with high unemployment and sluggish growth, an episode dubbed as stagflation. And recessions that involve major damages to the financial systems and housing markets tend to last much longer than other recessions, with the Great Depression of the 1930s being the most extreme example of how bad things could get.

Table 3: Macro-economic indicators for Bangladesh

	Real GDP growth				Consumer price inflation			
	2006	2007	2008(f)	2009(f)	2006	2007	2008(f)	2009(f)
IMF WEO	6.4	5.6	5.5	6.5	6.5	8.4	9.3	8.1
Consensus (a)	6.5	6.1	5.9	5.9	6.8	8.6	9.5	7.7
ADB ADO (a)	6.6	6.5	6.0	6.5	7.2	7.2	9.0	8.0
Economist Intelligence Unit (a)		6.5	5.7	6.2		9.1	8.9	5.1

Source: *Asia-Pacific Consensus Forecasts, April 2008; ADB ADO March 2008, http://www.adb.org/Documents/Books/ADO/2008/statapps.pdf); the Economist Group.*

(a) Financial year (for example, 2008 refers to the year ending 30 June 2008).
(f) Forecasts.

On the plus side, the Federal Reserve Chairman Ben Bernanke -- who spent much of his stellar academic career studying the Great Depression -- appears to have the confidence of the market, and neither a depression nor a stagflation is on anyone's baseline scenario, yet.

Economic outlook for Bangladesh

The global economic environment described above sets the background to the projections contained in Table 3. While the pace and extent varies, all forecasters project a slowdown in the Bangladeshi economy in 2008 and a recovery in 2009, with inflation expected to remain high throughout the forecast period. When the Budget is brought down in mid-May, the official forecasts are unlikely to be substantially different from these.

According to the ADB, the slowdown in economic growth in the 2008 financial year "is attributed to the erosion of business confidence and the effects of the natural disasters." The projected recovery in 2009 rests on the assumptions that business confidence will return and there will be "substantial external assistance" to mitigate the effects of the natural disasters.

Looking into the sectoral components of GDP, the economic slowdown is most evident in the industry sector. Growth in production and exports of garments and knitwear has been much weaker in the current financial year. In addition to business confidence, a combination of other factors has been responsible: labour turmoil in the previous years; very weak demand from the US; and higher raw material import costs. A sharper than expected US recession and continued price rises in the global market are of course likely to dampen industrial production and export growth even if business confidence were to be restored.

Agriculture has been hurt by the natural disasters, and its recovery is to a large extent at nature's mercy. In contrast, the service sector is expected to experience a much more modest slowdown, as strong remittance flows are expected to continue to shore of up consumption.

The ADB expects inflation to remain high throughout the forecast period. Higher inflation is attributed to: rising commodity prices -- particularly foodgrains and oil -- in the global market; the domestic foodgrain shortfall; and the lagged effect of higher than programmed monetary expansion. In addition to the perennial threats of political upheaval and natural disasters, rapidly growing inflation is listed as a major near-term risk to the outlook. The ADB warns: the failure to rein it [inflation] in could seriously undermine political and economic stability.

Implications for Bangladesh of a worse-than-expected global slowdown

The ADB projects the US economy to grow by 1.5 per cent in 2008 and 2 per cent in 2009. This is much stronger than the 0.5 and 0.6 per cent growth forecast by the IMF. The IMF's gloomier outlook for the US translates into the projection of a sharper slowdown in the Bangladesh economy. What if the US recession, and the associated global slowdown, turns out to be more severe, or last longer, than is currently anticipated?

There are three major channels through which a worse-than-expected global slowdown could affect Bangladesh: investment, exports, and remittances.

Let's consider investment first. Should the credit squeeze worsen in the global financial markets, interest rates are going rise even more. Further, at times like this, there is a "flight to quality" -- that is, lenders seek the relatively less risky borrowers. As a result, credit spreads will widen, and Bangladeshi businesses will find it harder to borrow. This, in turn, will hurt investment. The flight to quality will also mean foreign direct investment might dry up.

In the near term, sharp slowdown in investment will hurt employment and household