

Plan of the presentation

Global outlook and risk

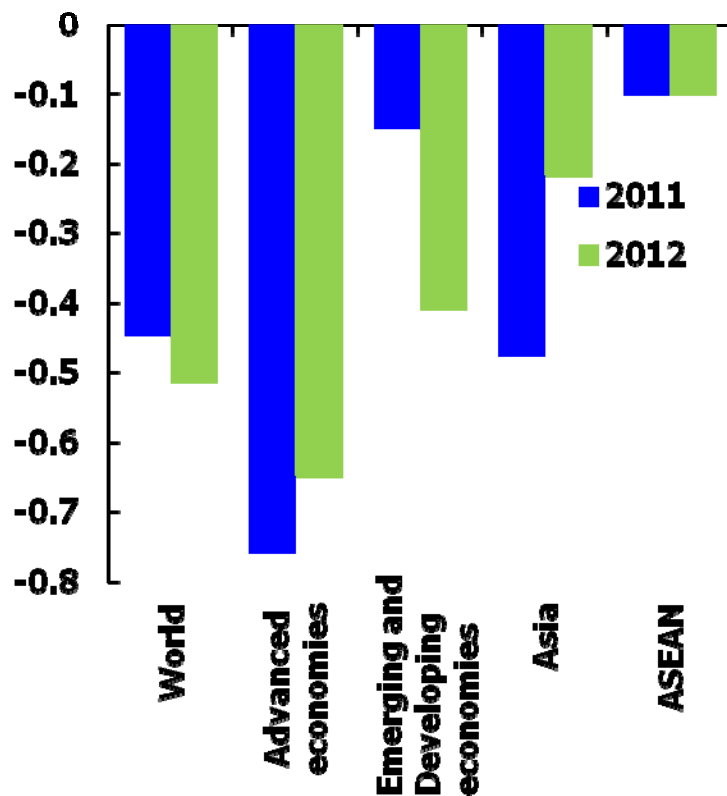
- Growth has slowed
- Downward revisions to forecasts
- Global economy at dangerous stage

Asia: Outlook and policy challenges

- Still healthy growth but not immune
- Pause in tightening?
- Rebalancing and inclusive growth

Global growth has been revised down, although emerging economies will continue to lead

Downward Revisions in Growth Forecasts since April 2011 *WEO*
(In percentage points)



World GDP Growth
(Year-over-year; in percent)

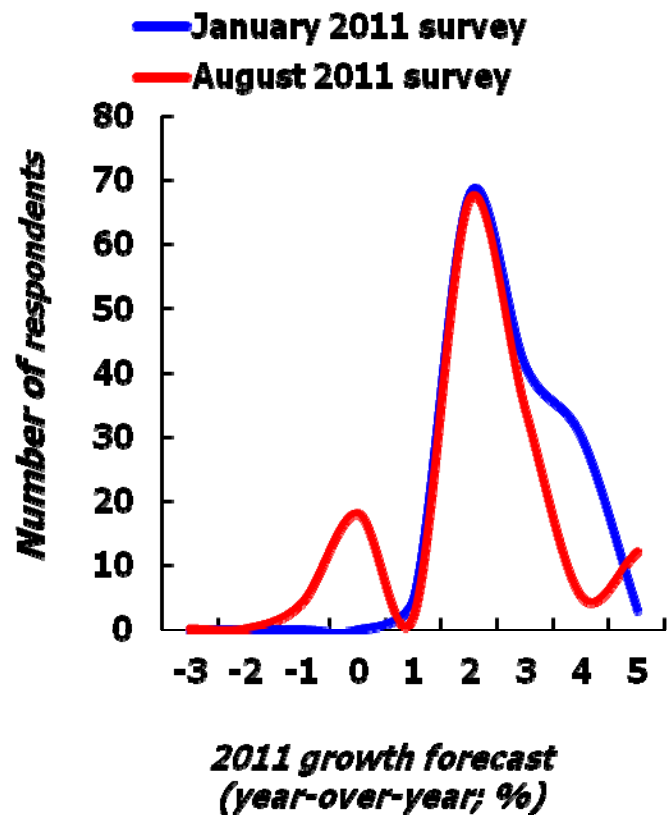
	2010	2011 (Proj.)	2012 (Proj.)
World	5.1	4.0	4.0
Advanced economies	3.1	1.6	1.9
Emerging and Developing economies	7.3	6.4	6.1
Asia	8.3	6.3	6.7
ASEAN	7.6	5.3	5.5

The global economy is at a dangerous stage as bank-sovereign feedback loops have strengthened

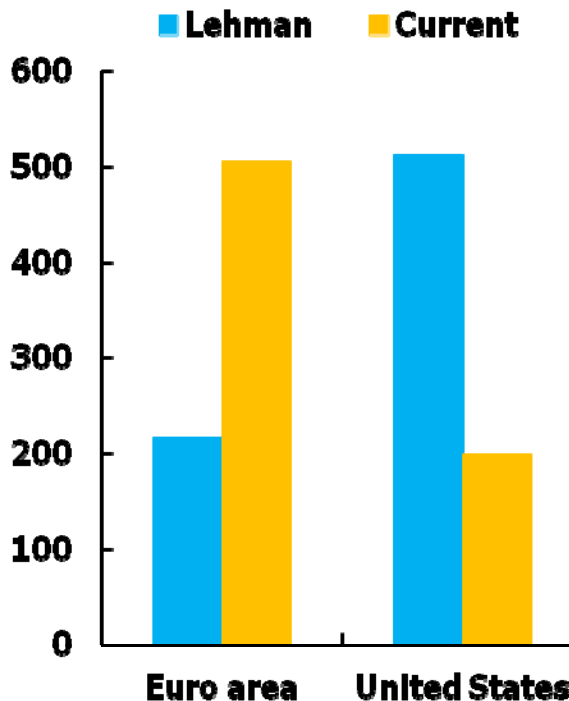
Are we in a bi-modal world?

Is this Europe's Lehman?

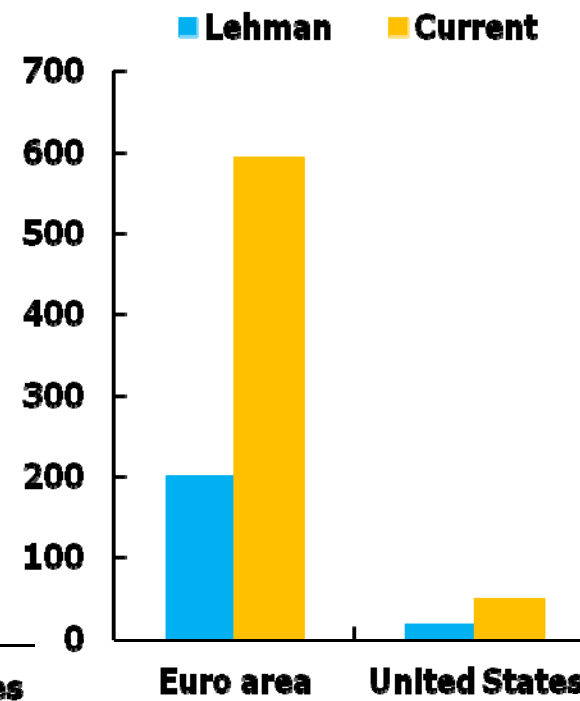
Advanced Economies: Distribution of Consensus Growth Forecast for 2011



Bank CDS spreads (5-year, basis points)



Sovereign CDS spreads (5-year, basis points)



Note: Current refers to end-August.

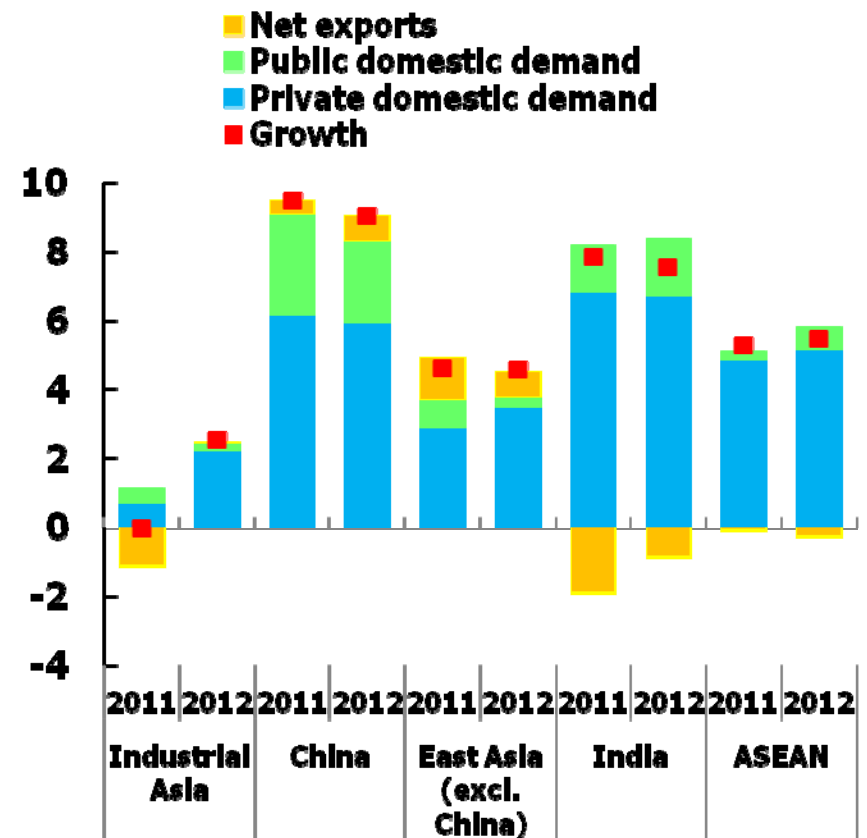
We expect growth in Asia to moderate only slightly

Domestic demand will remain strong

Asia: Projected GDP Growth
(in percent; year over year)

	2011	2012	Change since April WEO	
			2011	2012
Asia	6.3	6.7	-0.5	-0.2
<i>Industrial Asia</i>	<i>0.0</i>	<i>2.5</i>	<i>-1.7</i>	<i>0.2</i>
Japan	-0.5	2.3	-1.9	0.2
<i>East Asia</i>	<i>8.5</i>	<i>8.2</i>	<i>-0.2</i>	<i>-0.4</i>
China	9.5	9.0	-0.1	-0.5
Korea	4.0	4.4	-0.5	0.2
<i>South Asia</i>	<i>7.7</i>	<i>7.4</i>	<i>-0.4</i>	<i>-0.3</i>
India	7.8	7.5	-0.4	-0.3
<i>ASEAN</i>	<i>5.3</i>	<i>5.5</i>	<i>-0.1</i>	<i>-0.1</i>
Indonesia	6.4	6.3	0.2	-0.2
Malaysia	5.2	5.1	-0.3	-0.1
Philippines	4.7	4.9	-0.3	-0.1
Singapore	5.3	4.3	0.1	-0.1
Thailand	3.5	4.8	-0.4	0.3

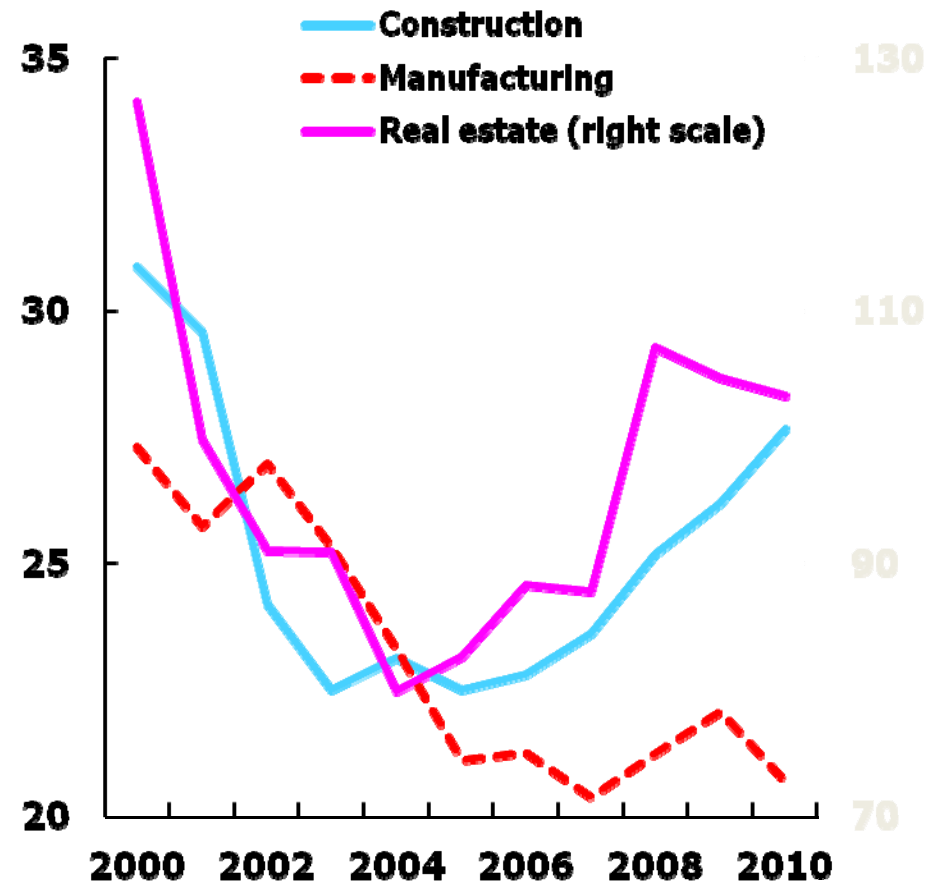
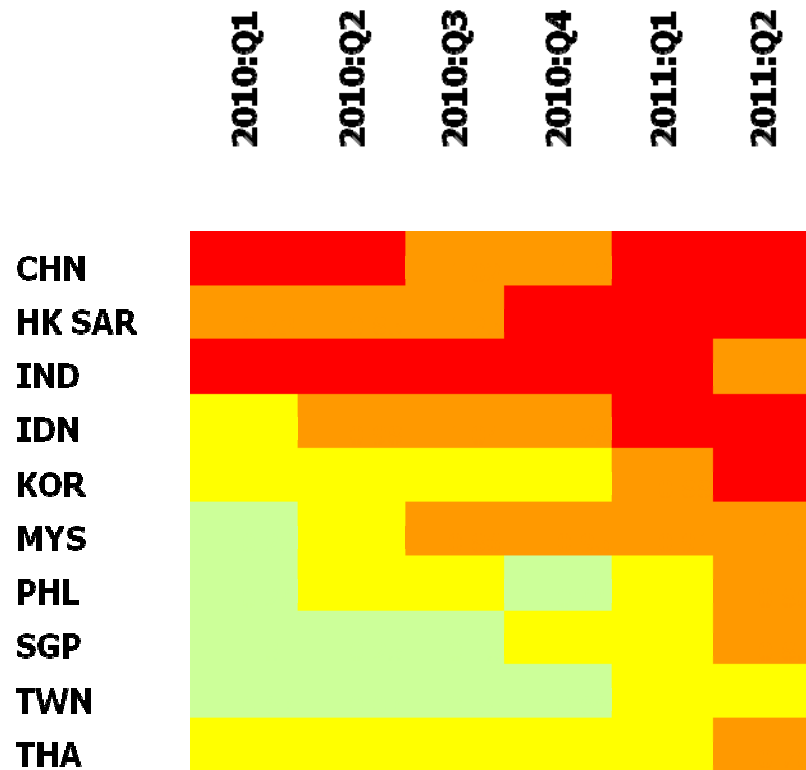
Selected Asia: Contributions to Projected Growth
(in percentage points; year over year)



Overheating pressures remain high Asia's position in the credit cycle has advanced further

Asia: Overheating Map

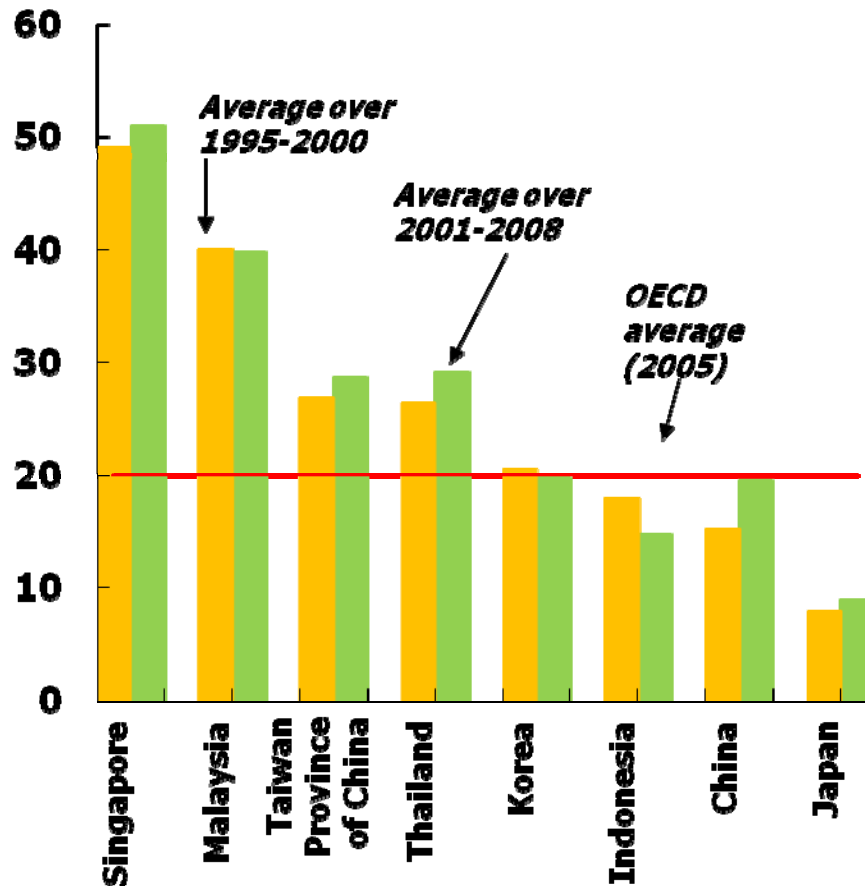
Asia: Leverage in Different Sectors
(debt in percent of sales)



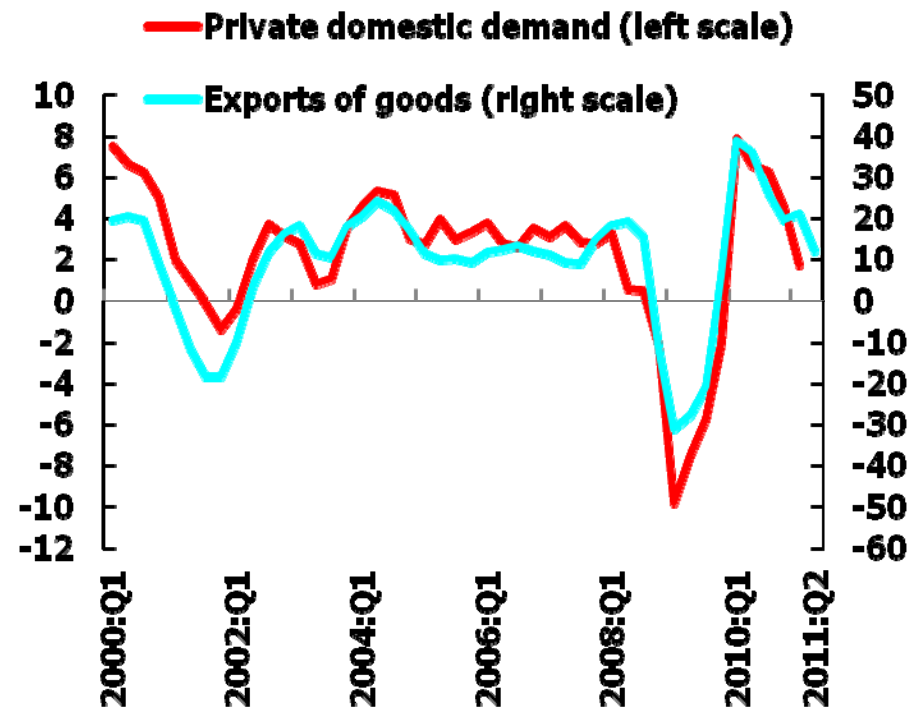
Note: Red indicates high overheating risk followed by moderate overheating risk in orange. Yellow indicates low overheating risk, and light green indicates least risk.

But another global recession would hit Asia hard through both trade channels

Asia's Dependence on Demand from Outside the Region
(In percent of GDP)



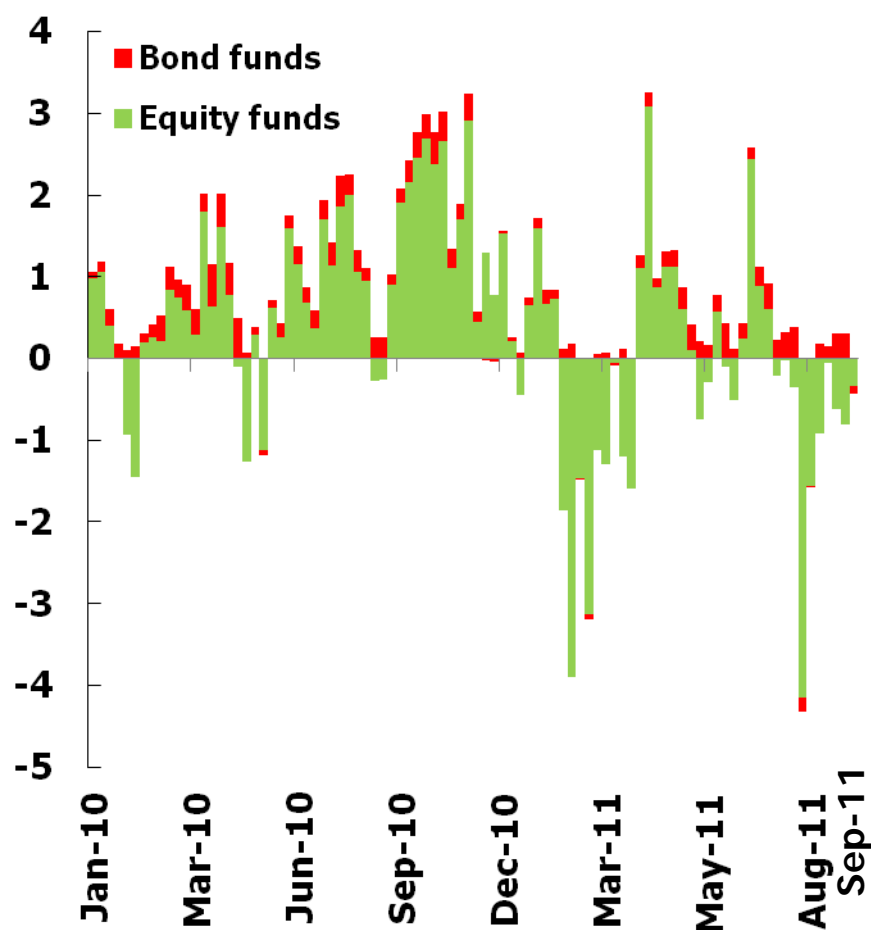
Export-Oriented Asia: Private Domestic Demand and Exports
(Year over year percent change)



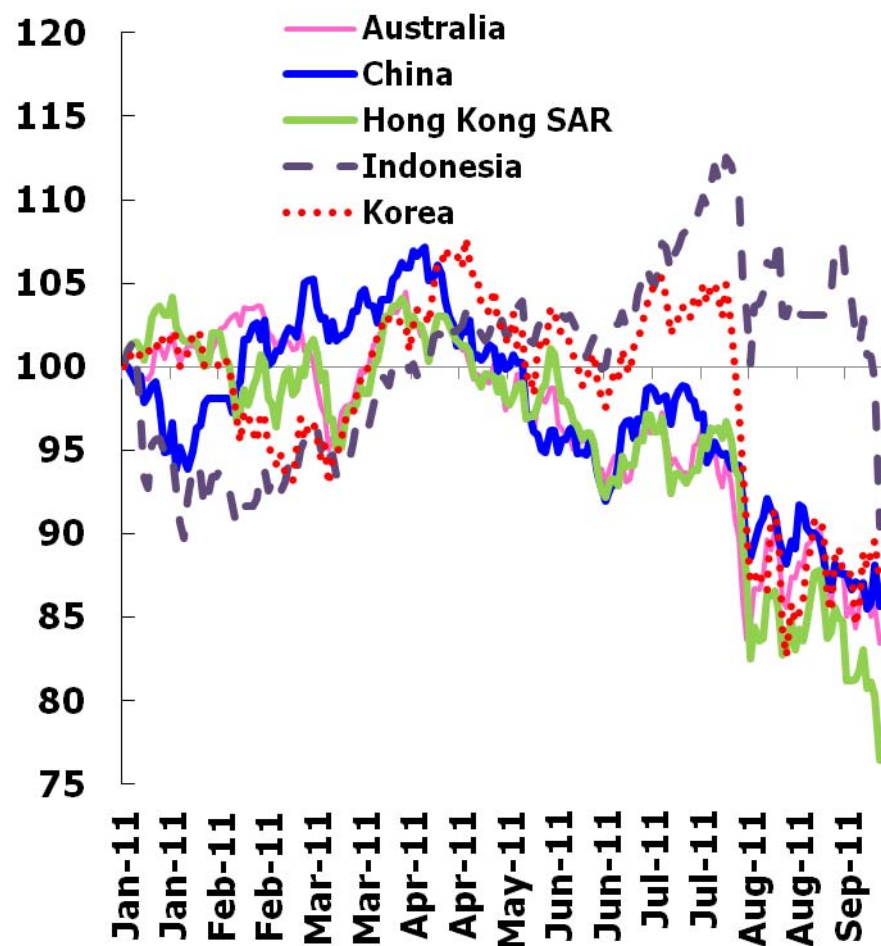
Note: Includes the ASEAN-4 (excluding Indonesia), Japan, and the NIEs.

...and financial channels

Emerging Asia: Equity and Bond Funds — Weekly Net Flows
(In billions of U.S. dollars)

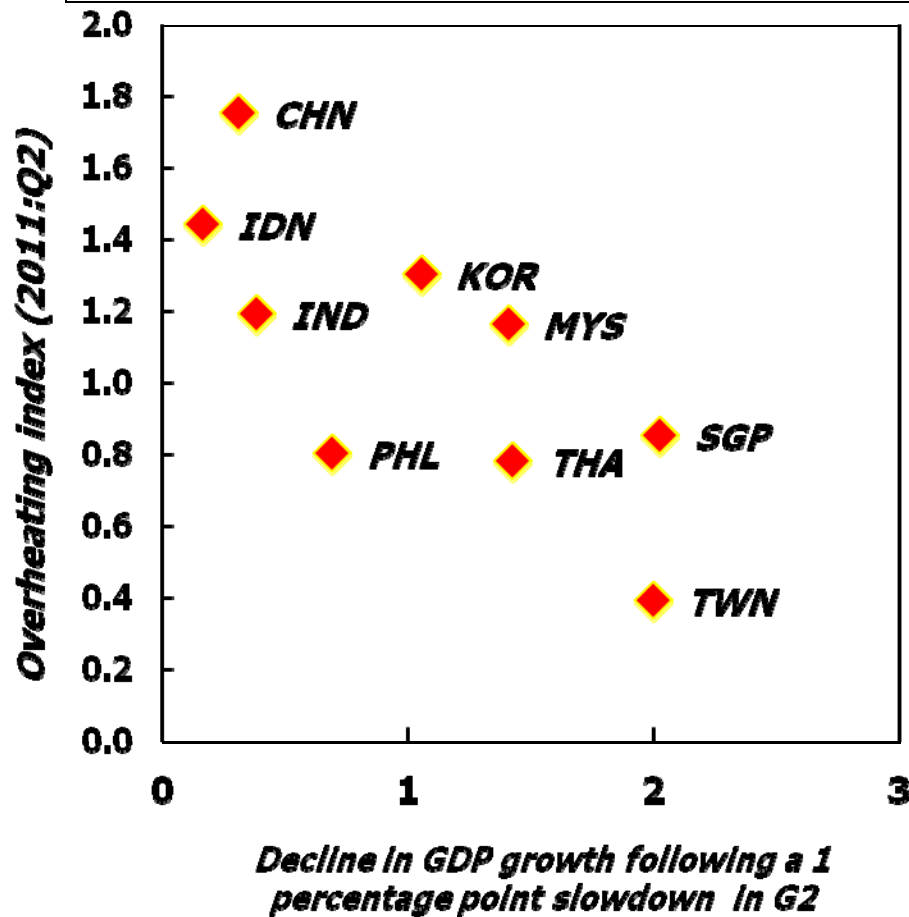


Selected Asia: Stock Market Performance
(Index; January 1, 2011 = 100)

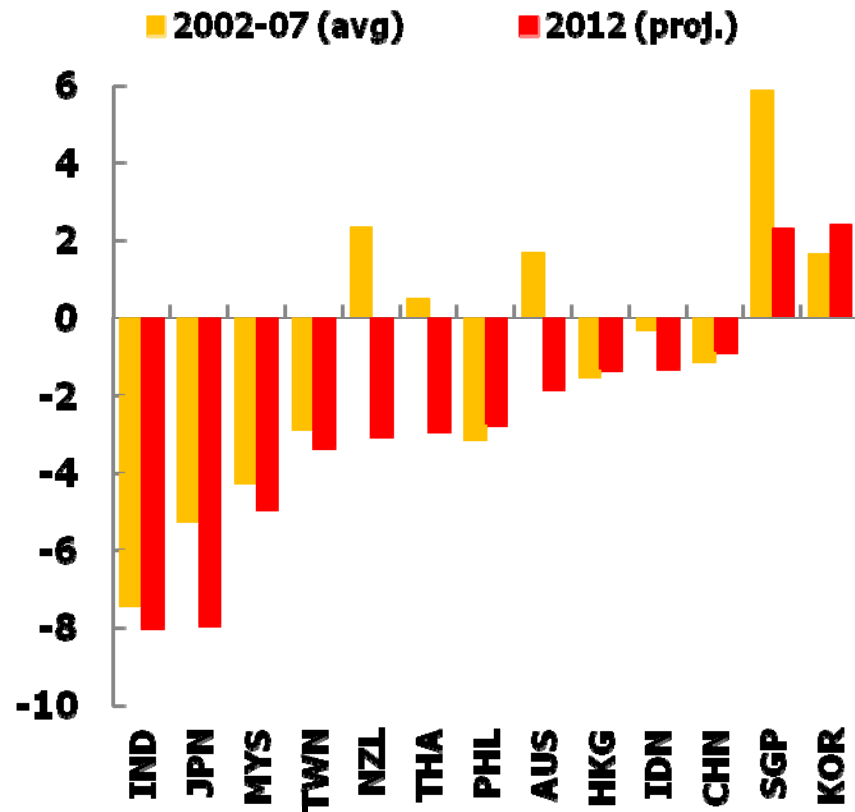


Do downside risks warrant a pause in tightening?

Emerging Asia: Overheating Index and Exposure to G2 Growth



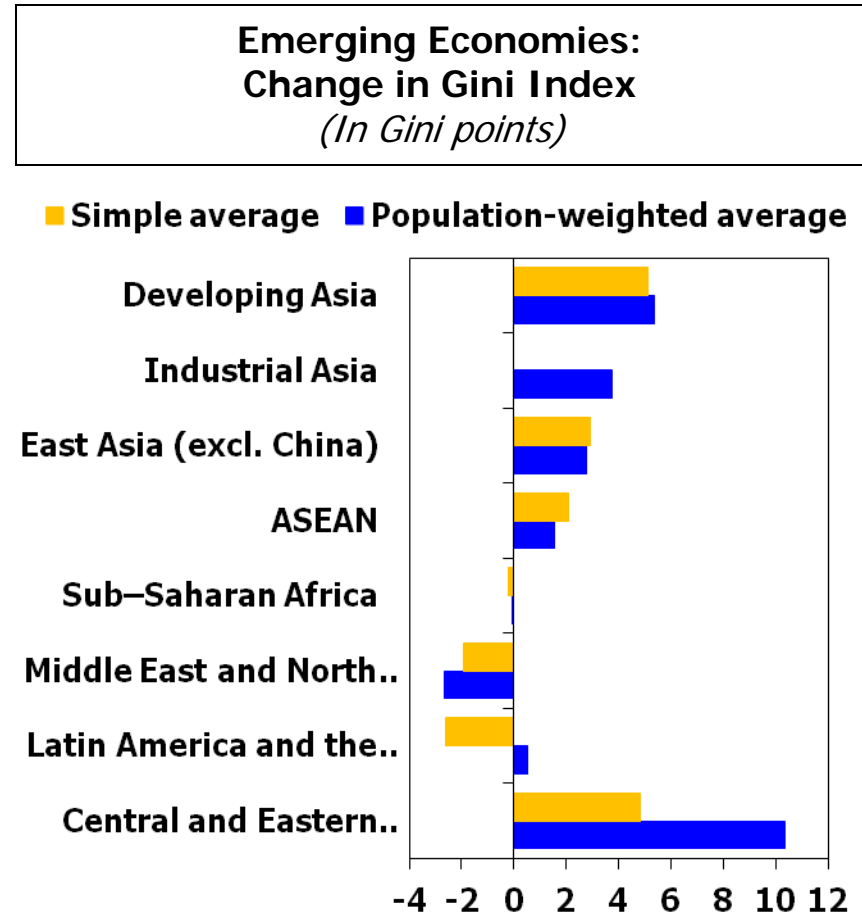
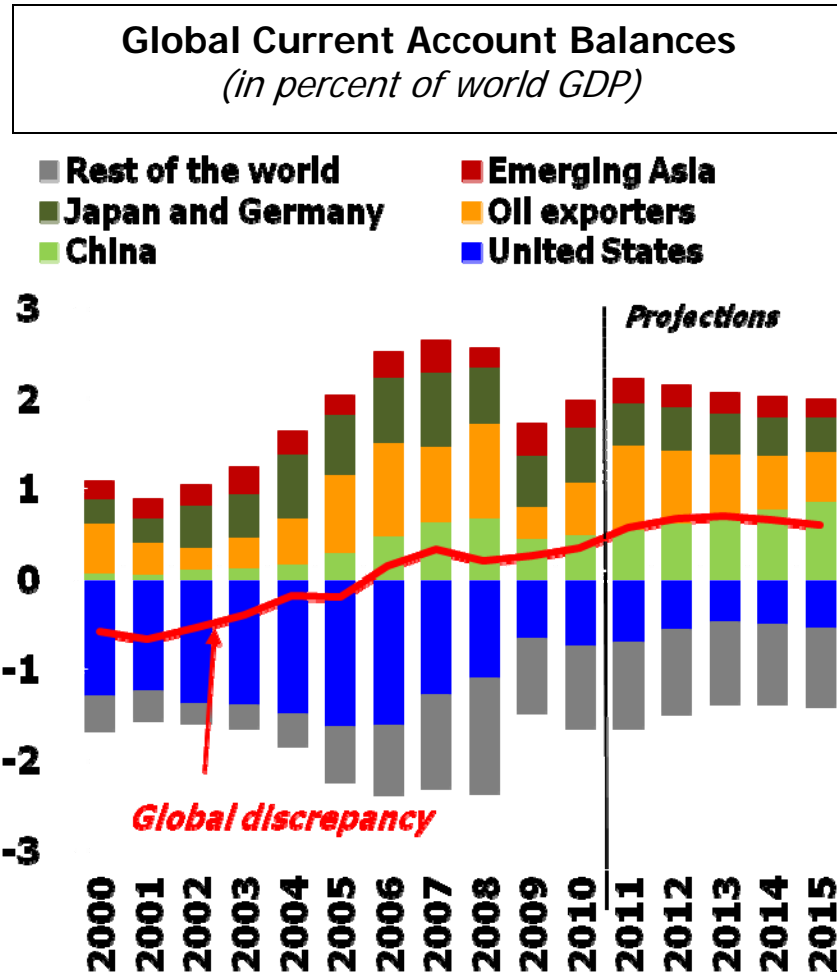
Selected Asia: Cyclically Adjusted Fiscal Balances
(In percent of GDP)



Policies would have to respond swiftly to events that precipitates another global recession

- Draw on ample FX reserves or regional reserve pooling arrangements
- Shift aggressively to ease monetary policy
- Reverse fiscal consolidation (for those with fiscal space)
- Reactivate swap lines
- Guarantees on bank liabilities
- Use of extraordinary measures (such as expansion of central bank balance sheets or exceptional liquidity provision) should rates approach the zero bound

Medium-term challenges are to rebalance and shift to a more inclusive growth mode



Conclusions

- Asian economies are still expected to continue growing at a solid rate.
- A pause in monetary tightening may be warranted in some countries.
- But downside risks from a weakening global economy have greatly intensified and underscore the need to shift the growth model in Asia. Policies in support of economic rebalancing and inclusive growth should be advanced.