



In a fragile external environment, the economy in the East Asia and Pacific (EAP) region continues to slow down. GDP growth for EAP in 2012 is now projected to be 7.2 percent (compared with a 7.6 percent projection in May) whereas China's growth is expected to come in at 7.7 percent (8.2 percent). Tensions on international financial markets have eased in recent months, following developments in the Euro area and central bank action in Europe, the US and Japan. Real economic activity in advanced economies continues to disappoint, though, with lackluster recovery in the United States and recession in Europe resulting in weak demand for EAP's exports. Indeed, net trade is no longer contributing to EAP's growth at all. In contrast, domestic demand is robust in most parts of the region, although it is further slowing in China following the measures taken last year to cool off the real estate market. Domestic demand and growth in other developing countries would drive a mild rebound in growth in 2013, as high income countries are projected to grow at about the same pace as this year. For next year, growth in EAP is projected to reach 7.6 percent, whereas China's growth is expected to top 8 percent. Against this background, poverty will continue to decline, and the share of people living on \$2/day will reach 24.5 percent by the end of 2013, down from 28.8 percent in 2010. Although retreating, the Euro area crisis still constitutes a major risk to this outlook, followed by the "fiscal cliff" risk in the United States. Within the EAP region, the risk remains of a more pronounced slowdown in China than currently expected, while commodity exporters are at particular risk of a global slowdown. The recent global food price increases seem less of a risk to EAP, as rice markets are not much affected for now.

Recent Developments

Global financial market tensions are subsiding... Global financial market tensions have eased since late July. The announcement of possible European Central Bank (ECB) measures to defend the Euro in late July was the first step that calmed markets. This was followed by the launch of the ECB's bond-buying program and the German Constitutional Court's favorable ruling on the European Stability Mechanism (ESM) in early September. These actions, as well as the US Federal Reserve Board's announcement of a 3rd round of quantitative easing and the Bank of Japan's extension of its version of the program were cheered by the markets. Global equity markets have rebounded since June, with stocks in high-income countries up 11.8 percent so far in 2012 and



