



ITALY

IGNAZIO VISCO, Head of Delegation

On behalf of Italy, I am honoured to address this assembly, convened for the Thirty Eighth Annual Meeting of the Board of Governors of the ADB. I also wish to join my colleagues in thanking the Government and the people of Turkey for their warm hospitality in this most beautiful city of Istanbul.

To begin I must express my personal congratulations and those of my country to Mr Kuroda on his election as the new President of the ADB. Mr Kuroda is highly qualified to occupy such a post and to lead the Bank successfully through the difficult challenges and ambitious reform agenda initiated by former President Tadao Chino.

Before I make a few introductory comments regarding the economic outlook in Asia, let me first express my deep sorrow for the devastating loss of human life inflicted on several countries in the region by the catastrophic tsunami of December 26.

The economic situation in developing Asia

Last year, developing Asia achieved its best growth performance since the financial crisis of 1997-98. Aggregate GDP growth was over 7 per cent, a striking achievement for a region of more than 3 billion people, with the large majority of countries continuing to expand at remarkable rates. Prospects for 2005-06 are also favourable, with robust growth, low inflationary pressures and healthy current account balances.

When the ADB was established in 1966, Asia was poor and underdeveloped. Over the decades most of its countries have adopted reforms to foster economic growth, and it is now becoming an extremely dynamic region, with a very significant role to play in the world economy.

Since the financial crisis that overtook South-East Asia in the late '90s, macroeconomic management has improved considerably, reducing domestic and external vulnerabilities. Appropriate structural and institutional reforms have also been courageously implemented. Robust income growth has boosted consumer confidence and spending, and investor sentiment has strengthened. Domestic demand is now becoming a substantial driver of growth in the region.

Intra-regional trade also continues to expand at a brisk pace as the rest of Asia integrates further with the People's Republic of China (PRC) and increasingly with India. To give an example, bilateral trade between the PRC and the ASEAN countries has grown last year by 36 per cent, to over US\$ 100 billion.

Despite recent restrictive measures, GDP growth in the PRC was again very strong in 2004, mainly on account of the boom in investment. Although fears that there will be a hard landing in 2005 have declined, further policy action may be required to counteract overheating in some sectors. The country continues to be a favoured destination for foreign investment.

India has also achieved an impressive economic performance. Addressing imbalances at the macro level and implementing effective institutional reforms will be crucial if the country is to maintain a steady pace of growth and reduce inequalities.

However, this favourable scenario could be endangered, in the short term, by Asia's high dependence on oil imports, which might worsen the trade-off between output and inflation. Greater exchange rate flexibility could help monetary policy to keep inflation low.

To sustain growth in the longer term, a sound macroeconomic environment and the continued implementation of structural reforms should remain a priority. Moreover, economic integration is key to the future economic development of the area. In fact, intra-regional trade has already grown to such an extent that developing Asia's largest trading partner is now developing Asia itself. The recent trend towards free trade agreements should therefore be encouraged.

The continuation of high growth in developing Asia and more flexible exchange rates with the major currencies will also help to reduce global imbalances, although any solution will necessarily require major efforts not in Asia alone but world-wide.

Development and aid effectiveness

Despite developing Asia's impressive achievement in terms of economic growth, 800 million people still live below the poverty line in this part of the world.

Eliminating poverty is not just a matter of mobilizing financial resources, it means making effective use of those resources in a region that is remarkable for its diversity, and in which the rapid and unchecked growth of large urban areas has brought about dramatic social changes and created vast pockets of poverty.

A dynamic approach is needed for the ADB and other partners in development to help developing member countries ensure the efficient use of financial resources for investment, thereby creating the conditions for growth and equitable development.

It is widely recognized that the primary responsibility lies with the governments of recipient countries, which are expected to transform into action their commitment to improve governance and make aid effective. For its part, the Bank should stand ready to help its borrowing members in these efforts and, in the spirit of the Rome and Paris Declarations on Harmonization and Aid Effectiveness, it should step up its efforts to align support at country level and with national strategies.

While harmonization will improve the effective use of scarce resources, we know that the ADB's financial flows will always be small compared with the needs of its borrowing members. It is of great importance therefore for the ADB to promote private investment, which can play a major role in driving growth and reducing poverty.

To foster private sector development, the Bank needs to address weaknesses in recipient countries' institutional capacity, guarantee sufficient transparency in the utilization of all resources, fight corruption and money laundering, and encourage more private sector participation also to infrastructural projects.

Italy is aware of the progress already made by the ADB on several fronts. We praise the efforts to tap the benefits of increased foreign investment, as well as of innovative measures such as

the launching of the Trade Facilitation Mechanism and the local currency bond issuance. We also attach special importance to the creation of an independent risk management team that will evaluate the global risk of each intervention by the ADB, in both the public sector and the private sector.

To be successful, the ADB needs to emphasize the importance of adequately training its management to meet the needs of a dynamic and evolving private sector. More generally, we encourage the Bank to adopt as soon as possible its new Human Resource policy. Motivated and result-oriented human resources are the strength and the pillar of all institutions. Weaknesses in this area could indeed jeopardize the ADB's ability to carry out its mission effectively. The selection process for senior management and professional staff should be transparent, open and based on applicants' capabilities and managerial skills: know-how, professionalism, motivation, flexibility and leadership skills are essential characteristics.

Merit-based salary increases will motivate people to become more efficient and productive, while helping to keep the focus on cost saving with regard to administrative expenses. Adequate control of the budget, the more so after the decline in the net income due to "unexpected" loan prepayments, will have a positive effect on the efficiency of all Bank's operations.

Before ending I would like to say a few more words on the tsunami disaster. The Bank staff showed a great ability to respond quickly to the emergency. The mobilization of the entire international community was unprecedented and we were very pleased to give our support to the establishment of the Asian Tsunami Fund. Italy was indeed among the first countries to react, helping to address primary needs in all the tsunami-affected countries. Even before the creation of the special fund, Italy supported the ADB in increasing the resources for the ADF VIII.

We realize that Multilateral Development Banks and their development partners have often to work in emergency situations. The Bank should therefore identify suitable mechanisms for responding effectively in such cases, in its specific role as a financial institution, while sharing tasks with the humanitarian organizations.

On a final note, I would like to stress how important it is for the ADB and its bilateral and multilateral development partners to collaborate more closely and coordinate their efforts to better effect. This, we believe, is one of the biggest challenges facing Mr Kuroda as the new head of the Bank.

Thank you.