The International Monetary Fund said Friday that Asia will continue to power the world economy, but it warned there was an increasing risk that growth in the region could drop to levels last seen during the global financial crisis.

In an update to its regional economic outlook, the IMF foresees the region’s economy to expand 5.9% next year—0.7 of a percentage point below its April estimate—but said it saw a one in seven chance of Asian growth falling below 4%.

"Growth is projected to pick up very gradually, and Asia should remain the global growth leader, expanding over two percentage points faster than the world average next year," the IMF said.

But it noted there were substantial risks to its core view, which assumes that euro-zone-related tensions gradually diminish and U.S. lawmakers prevent severe fiscal tightening measures automatically kicking in around the turn of the year. The fund noted that the euro-zone debt crisis in particular posed a considerable risk.

If a shock from Europe or the U.S. were to spark a severe global slowdown, that would exert a "powerful" drag on Asia’s most open economies via trade, the IMF said. And while Asian countries have been resilient to financial market spillovers, an aggressive pullback by European banks and capital flight could cause severe disruption, particularly to Southeast and East Asian economies with the exception of China, it said.

The IMF now forecasts Asia’s economy to grow 5.4% this year, 0.6 of a percentage point weaker than the view it published in April. The IMF defines Asia as East Asia, Southeast Asia and South Asia, along with Australia, Japan and New Zealand.

The fund added that a hard landing in China’s economy remained a low-probability risk, but warned that such a scenario would have a significant impact on Asian economies, if it did occur.

Monetary policy stances in the region broadly provide appropriate insurance against downside risks, the IMF said. It noted there was still plenty of space in most Asian economies for policy makers to cut interest rates if a severe global downturn were to materialize, although a sudden rise in food or oil prices could limit that scope.

But it highlighted a need to rebuild fiscal space in many Asian economies, excluding China and South Korea, and said reforms aimed at achieving greater economic resilience, more inclusive growth and more efficient government revenues should be a priority.

"Sustained high rates of growth over the medium term cannot be taken for granted, and the magnitude of the recent slowdown in some large Asian economies has raised concerns that it might not be just cyclical," the IMF said.

It warned that many Asian countries had reached a stage of development that put them at risk of falling into the so-called middle-income trap, and failing to progress to high-income status.

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