

**PRESS INFORMATION BUREAU
GOVERNMENT OF INDIA**

**FINANCE MINISTER SHRI P CHIDAMBARAM'S OPENING ADDRESS AT THE 46TH
ANNUAL MEETING OF THE ADB BOARD OF GOVERNORS TODAY**

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**Following is the text of the Union Finance Minister Shri P Chidambaram's Opening
Address at the 46th Annual Meeting of the ADB Board of Governors' today at IECM,
Greater Noida:**

Honourable Prime Minister Dr. Manmohan Singh, President Nakao, Fellow Governors of the Asian Development Bank, Management and staff of member country delegations, Distinguished Guests, Ladies and Gentlemen.

It is a great honour to welcome all of you on behalf of the Government of India to the 46th Annual Meeting of the Asian Development Bank (ADB) in the National Capital Region of India. I had the same honour, as the Chair of the Board of Governors, when India hosted the 39th Annual General Meeting in 2006 at Hyderabad.

May I begin by thanking the Prime Minister of India most warmly for his gracious presence and for the address that he will deliver in a few minutes.

We have with us our new President, Mr. Takehiko Nakao, who has extensive experience in international finance and development and in-depth knowledge of the Asian region. He was Vice - Minister of Finance of Japan and is a well known figure in the Asian region and among the countries of the world. We look forward to working with Mr. Nakao. Let me also record our sincere appreciation of the role played by former President Haruhiko Kuroda in raising the stature of ADB among Multilateral Development Banks and working tirelessly for the progress and prosperity of the member countries. He was an able leader, a wise counsel and a good friend.

He has assumed the key office of Governor of the Bank of Japan and we wish Mr. Kuroda great success in his new responsibility. I acknowledge his presence today in this august gathering.

A Sluggish Global economy:

We meet here at a time when nearly all countries have seen a decline in growth. While *the crises in the euro area and the US appear to have been contained by policy actions, the return to recovery in the euro area has been delayed. Expansionary policies* have boosted growth for short periods. But given the large debt-GDP ratios in many countries, such policies have soon been reversed and replaced by fiscal tightening. Furthermore, disturbingly, the recession in some of the advanced countries has resulted in financial distress in the banking system.

According to Asian Development Outlook (ADO) 2013, released by the ADB, growth in the major industrial economies will slow down from 1.2 per cent in 2012 to 1.0 per cent in 2013.

The unfavourable economic trends in the advanced economies have acted as headwinds to our development efforts. The developing countries in the Asia-Pacific region continue to suffer from sluggish external demand and inadequate financial resources.

Region: A Global Growth Engine with Lots of Challenges:

In the midst of this financial turmoil in the euro area and the US, the Asia Pacific region has functioned as perhaps the only ‘growth engine’ of the world economy. But, its speed has been adversely affected, and it too has slowed down. Growth in developing Asia has decelerated from 9.2 per cent in 2010 to 7.3 per cent in 2011 and to 6.1 per cent in 2012. We are fortunate that domestic factors have remained the main drivers of growth, but the continuing economic crisis in the developed world has severely constrained our efforts to rebalance our economies.

The shift from external drivers of growth to domestic ones will have to be complemented by a rebalancing of growth within countries. Some economies have to move from investment-

driven growth towards consumption-led growth. Others, like India, where consumption already accounts for a large portion of GDP, there is a need to enhance the rate of investment to maintain a high growth rate and create more jobs.

We now see some green shoots and there is an expectation that Asia will once again move towards a higher growth trajectory. According to the Asian Development Outlook 2013, developing Asia's GDP, following the slower pace of 6.1 per cent in 2012, is forecast to expand by 6.6 per cent in 2013 and 6.7 per cent in 2014. IMF's World Economic Outlook has projected an even higher growth of over 7 per cent in 2013 and 2014. Thus, the region is, and continues to be, recognized as one of the world's most successful development stories in history.

The Millenium Development Goals:

I would also like to draw your attention to another aspect of our growth story. The region has made good progress in meeting the Millenium Development Goals (MDGs), particularly in reducing income poverty. Nevertheless, in several parts of Asia, a significant section of the population has yet to be lifted out of poverty and provided with basic facilities such as education, health and drinking water.

Advancement in some other MDGs, such as reducing child mortality and providing access to better sanitation has fallen short of the targets. There is no room for complacency: the challenge of promoting inclusive and sustainable growth, eradicating poverty, and empowering the people of the region with adequate basic necessities of life very much remain. Removal of poverty is a sustained effort, it can be done only by laying the foundations for robust and inclusive growth over a long period of time. And those foundations will require bold reforms that resolve contentious structural and policy issues.

Climate Change

The Asia-Pacific region also remains highly vulnerable to climate change and natural disasters. The livelihoods of millions of people are threatened by greenhouse gas emissions, land

degradation and dwindling water supplies. More than 60% of the region's population works in agriculture, fisheries and forestry, which are the sectors most at risk to climate change.

Meaningful mitigation of climate change would require developed countries to cut their emissions drastically, and developing countries to decouple economic growth from the generation of high levels of greenhouse gases. However, to achieve this, several hundreds of billions of dollars will be required annually to help developing countries transition to low-carbon and climate-resilient economies. In Asia and the Pacific alone, we will need USD 40 billion annually, and those resources – promised from time to time – are hard to come by.

ADB is helping the region meet the financing needs for climate change mitigation. ADB approved USD3.3 billion of climate finance in 2012, with USD 2.4 billion to mitigating climate change and USD 900 million to adaptation.

An ADB in step with the Region

Ladies and Gentleman,

ADB is ideally placed to help the regional economies overcome these and other challenges. Having been present in the region for nearly half a century, ADB has acquired profound knowledge about the aspirations, opportunities and challenges faced by the various economies. Moreover, ADB's assistance encompasses much more than financial resources. It supports systemic and transformational changes, promotes innovation, pilots new approaches, and leverages development resources through innovative financial products.

ADB's support becomes an important issue particularly in the context of infrastructure. The region faces a daunting challenge in the provision of quality infrastructure. Asia needs an estimated USD 8 to 10 trillion over the next decade for physical infrastructure. Given the humongous sum of money that is required, government outlays for infrastructure need to be augmented by the private sector. ADB has its work cut out. It must continue to allocate a major portion of its sovereign lending for infrastructure development. It must also find new ways to help channelise private sector capital and participation in infrastructure projects.

The Resource Challenge

ADB's contribution to the development story in the region is well recognized. However, if ADB must continue the important role that it has played so far in the region, its resource base has to expand considerably and keep pace with the needs and absorptive capacity of the region. The financial position of ADB in the future is a matter that should engage the attention of member countries—both Regional and Non-Regional – and must be accorded the highest priority.

The financial position of ADB is sound at the moment, but is constrained. The prevailing low interest environment has resulted in low investment income and has limited the amount that can be ploughed back into equity for the Bank. I am afraid this low interest environment will continue for some more time. For financial prudence, ADB has a capital adequacy framework. Under this framework, sustainable level of lending by ADB is expected to decline, from USD 10.1 billion to USD 8.0 billion. Thus, the support that ADB can deliver for economic development and poverty reduction in the region will be seriously constrained by the lack of adequate capital. We may hit the wall in about three years.

It, therefore, behoves us to focus on the issue of how to at least maintain, and preferably augment, ADB's capacity to support development in the region and achieve the goals enshrined in Strategy 2020. Indeed, in the short-term, we should consider a mix of options as a package. But when we take a medium-term perspective, we will realize that a capital increase alone will provide a durable solution. A stronger ADB and an economically stronger Asia and the Pacific are not only good for realizing our dream of a region free of poverty but also for ensuring that the most robust 'growth engine' in the global economy continues to charge forward at a brisk speed, carrying the hopes and aspirations of millions of people. Fellow Governors, I call upon you to consider ways and means to increase ADB's resources to meet Asia's needs for infrastructure, economic growth and poverty reduction.

Distinguished friends, ladies and gentlemen, ADB is an important player in the exciting development story that has been unfolding in Asia and the Pacific since the 1960s. The story is

continuing. Let it never end. And I shall conclude by saying, on behalf of all the member countries, that I wish to reaffirm our unwavering support to ADB in this exciting journey together.

DSM/RS