarter due to Brexit-related stockpiling and one-off factors such as good weather in *Germany*. Net exports continued to be a drag on growth (Figure 1.3, panel 1). Slowing fixed investment has also started to weigh on growth in some of the *advanced European* countries.

Growth in *emerging Europe,* excluding *Russia* and *Turkey,* continued to hold up in the first half of 2019 thanks to robust private consumption, which is being driven by strong labor markets (Figure 1.3, panel 2). Further, a higher absorption of EU funds and resilient services exports (*Hungary*, *Poland*) also helped cushion the adverse effects of weakening manufacturing trade and elevated uncertainty. In *Russia*, growth continued to remain modest reflecting weaker domestic demand, in particular sluggish investment. In *Turkey*, growth resumed, buoyed by expansionary fiscal policy and rapid credit expansion by state-owned banks.

Consistent with weak activity, inflation has fallen in *advanced Europe*. In *emerging Europe*, inflation pressures remain relatively contained in most countries. With the effects of earlier shocks dissipating, inflation in *Russia* has moderated to close to the target. Inflation has also slowed in *Turkey*, in part due to negative base effects, but

Figure 1.3. Real GDP Growth and Contributions



Sources: Haver Analytics; IMF, *World Economic Outlook*; and IMF staff calculations.
Note: Advanced Europe excludes Ireland due to volatility in investment data and San Marino due to lack of data. Emerging Europe excludes Moldova due to lack of data. EE = Emerging Europe; RUS = Russia; TUR = Turkey.

it is still well above the target. However, in some NMS (*Hungary*, *Romania*) core inflation has risen, partly due to domestic demand pressures.

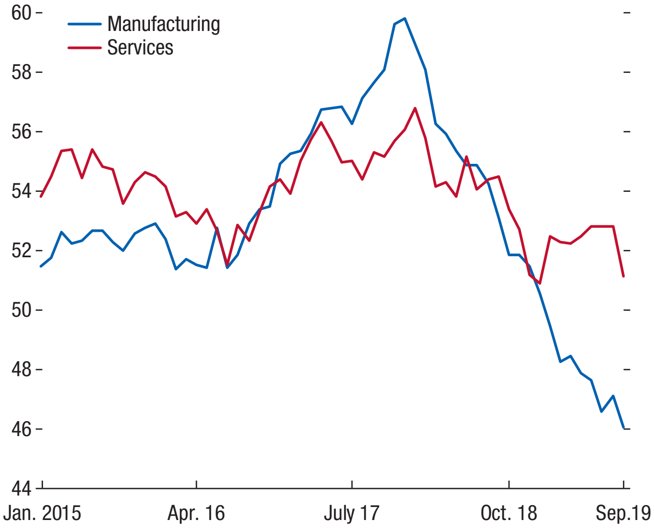
Will the Weakness in Trade and Manufacturing Spread?

The same forces that have slowed activity over the past year are likely to continue to do so going forward. Asia's capital expenditure and consumer durables slowdown will likely continue to weigh on Europe's exports and growth as the region is a large exporter of capital goods and transport equipment. Solid demand growth in the *United States*—a large trading partner for many European countries—has been a mitigating factor, but US growth is expected to ease from its strong pace. The vehicle sector may continue to be a drag on growth, given signs of saturation in *China*—the world's largest auto market—continued tightening of emission standards, and shifting preferences toward electric vehicles. The impact could be particularly sizable for countries where the vehicle sector accounts for a significant share of trade (for example, *Germany*, the *Slovak Republic*). While trade diversion effects from *US–China* trade tensions could help mitigate the slowdown in European exports, these effects have been estimated to be relatively small so far (World Bank 2019).

At the same time, the industry and trade slowdown, combined with trade- and Brexit-related uncertainty, has started to take a toll on fixed investment in several countries. Conversely, solid private consumption and a resilient services sector helped by strong labor markets may mitigate the weakness stemming from the deteriorating external environment. With labor markets still strong, consumer confidence has held up better than business confidence. The services Purchasing Managers' Index (PMI) still suggests expansion—albeit at a slower pace—contrary to the manufacturing PMI, which has plunged deeper into contractionary territory (Figure 1.4). The divergence, however, may be temporary. Services' value added in European manufacturing value added is estimated at about 30 percent, which is not trivial (Organisation for Economic Co-operation and Development Trade in Value Added database). Furthermore, there are already signs that firms are becoming more careful about hiring decisions (Figure 1.5), which could weaken consumer confidence and dampen consumption.

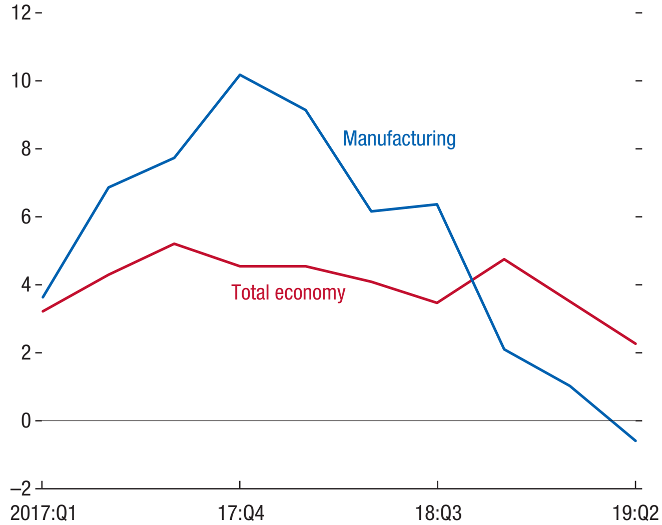
Macroeconomic policies could buffer activity. The stances of the European Central Bank and the US Federal Reserve have become more accommodative. In addition, some emerging European countries have loosened monetary policy (*Russia, Serbia, Turkey, Ukraine*). On the back

Figure 1.4. EU PMI: Services versus Manufacturing
(Index, seasonally adjusted, 50+ = Expansion)



Source: IHS Markit Purchasing Managers Survey.
Note: EU = European Union; PMI = Purchasing Managers' Index.

Figure 1.5. European Union Job Vacancies
(Quarter-over-quarter percent change)



Sources: Eurostat; and IMF staff calculations.

of the accommodative monetary stance, overall financial conditions have loosened. However, the impact might be limited as credit growth has been modest and most firms do not report availability of credit as a key constraint to their expansion. Many countries in the region are also conducting expansionary fiscal policy in 2019, albeit less so in 2020.

Overall, Europe's manufacturing and trade have weakened considerably, as in the rest of the world. Some signs of softness in domestic demand, particularly in investment, have appeared. Services and consumption have been resilient so far, but the extent of their continued resilience will depend on developments in labor markets.

Outlook: A Modest Recovery

Europe's real GDP growth is projected to moderate to 1.4 percent in 2019—the lowest rate since 2013—from 2.3 percent in 2018, before rebounding to 1.8 percent in 2020 (Annex Table 1.1). *Advanced Europe* is expected to recover only modestly from 1.3 percent in 2019 to 1.5 percent in 2020 on the back of an expected pickup in external demand, though prospects for a recovery in global trade are not as good as six months ago. *Turkey*'s growth is anticipated to recover from 0.2 percent in 2019 to 3.0 percent in 2020 as the economy continues to rebound from previous economic stresses. In *Russia*, growth is projected to pick up from 1.1 percent in 2019 to 1.9 percent in 2020, assuming the planned national projects are implemented effectively. Growth in other *emerging European economies* is forecast to moderate to 3.7 and 3.1 percent in 2019 and 2020, respectively, reflecting lagged spillovers from the ongoing slowdown in advanced Europe and growth converging to a more sustainable pace after some years of operating above capacity.

The growth projections for the entire region are broadly unchanged from the April 2019 *World Economic Outlook*. However, they mask differences across country groups and some large revisions. In *advanced Europe*, projections were downgraded by 0.1 percentage point both in 2019 and 2020, with generally larger revisions for those economies with greater exposure to manufacturing. In *emerging Europe*, growth projections were revised up by 0.5 and 0.2 percentage point in 2019 and 2020, respectively. In *Turkey*, the large upward growth revisions reflect the better-than-expected outturn in the first half of the year. Growth in *Central European countries* and *Southeastern European EU member states* has also been upgraded for 2019–20, reflecting robust domestic demand. *Russia* saw one of the largest downward revisions for 2019 on the back of a weak outcome in the first half of the year and signs of softening domestic demand and export growth.

Relatively low energy prices, slowing output growth, and weaker passthrough from wage growth (Chapter 2) are expected to keep headline inflation contained. In *advanced Europe*, inflation is expected to fall from 1.8 percent in 2018 to 1.4 percent in 2019 and 1.5 percent in 2020 (0.1 percentage point lower in both 2019 and 2020, Annex Table 1.2). In *emerging Europe*, inflation is projected to temporarily pick up to 6.9 percent in 2019 from 6.3 percent in 2018 and to moderate to 5.7 percent in 2020. The downward revisions of 0.3 and 0.5 percentage point for 2019 and 2020 are largely driven by *Turkey* in 2019 and *Russia* in 2020. In *Turkey*, the 2019 inflation forecast has been revised down by 1.8 percentage points due to the more favorable market sentiment, which supported lira stability. However, the inflation outlook is highly uncertain over the medium term, as the central bank needs to strengthen monetary policy credibility and lower inflation expectations. In *Russia*, inflation, which picked up earlier in 2019, is expected to be below the target at the end of 2019 and in 2020, as effects of the January 2019 value-added tax rate hike and other one-off factors dissipate. In *emerging European* countries excluding *Russia* and *Turkey*, despite some upward revisions on the back of stronger-than-expected activity, inflation is generally expected to remain restrained as growth is expected to ease.

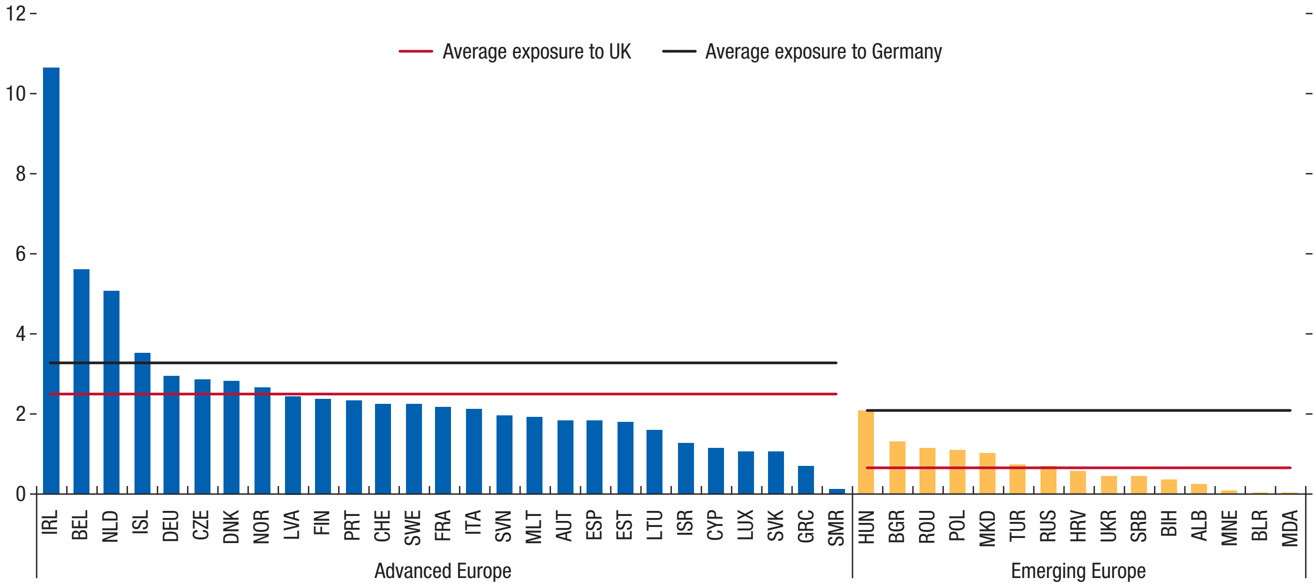
Amid High Uncertainty, Risks Tilted to the Downside

Amid high uncertainty, risks to the forecasts are to the downside. In the near term, the modalities of Brexit are key for the European outlook. A no-deal Brexit could have a sizable impact on activity in the *United Kingdom* and the *European Union*—with output lower by about 3½ and ½ percent in two years, respectively, relative to the April 2019 forecast (see Box 1.1 of the April 2019 *World Economic Outlook*). Value added trade exposure of European countries to the *United Kingdom*, though smaller than to *Germany*—the main European hub—is sizable (Figure 1.6). Further escalation of trade tensions and related uncertainty when combined with tighter financing conditions can weigh significantly on European investment and growth (Ebeke and Siminitz 2018; IMF 2018). More broadly, the weakness in manufacturing and trade could spread to other sectors—notably services—and could occur faster and to a greater extent than expected. Other risks include abrupt declines in risk appetite, a build-up of financial vulnerabilities, and the re-emergence of deflationary pressures in advanced economies. Country-specific factors (such as domestic weakness in some large euro area countries) and geopolitical tensions could exacerbate the effects from weak global trade and manufacturing. Delays in the implementation of structural reforms, demographic challenges, climate change, rising inequality, and declining trust in mainstream policies could also dampen growth in the medium to long term.

Policy Priorities

Monetary policy in many European countries should remain accommodative given muted inflationary pressures. As discussed in Chapter 2, strong wage growth is less likely to boost inflation than in the past due to rising competitive pressures faced by firms, still robust corporate profitability, and the generally low inflation environment. In *advanced Europe*, where inflation remains largely below target, monetary policy should continue to focus on supporting the gradual upward adjustment of inflation toward policy objectives. In *Russia*, monetary policy loosening could be considered given contained inflation and as inflationary pressures ease. However, in *Romania* and *Turkey*, monetary policy should be kept tight

Figure 1.6. Trade Exposure to the United Kingdom
(Percent of GDP)



Sources: EORA Multi-Regional Input-Output database; and IMF staff calculations.
Note: Lines refer to simple averages across countries in each region. The latest year available in EORA is 2013. Country list uses International Organization for Standardization (ISO) country codes.

to contain inflationary pressures and strengthen policy credibility. Most other *emerging European* countries can afford to keep monetary policy accommodative for now.

Nevertheless, loose monetary policy for longer calls for heightened monitoring of financial sector vulnerabilities and other possible adverse developments. Pockets of vulnerabilities in some countries should be closely watched and addressed with targeted macroprudential measures as needed. In the *euro area* and other countries with negative interest rates, the impact on the financial sector, in particular, on traditional business operations and profitability and on asset prices should be closely monitored. For example, house prices have strengthened in several countries and the vulnerability of other financial institutions has increased.[2] In *Turkey*, a comprehensive third-party assessment of bank balance sheets, and stress tests with follow-up measures, as needed, would help strengthen confidence in the sector. Countries have continued to implement new financial sector regulations and to reduce nonperforming loans. They should persevere in these efforts to strengthen the sector's resilience.

Regarding fiscal policy, given output above or close to full employment in most countries, and generally high debt levels in many European countries, the fiscal stance should remain anchored by countries' medium-term objectives, while allowing automatic stabilizers to work freely. In countries with ample fiscal space and human capital or infrastructure needs (*Germany, Netherlands*), a measured fiscal expansion should be considered to boost potential output—some measures have already been announced—and would also help reduce their external surpluses. Considering the precarious outlook, positive spillovers to less cyclically strong economies would be welcome. Those countries with still-elevated levels of public debt and deficit should proceed with fiscal consolidation to reduce economic vulnerabilities, except where private demand is already so weak that consolidation would push output growth far below potential. All countries should consider debt management operations that

[2]See IMF, *Global Financial Stability Report*, October 2019.

take advantage of currently low interest rates. If significant negative risks materialize, given limited monetary policy space, the fiscal stance will need to be more expansionary, while keeping in mind medium-term debt sustainability objectives. In this case, countries with a high deficit and public debt could consider a temporarily slower pace of fiscal consolidation or a temporary expansion, as long as debt sustainability is secured and market confidence is not undermined. Policymakers should prepare contingency plans for such an eventuality, focusing on growth-friendly and inclusive policies that deliver support in a timely manner. A synchronized fiscal response, albeit appropriately differentiated across countries, could become suitable.

Structural reforms remain essential to raise potential output, boost resilience, and strengthen inclusive growth. Product market reforms in many countries could improve competitiveness and increase productivity. Policies to increase labor force participation rates and enhance human capital (including shifting taxes away from labor, enhancing apprenticeship programs, and improving tailoring education to labor market needs) should be urgently implemented, given rising demographic challenges and technological developments in the region. Completing the *euro area's* architecture is critical to increase its resilience to shocks. The *European Union* would benefit from deepening the single market for services to increase efficiency. In many *emerging European countries*, structural reforms have achieved a dramatic transformation in the 30 years of transition. Still, strengthening governance and improving public sector efficiency remain imperative to sustain continued and equitable convergence of living standards to *advanced European* levels.[3]

[3]See IMF (2017); Richmond and others (2019).

Box 1.1 The Slowdown in Vehicles—A European Perspective

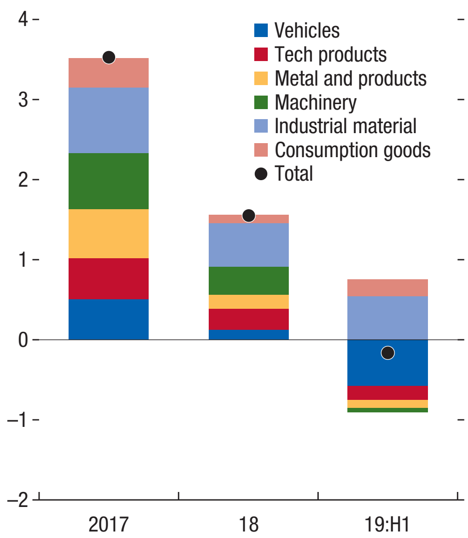
The vehicle sector is important in many European countries. In line with global trends, vehicle production has slowed in the region, but there is considerable heterogeneity across economies. The near-term outlook remains conservative, and potential supply chain reorganizations pose uncertainty in the medium term.

The vehicle sector is important in many European countries, for both the domestic economy and exports. For instance, in *Germany*—the largest vehicle producer in Europe—vehicles constitute about 20 percent of manufacturing and about 17 percent of exports. The sector is also significant for *Central and Eastern Europe* (CEE): for example, in the *Slovak Republic,* it comprises about one-third of manufacturing and more than a quarter of exports. Also, the auto industry constitutes one of the main supply chains in the region.

In line with global trends (Box 1.1 of the October 2019 *World Economic Outlook*), Europe's vehicle production has fallen and has been one of the main contributors to the industrial production slump in the European Union (EU) (Figure 1.1.1). Several structural and cyclical factors are behind the slowdown, such as the tighter EU emission standards, a shift in preferences from diesel toward gasoline and other alternative fuel vehicles, and weakening global demand, especially from *China*. After the emissions-related dip in 2018, car registrations—a demand indicator—have normalized.

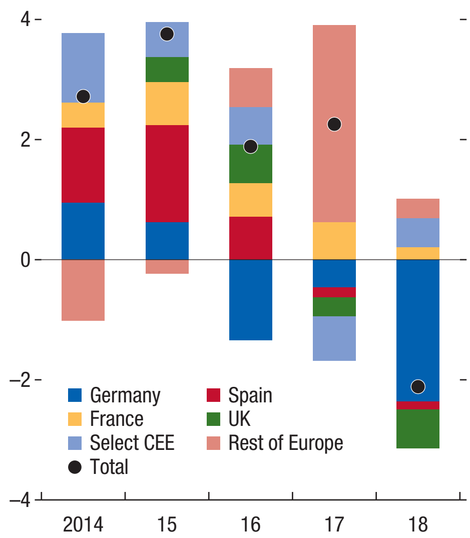
Nevertheless, there is a significant heterogeneity across European countries. The 2018 vehicle production contraction was led by *Germany* and to a lesser extent, the *United Kingdom* and *Spain* (Figure 1.1.2). Germany's production remained weak in the first half of 2019, dropping by about 12 percent versus the first half of 2018. Conversely, vehicle production held up in *CEE*.

Figure 1.1.1. Contributions to EU Manufacturing Growth
(Growth in percent; contributions in percentage points)



Sources: Eurostat; and IMF staff calculations.
Note: EU = European Union.

Figure 1.1.2. Contributions to Europe Vehicle Production
(Growth in percent; contributions in percentage points)



Sources: International Organization of Motor Vehicle Manufacturers (OICA); and IMF staff calculations.
Note: Select CEE = Czech Republic, Hungary, Slovak Republic; UK = United Kingdom.

Box 1.1 *(continued)*

Anecdotal evidence suggests that *CEE's* relatively robust car production could be attributed to the types of cars produced in the region, such as SUVs and utilitarian cars, whose demand remained more buoyant. Furthermore, industry reports suggest the vehicle slowdown in Germany has had a muted impact on *CEE* supply chains, in part because *CEE* suppliers have been able to adapt and re-orient to other models and plants outside of *Germany*.

Overall, the near-term outlook for Europe remains conservative on the back of falling demand for diesel cars, trade tensions, Brexit-related uncertainty, and additional tighter emission standards. Potential reorganizations of supply chains—related to the shift to alternative fuel vehicles—pose considerable uncertainty to the medium-term outlook. A sustained weakness in the vehicle sector could spill over to the broader economy and across borders via supply chains.

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Annex Table 1.1. GDP Growth
(Year-over-year percent change)

		October 2019 WEO			April 2019 WEO			Difference		
	2018	2019	2020	2021	2019	2020	2021	2019	2020	2021
Europe	2.3	1.4	1.8	1.9	1.3	1.8	1.8	0.1	0.0	0.0
Advanced European Economies	2.0	1.3	1.5	1.6	1.4	1.6	1.6	−0.1	−0.1	0.0
Euro Area	1.9	1.2	1.4	1.4	1.3	1.5	1.5	−0.1	−0.2	0.0
Austria	2.7	1.6	1.7	1.5	2.0	1.7	1.5	−0.4	0.0	0.0
Belgium	1.4	1.2	1.3	1.3	1.3	1.4	1.5	−0.1	−0.1	−0.2
Cyprus	3.9	3.1	2.9	2.7	3.5	3.3	2.9	−0.4	−0.5	−0.2
Estonia	4.8	3.2	2.9	2.8	3.0	2.9	2.8	0.2	0.0	0.0
Finland	1.7	1.2	1.5	1.5	1.9	1.7	1.4	−0.7	−0.3	0.1
France	1.7	1.2	1.3	1.3	1.3	1.4	1.5	0.0	−0.1	−0.1
Germany	1.5	0.5	1.2	1.4	0.8	1.7	1.5	−0.2	−0.5	−0.1
Greece	1.9	2.0	2.2	1.7	2.4	2.2	1.6	−0.4	0.1	0.1
Ireland	8.3	4.3	3.5	3.1	4.1	3.4	3.1	0.1	0.1	0.0
Italy	0.9	0.0	0.5	0.8	0.1	0.9	0.7	−0.1	−0.4	0.1
Latvia	4.8	2.8	2.8	2.9	3.2	3.1	3.1	−0.3	−0.4	−0.2
Lithuania	3.5	3.4	2.7	2.5	2.9	2.6	2.6	0.5	0.1	−0.2
Luxembourg	2.6	2.6	2.8	2.7	2.7	2.8	2.7	−0.1	0.0	0.0
Malta	6.8	5.1	4.3	3.7	5.2	4.4	3.8	−0.1	−0.1	0.0
Netherlands	2.6	1.8	1.6	1.5	1.8	1.7	1.5	0.0	0.0	0.0
Portugal	2.4	1.9	1.6	1.5	1.7	1.5	1.4	0.2	0.1	0.1
Slovak Republic	4.1	2.6	2.7	2.7	3.7	3.5	3.3	−1.1	−0.8	−0.5
Slovenia	4.1	2.9	2.9	2.7	3.4	2.8	2.7	−0.5	0.1	0.1
Spain	2.6	2.2	1.8	1.7	2.1	1.9	1.7	0.0	0.0	0.0
Nordic Economies	1.8	1.4	1.9	1.8	1.6	1.8	1.8	−0.1	0.1	0.0
Denmark	1.5	1.7	1.9	1.7	1.7	1.8	1.6	0.0	0.1	0.1
Iceland	4.8	0.8	1.6	2.0	1.7	2.9	2.7	−0.9	−1.3	−0.6
Norway	1.3	1.9	2.4	1.6	2.0	1.9	1.8	−0.1	0.6	−0.2
Sweden	2.3	0.9	1.5	2.1	1.2	1.8	1.9	−0.2	−0.3	0.2
Other European Advanced Economies	1.9	1.4	1.7	1.8	1.5	1.7	1.8	−0.1	0.0	0.0
Czech Republic	3.0	2.5	2.6	2.6	2.9	2.7	2.5	−0.4	−0.1	0.1
Israel	3.4	3.1	3.1	3.2	3.3	3.3	3.1	−0.2	−0.2	0.0
San Marino	1.1	0.8	0.7	0.6	0.8	0.7	0.6	0.0	0.0	0.0
Switzerland	2.8	0.8	1.3	1.6	1.1	1.5	1.6	−0.3	−0.3	0.0
United Kingdom	1.4	1.2	1.4	1.5	1.2	1.4	1.5	0.1	0.0	0.0
Emerging European Economies	3.1	1.8	2.5	2.5	1.2	2.3	2.4	0.5	0.2	0.1
Central Europe	5.1	4.1	3.1	2.7	3.7	3.0	2.7	0.4	0.1	0.0
Hungary	4.9	4.6	3.3	2.9	3.6	2.7	2.4	1.0	0.6	0.5
Poland	5.1	4.0	3.1	2.7	3.8	3.1	2.8	0.3	−0.1	−0.1
Eastern Europe	2.4	1.3	1.9	2.1	1.7	1.8	1.8	−0.5	0.1	0.3
Belarus	3.0	1.5	0.3	0.1	1.8	2.2	2.1	−0.2	−1.9	−2.0
Moldova	4.0	3.5	3.8	3.8	3.5	3.8	3.8	0.0	0.0	0.0
Russia	2.3	1.1	1.9	2.0	1.6	1.7	1.7	−0.5	0.2	0.4
Ukraine	3.3	3.0	3.0	3.1	2.7	3.0	3.1	0.3	0.0	0.1
Southeastern European EU Member States	3.7	3.8	3.3	2.9	3.1	2.9	2.9	0.7	0.4	0.1
Bulgaria	3.1	3.7	3.2	3.0	3.3	3.0	2.8	0.4	0.2	0.2
Croatia	2.6	3.0	2.7	2.5	2.6	2.5	2.4	0.4	0.2	0.1
Romania	4.1	4.0	3.5	3.0	3.1	3.0	3.0	0.9	0.5	0.0
Southeastern European Non-EU Member States	3.9	3.3	3.6	3.6	3.4	3.7	3.7	−0.1	−0.1	−0.1
Albania	4.1	3.0	4.0	4.0	3.7	3.9	3.9	−0.7	0.2	0.1
Bosnia and Herzegovina	3.6	2.8	2.6	2.6	3.1	3.2	3.3	−0.3	−0.6	−0.7
Kosovo	3.8	4.2	4.0	4.0	4.2	4.0	4.0	0.0	0.0	0.0
North Macedonia	2.7	3.2	3.4	3.2	3.0	3.1	3.2	0.2	0.3	0.0
Montenegro	4.9	3.0	2.5	2.9	2.8	2.5	2.9	0.2	0.0	0.0
Serbia	4.3	3.5	4.0	4.0	3.5	4.0	4.0	0.0	0.0	0.0
Turkey	2.8	0.2	3.0	3.0	−2.5	2.5	3.0	2.8	0.4	0.0
Memorandum										
World	3.6	3.0	3.4	3.6	3.3	3.6	3.6	−0.3	−0.2	−0.1
Advanced economies	2.3	1.7	1.7	1.6	1.8	1.7	1.7	−0.1	−0.1	−0.1
Emerging market and developing economies	4.5	3.9	4.6	4.8	4.4	4.8	4.9	−0.4	−0.3	−0.1
Emerging Europe ex. Russia and Turkey	4.3	3.7	3.1	2.8	3.3	3.0	2.9	0.4	0.0	−0.1
European Union	2.2	1.5	1.6	1.7	1.6	1.7	1.7	0.0	−0.1	0.0
United States	2.9	2.4	2.1	1.7	2.3	1.9	1.8	0.0	0.2	0.0
China	6.6	6.1	5.8	5.9	6.3	6.1	6.0	−0.1	−0.3	−0.1
Japan	0.8	0.9	0.5	0.5	1.0	0.5	0.5	−0.1	0.0	−0.1

Sources: IMF, *World Economic Outlook (WEO);* and IMF staff calculations.

Note: After the April 2019 WEO, the GDP definition for Germany has been switched to a working-day unadjusted basis from a seasonally and working-day adjusted basis. Table reports Germany data on a working-day unadjusted basis, including those for the April 2019 WEO, while retaining aggregates as in the April 2019 WEO.

Annex Table 1.2. Headline Inflation
(Year-over-year percent change)

		October 2019 WEO			April 2019 WEO			Difference		
	2018	2019	2020	2021	2019	2020	2021	2019	2020	2021
Europe	3.3	3.1	2.8	2.9	3.3	3.1	3.1	−0.1	−0.3	−0.1
Advanced European Economies	1.8	1.4	1.5	1.6	1.4	1.6	1.7	−0.1	−0.1	−0.1
Euro Area	1.8	1.2	1.4	1.5	1.3	1.6	1.7	−0.1	−0.2	−0.2
Austria	2.1	1.5	1.9	1.9	1.8	2.0	2.1	−0.2	−0.1	−0.2
Belgium	2.3	1.5	1.3	1.5	1.9	1.6	1.9	−0.4	−0.4	−0.4
Cyprus	0.8	0.7	1.6	1.8	0.5	1.6	1.7	0.2	0.0	0.1
Estonia	3.4	2.5	2.4	2.3	3.0	2.8	2.6	−0.5	−0.4	−0.3
Finland	1.2	1.2	1.3	1.5	1.3	1.5	1.8	−0.1	−0.2	−0.3
France	2.1	1.2	1.3	1.4	1.3	1.5	1.6	−0.2	−0.2	−0.2
Germany	1.9	1.5	1.7	1.7	1.3	1.7	1.9	0.1	0.0	−0.2
Greece	0.8	0.6	0.9	1.3	1.1	1.4	1.7	−0.4	−0.5	−0.4
Ireland	0.7	1.2	1.5	1.7	1.2	1.5	1.7	0.0	0.0	0.0
Italy	1.2	0.7	1.0	1.1	0.8	1.2	1.2	0.0	−0.2	−0.1
Latvia	2.6	3.0	2.6	2.3	2.4	2.4	2.1	0.6	0.2	0.2
Lithuania	2.5	2.3	2.2	2.2	2.3	2.3	2.4	0.1	−0.1	−0.1
Luxembourg	2.0	1.7	1.7	1.9	1.6	1.9	1.9	0.2	−0.1	0.0
Malta	1.7	1.7	1.8	1.9	1.8	1.9	2.0	−0.2	−0.1	0.0
Netherlands	1.6	2.5	1.6	1.7	2.3	1.6	1.7	0.2	0.0	0.0
Portugal	1.2	0.9	1.2	1.3	1.0	1.7	1.7	−0.1	−0.5	−0.4
Slovak Republic	2.5	2.6	2.1	2.1	2.4	2.2	2.1	0.2	−0.1	0.0
Slovenia	1.7	1.8	1.9	1.9	1.4	1.6	2.0	0.4	0.3	−0.1
Spain	1.7	0.7	1.0	1.4	1.2	1.6	1.7	−0.5	−0.6	−0.2
Nordic Economies	2.0	1.8	1.6	1.8	1.7	1.6	1.8	0.1	0.0	0.0
Denmark	0.7	1.3	1.5	1.8	1.1	1.3	1.5	0.2	0.2	0.3
Iceland	2.7	2.8	2.5	2.5	2.8	2.5	2.5	0.0	0.0	0.0
Norway	2.8	2.3	1.9	2.0	1.9	1.7	1.9	0.4	0.2	0.2
Sweden	2.0	1.7	1.5	1.6	1.9	1.7	1.9	−0.1	−0.2	−0.3
Other European Advanced Economies	2.1	1.7	1.8	1.8	1.7	1.8	1.9	0.0	−0.1	0.0
Czech Republic	2.2	2.6	2.3	2.0	2.3	2.0	2.0	0.2	0.3	0.0
Israel	0.8	1.0	1.3	1.8	0.9	1.7	2.0	0.2	−0.4	−0.2
San Marino	1.5	1.3	1.5	1.6	1.6	1.7	1.7	−0.4	−0.2	−0.2
Switzerland	0.9	0.6	0.6	0.9	0.8	0.9	1.0	−0.3	−0.3	−0.2
United Kingdom	2.5	1.8	1.9	2.0	1.8	2.0	2.0	0.0	−0.1	0.0
Emerging European Economies	6.3	6.9	5.7	5.7	7.2	6.2	5.8	−0.3	−0.5	−0.1
Central Europe	1.9	2.6	3.5	3.4	2.2	2.1	2.2	0.4	1.3	1.2
Hungary	2.8	3.4	3.4	3.3	3.2	3.1	3.0	0.1	0.3	0.3
Poland	1.6	2.4	3.5	3.4	2.0	1.9	2.0	0.4	1.6	1.4
Eastern Europe	3.6	5.0	3.8	4.0	5.2	4.7	4.3	−0.2	−0.9	−0.3
Belarus	4.9	5.4	4.8	4.6	5.0	5.0	4.0	0.4	−0.2	0.6
Moldova	3.1	4.9	5.7	5.0	3.3	5.1	5.0	1.6	0.5	0.0
Russia	2.9	4.7	3.5	3.9	5.0	4.5	4.2	−0.3	−1.0	−0.3
Ukraine	10.9	8.7	5.9	5.3	8.0	5.9	5.5	0.7	0.0	−0.2
Southeastern European EU Member States	3.8	3.4	2.8	2.5	2.9	2.6	2.5	0.5	0.2	0.0
Bulgaria	2.6	2.5	2.3	2.2	2.4	2.3	2.3	0.1	0.0	−0.1
Croatia	1.5	1.0	1.2	1.3	1.5	1.6	1.7	−0.5	−0.4	−0.4
Romania	4.6	4.2	3.3	2.9	3.3	3.0	2.8	0.9	0.3	0.1
Southeastern European Non-EU Member States	1.8	1.8	1.8	2.1	1.9	2.2	2.5	0.0	−0.4	−0.3
Albania	2.0	1.8	2.0	2.4	2.0	2.4	2.8	−0.2	−0.4	−0.4
Bosnia and Herzegovina	1.4	1.1	1.4	1.5	1.5	1.6	1.6	−0.4	−0.2	−0.2
Kosovo	1.1	2.8	1.5	1.7	2.2	1.3	1.8	0.6	0.1	−0.1
North Macedonia	1.5	1.3	1.7	2.0	1.8	2.0	2.2	−0.5	−0.3	−0.2
Montenegro	2.6	1.1	1.9	1.6	0.9	1.7	1.8	0.2	0.2	−0.2
Serbia	2.0	2.2	1.9	2.5	2.0	2.5	3.0	0.2	−0.6	−0.5
Turkey	16.3	15.7	12.6	12.4	17.5	14.1	13.4	−1.8	−1.5	−1.0
Memorandum										
World	3.6	3.4	3.6	3.5	3.6	3.6	3.5	−0.2	−0.1	0.0
Advanced economies	2.0	1.5	1.8	1.8	1.6	2.1	1.9	−0.1	−0.3	−0.1
Emerging market and developing economies	4.8	4.7	4.8	4.5	4.9	4.7	4.5	−0.2	0.1	0.0
Emerging Europe ex. Russia and Turkey	3.6	3.7	3.5	3.4	3.2	2.9	2.8	0.4	0.6	0.6
European Union	1.9	1.5	1.7	1.8	1.6	1.7	1.8	0.0	0.0	0.0
United States	2.4	1.8	2.3	2.4	2.0	2.7	2.3	−0.2	−0.5	0.2
China	2.1	2.3	2.4	2.8	2.3	2.5	2.8	0.0	−0.1	0.0
Japan	1.0	1.0	1.3	0.7	1.1	1.5	1.1	−0.1	−0.2	−0.5

Sources: IMF, *World Economic Outlook (WEO);* and IMF staff calculations.