Headline inflation is projected to gradually rise in advanced economies... and markets have shifted from pessimism to cautious optimism.

...as quantitative easing and bank reform begin to revive credit.

But deflation risks remain in the euro area...

...and full monetary policy normalization is not guaranteed, even in the United States.

Sources: Bloomberg, L.P.; and IMF staff calculations.
Note: Headline inflation (Japan adjusted for value-added tax).

Euro area credit conditions are easing...

...as quantitative easing and bank reform begin to revive credit.

Sources: European Central Bank; Haver Analytics; and IMF staff calculations.

Sources: Bloomberg, L.P.; and IMF staff calculations.
Note: Headline inflation (Japan adjusted for value-added tax).

Note: The probabilities are constructed by creating a “butterfly” portfolio that pays out if inflation takes a specific value or range. The options involved are inflation caps and floors that protect the buyer against high and low inflation, respectively. Each x-axis label refers to midpoint probability.