THE IMF usually publishes forecasts for the world economy twice a year. After its April release, I discussed how the economic slowdown triggered by the global financial crisis would affect Bangladesh. What was expected to be a slowdown in April is now being feared as the worst global recession since the Great Depression. How will the recession affect Bangladesh? What policy options will the new government have?

It is difficult to answer these questions, particularly given the uncertainty surrounding the world economy. The IMF significantly revised its October forecasts downward within a month of publication, the unusual step underscoring how quickly the events have been unfolding. Similarly, over the past couple of months, almost every day has seen some key forecaster downgrading their numbers.

This heightened uncertainty notwithstanding, it is important to explore these questions. I try to do so by beginning with a summary of the IMF's latest forecasts and a general discussion of how the crisis will affect the developing countries before turning to the outlook for Bangladesh, with a focus on exports. Finally, I discuss the outlook for inflation. It is important to get inflation under control, and the central bank will remain focussed with that task. This means that it will be up to an incoming government to stimulate the economy if needed.

The IMF significantly revised its October forecasts downward within a month of publication, the unusual step underscoring how quickly the events have been unfolding.

Outlook for the World Economy

In the Forum piece, I said: "A recession appears to be imminent in the United States -- the question now is about its severity and length." The answers are ugly -- the US unemployment rate is already higher than the peak reached during the last recession, and forecasters are tipping joblessness to rise well into 2010 to levels not seen in generations. And it is not limited to the US alone. Most of the advanced economies are now expected to be in recession before the year is over. Indeed, 2009 looks to be a very bleak year according to the IMF (Table 1).

Unless one has lived in outer space for the past couple of months, these forecasts won't come as a surprise. I'm not sure we've ever witnessed events such as these: near collapse of the financial system in the world's most advanced economies, de facto nationalisation of banks, unprecedented injection of liquidity into the system, trillions of dollars worth of wealth being wiped out in days, wild swings in the foreign exchange, equity and commodities markets -- these are the stuff our nightmares are made of. It is little surprise then that the IMF has so heavily revised down its forecasts (Chart 1).

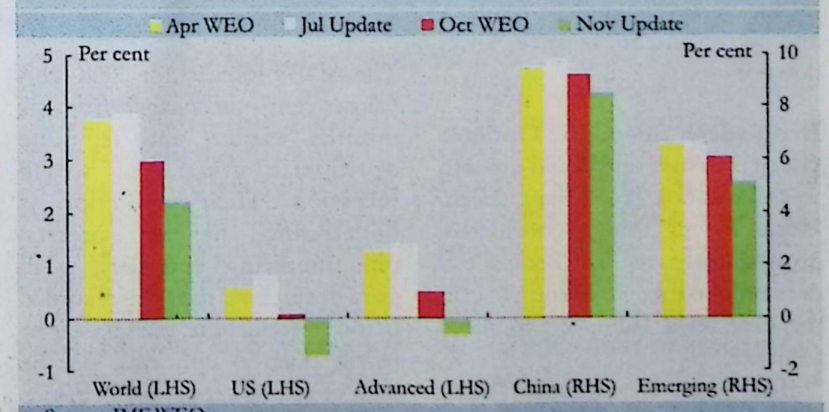
Six months ago, there was a lot of discussion about the decoupling hypothesis -- the idea that major

Table 1: Real GDP growth in major economies

	Actual		Forecasts	
	2006	2007	2008	2009
United States	2.8	2.0	1.4	-0.7
Euro area	2.8	2.6	1.2	-0.5
Japan	2.4	2.1	0.5	-0.2
Asian NIEs (a)	5.6	5.6	3.9	2.1
China	11.6	11.9	9.7	8.5
India	9.8	9.3	7.8	6.3
Asean-5 (b)	5.7	6.3	5.4	4.2

Newly industrialised economies: Korea, Taiwan, Hong Kong and Singapore. (b) Asean-5: Indonesia, Thailand, the Philippines, Vietnam and Malaysia. Source: IMF World Economic Outlook (WEO) update, November 2008, available at: http://www.imf.org/external/pubs/ft/weo/2008/update/03/

Chart 1: Revisions to IMF's forecast of real GDP growth in major economies



Source: IMF WEO