Table 1 shows the IMF's latest economic growth forecasts for the major economies.

Table 1: Real GDP growth in major economies

	2006	2007	2008(f)	2009(f)
United States	2.9	2.2	0.5	0.6
Euro Area	2.8	2.6	1.4	1.2
Japan	2.4	2.1	1.4	1.5
Asian NIEs (a)	5.6	5.6	4.0	4.4
China	11.1	11.4	9.3	9.5
India	9.7	9.2	7.9	8.0
ASEAN-5 (b)	5.7	6.3	5.8	6.0

Source: IMF WEO April 2008, *http://www.imf.org/external/pubs/ft/weo/2008/01/pdf/tables.pdf.*

(a) Asian newly industrialised economies are Korea, Taiwan, Hong Kong and Singapore.
(b) ASEAN-5 are Indonesia, Thailand, the Philippines, Malaysia and Vietnam.
(F) Forecasts.

The proximate cause of the US recession is its housing sector. Construction of new houses has fallen sharply, reflecting an unwinding of an oversupply of houses. Exacerbating the construction downturn are rising mortgage default rates -- particularly the sub-prime ones -- and falling house prices. Flowing on from all this is an intensifying credit squeeze -- put simply, banks and lending institutions have become extremely cautious, denying loans to some borrowers who have projects that would have been funded in other, less turbulent, times. The housing and financial market developments are mutually reinforcing. As a result, the IMF's baseline scenario has the US economy dipping into a mild recession in 2008.

The US accounts for a quarter of the global economy, and has important trade and financial linkages with every economy around the world. Historically, US recessions have caused slowdowns in other major economies. Hence the adage: when the US sneezes, the world catches cold. That's why the IMF forecasts sluggish economic growth projections for the other developed economies.

The IMF does not, however, forecast quite as dramatic a slowing in the emerging Asian economies as it does for the developed world. This is broadly consistent with the "decoupling hypothesis," which holds that major Asian emerging economies -- China and India, but also the smaller ones such as the NIEs or the ASEAN-5 -- have matured enough so that the US recession might not affect them as much as was the case in the past.

In its latest Asian Development Outlook (ADO), published in March, the Asian Development Bank examines the decoupling hypothesis using a number of techniques. The ADB concludes thus: Developing Asia is not immune to global developments, but neither is it hostage to them. Citing structural transformations, robust productivity growth, and favourable policy climate, the ADB forecasts that the Asian economies will experience a moderation in growth, rather than a sharp downturn.

The IMF also forecasts inflationary pressures to continue in both the developed and developing worlds (Table 2). There are two reasons for the recent rise in inflation around the world. Firstly, the robust growth of the developing world -- particularly the large economies of India and China -- has been causing rapid rises in demand for food and energy commodities. With supply lagging demand, their prices have risen to record highs. With growth expected to continue in the emerging Asian economies, the prospect for commodity prices are still high. Subsidies to bio-fuels are the other major reason for the recent rise in global food price inflation.[1] These subsidies are politically popular, and it is unlikely that they will be removed, particularly in an election year in the US.

The inflationary environment makes the macro-economic policy-makers' job -- the restoration of stability in housing and financial markets without setting off a spiral of inflationary expectations -- in the US and other affected economies all the more challenging. Plus, history gives grounds for pessimism. The last time the world economy experienced inflationary shocks generated by a commodity boom was in the 1970s. It ended in a period of high inflation coupled

Table 2: Consumer price inflation in major economies

	2006	2007	2008(f)	2009(f)
United States	3.2	2.9	3.0	2.0
Euro Area	2.2	2.1	2.8	1.9
Japan	0.3	0.0	0.6	1.3
Asian NIEs (a)	1.6	2.2	3.0	2.7
China	1.5	4.8	5.9	3.6
India	6.2	6.4	5.2	4.0
ASEAN-5 (b)	8.1	4.5	6.1	4.7

Source: *IMF WEO*

(A) Asian newly industrialised economies are Korea, Taiwan, Hong Kong and Singapore.
(B) ASEAN-5 are Indonesia, Thailand, the Philippines, Malaysia and Vietnam.
(F) Forecasts.