PROGRAM ECONOMIC ASSESSMENT

A. Introduction

1. As Pakistan's economy was poised to make a strong recovery during the post- coronavirus disease (COVID-19) period, it was subjected to another economic shock in the form of sharply rising international commodity prices, triggered by the Russian invasion of Ukraine on 24 February 2022. The crisis has severe negative spillover effects on Pakistan, including a surge in imported inflation, increased fiscal deficit, and significant widening of the current account deficit leading to sharp depreciation of the Pakistani rupee and depletion of foreign exchange reserves. These adverse impacts are expected to dampen business confidence and may decrease the already-low levels of investment in Pakistan. The crisis is also projected to adversely impact the economy—the gross domestic product (GDP) growth is expected to slow from 6.0% in fiscal year (FY) 2022 to 3.5% in 2023. The fiscal deficit rose from the FY2022 pre-crisis target of 6.3% to 7.9%.

B. Macroeconomic Context

2. In July 2019, Pakistan embarked on an ambitious stabilization and structural reform agenda under the International Monetary Fund's (IMF) Extended Fund Facility (EFF) to address country's structural imbalances, to ensure fiscal sustainability, entrench macroeconomic stability, and build resilience. This was interrupted by the large COVID-19 economic shock, erasing the gains from earlier reform effort. Although the economy was severely hit by the pandemic in 2020, the government's response was quick and effective, and the adverse impact of COVID-19 pandemic was substantially mitigated. Pakistan's real GDP growth rebounded from the pandemic-induced contraction of 0.9% in FY2020 to 5.7% in FY2021. Continued challenges from the lingering impact of the pandemic and the ongoing external shock yielded uneven program implementation in FY2022, with progress on several structural reforms slowing down while fiscal policy becoming increasingly expansionary.

3. However, realizing the growing macroeconomic imbalances, fiscal and monetary authorities acted in pursuit of curbing inflation to ensure macroeconomic stability and sustain growth consistent with the medium-term budget framework. With persistently high inflation and mounting pressure on domestic currency, the State Bank of Pakistan (SBP), the central bank of Pakistan, started to tighten monetary policy in September 2021, raising its policy interest rate by a cumulative 800 basis points since September 2021. The expansionary fiscal policy was partially reversed in January 2022 with the passage of a supplementary finance bill that targeted underlying primary balance of 0% of GDP. However, the underlying primary balance was missed as large economic shock of the war in Ukraine prompted the former government to announce a freeze on domestic prices of fuel and electricity till June 2022 to ward-off the poor and vulnerable population from the adverse impacts of the crisis, culminating in a sharp increase in untargeted fuel and electricity subsidies. An unstable political transition in March 2022 added to the economic uncertainty, resulting in significant depreciation of the local currency in the fourth quarter of FY2022 and in July 2022. The new government has taken strong remedial measures to contain the fiscal and external account deficit, leading to successful completion of reviews of the IMF EFF program and disbursement of $1.1 billion, bringing total disbursement under the program to $3.9 billion.

C. The Crisis and its Transmission Channels

4. **Worsening trade deficit.** Pakistan's direct trade linkages with Russian Federation and Ukraine are limited, with bilateral trade amounting to just $0.8 billion[1] (about 1% of total trade volume) in 2020. However, Pakistan is exposed to the impacts of Russian invasion of Ukraine through a surge in imports due to rising global commodity prices, in particular fuel. Pakistan's import share of oil and gas is one of the highest among the 15 net energy importers in Asia.[2] This mainly stems from Pakistan's energy sector's heavy dependence on imported fuel (oil and liquefied natural gas), increasing country's vulnerability to commodity price shock.[3] In FY2022, Pakistan's merchandise trade deficit widened to $39.6 billion from $28.6 billion a year earlier, with the deficit in petroleum explaining about 80% of the overall deterioration. The sharp increase in merchandise trade deficit resulted into over fivefold jump in the current account deficit to US$17.4 billion (4.6% of GDP) in FY2022, ensuing a sharp reduction of foreign exchange reserves and significant depreciation of the Pakistani rupee. The current account deficit in July–May FY2022 widened to $15.2 billion, from a deficit of $1.2 billion in July–May FY2021, as imports values surged by 36.3%, almost a third higher than the 25% growth in exports values. The record-high trade deficit was partially financed by remittances that grew by 6.3% y-o-y over the same period.

5. The financial account recorded net inflows of $8.4 billion, supported by the new IMF SDR allocation, short-term government deposits from Saudi Arabia, and a Eurobond issuance. The overall balance of payments swung from a surplus of $3.9 billion in July–May FY2021 to a deficit of $7.0 billion in July–May FY2022, due to the wider current account deficit. In June 2022, foreign exchange reserves rose from a two-year low of $10.8 billion at end-May 2022 to $11.1 billion at end-June 2022, equivalent to 1.7 months of imports of goods and services. However, the current level of foreign reserves falls substantially short of the estimated FY2023 external financing needs of approximately $35 billion, underscoring high rollover risks over the course of the next fiscal year (Asian Development Bank [ADB], July 2022).

6. **Higher inflation.** With Russian Federation and Ukraine being global players in agri-food markets,[4] the regional supply disruptions due to the war in Ukraine and subsequent sanctions on Russian Federation escalated global food prices. Energy prices also skyrocketed on prospects of reduction in global supply of energy products due to sanctions on Russian Federation.[5] Surge in global prices of food and fuel, along with increased logistics, and transportation costs due to lingering global supply disruptions, resulted in higher imported inflation for Pakistan. To ensure food security and incentivize the production of wheat by domestic farmers, the government raised the public sector procurement price for wheat from domestic farmers from PRs1,950 to PRs2,200 per 40 kilogram in March 2022. This triggered about 10% price hike for wheat flour between March and June 2022. As a prior condition to resume the EFF, the government abolished the subsidy on petroleum products and agreed on phased increases in electricity tariffs to cost recovery levels. These interventions will push costs up further compounding the impact of the external shock on the low-income households.

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1 Pakistan Business Council. *Potential for a Pakistan-Russia Free Trade Agreement*. January 2022

2 United Nations Comtrade database (accessed 8 February 2022); Observatory of Economic Complexity (accessed 25 February 2022).

3 Pakistan started liquefied natural gas (LNG) imports in 2015 and has become the world's ninth largest LNG importer in just six years.

4 Together, Russian Federation and Ukraine represent 53% of the share of global trade in sunflower oil and seeds, and 27% of the share of global trade in wheat.

5 Russian Federation is the second-largest oil exporter in the world, selling about 5 million barrels of oil daily. The country is also a major global supplier of chemical products – including fertilizers, as well as metals, and wood products.

7. Consumer price index inflation in Pakistan averaged 14.4% from January to June 2022 with a sudden spike to 21.3% in June, its highest level since 2008, on account of passthrough of global oil prices to domestic fuel and electricity prices. As a result, average headline inflation for FY2022 increased to 12.2% from 8.9% a year earlier. The surge in inflation was broad-based, with food and non-food price indices both recording double-digit increases. The SBP had aimed to bring inflation within single digit by FY2023 but have now revised their inflation projection for FY2023 upwards to 18-20%. Reacting to rising inflation, mounting external imbalances, and unrelenting pressure on the domestic currency, the SBP has raised its policy interest rate by a cumulative 800 basis points since September 2021 and plans to pursue monetary tightening throughout the year to anchor inflation expectations to the medium-term inflation target.

8. **Food insecurity.** Modeling done by the Food and Agriculture Organization (FAO) under moderate and severe scenarios of the conflict show that compared to 2022 baseline, the Asia Pacific region will see the most pronounced increase in the number of undernourished people. For Pakistan, there is a risk of increase in number of undernourished people from the 1-2% bracket under moderate scenario to 2–4% bracket under a severe scenario.[6] A considerable shortfall in global supply of grains, oilseeds, and vegetable oils is expected due to the Russian invasion of Ukraine as capacity of alternative origins to fill the gap is limited. FAO expects this supply gap to push food and feed prices up by 8%–22% globally. This rise in global prices will impact local food prices and access to food especially for low-income groups, especially urban poor. In Pakistan 15% of people cannot access basic food needs and 67% of people cannot access a healthy diet.[7] Risks to Pakistan's agriculture and food markets from the ongoing war are multi-fold and cover trade, price, logistical, energy, production, and exchange rate. In 2021, Pakistan imported wheat worth $813 million, out of which 58.8% was imported from Ukraine and 18.5% from Russian Federation. Before the war started, Pakistan was expected to import most of the 2.0 million metric tonnes wheat import from Ukraine.[8] Deteriorating domestic wheat production situation, exacerbated by the effects of the conflict, is expected to increase the wheat import requirement for FY2023 to 3.0 million metric tonnes, which equates to about $1.0 billion dollars at current prices.[9] This is a drastic change for a country which was self-sufficient in its staple until two years ago. Recent flooding in 2022 due to the excessive monsoon rain may aggravate food insecurity as food prices are expected to rise.

9. **Fiscal pressure.** The fiscal deficit remained high at 7.9% of GDP in FY2022, up from 6.1% in FY2021[10], reflecting decreased levies on petroleum products and increased petroleum subsidies in the wake of the global oil price shock. The primary balance posted a deficit equivalent to 3.1% of GDP during FY2022, up from a deficit of 1.2% in FY2021. Revenue collection slipped by 0.4 percentage points to 12.0% of GDP in FY2022 as a large decline in non-tax revenue outweighed strong tax collections. Federal tax collection increased from PRs4,764 billion (8.5%) in FY2021 to PRs6,125 billion (9.1% of GDP) in FY2022, and exceeded the upward revised target of PRs6,100 billion for the year. Total expenditure increased to 19.9% of GDP during FY2022 from 18.5% of GDP a year earlier, owing to increases in fuel and electricity subsidies and

[6] FAO. 2022. *The importance of Ukraine and the Russian Federation for global agricultural markets and the risks associated with the war in Ukraine*. Rome (June 2022).

[7] FAO. 2022. Possible impacts of conflict between Russian Federation and Ukraine on food and agricultural markets in Pakistan. Rome (May).

[8] United States Department of Agriculture. Foreign Agricultural Service. 2022. *Pakistan Grain and Feed Annual*. Islamabad (March 2022).

[9] United States Department of Agriculture. Foreign Agricultural Service. 2022. *Pakistan Grain and Feed Annual*. Islamabad (June 2022).

[10] Ministry of Finance. 2022. Pakistan: Summary of Consolidated Federal and Provincial Fiscal Operations, 2021-22. Islamabad. https://www.finance.gov.pk/fiscal/July_June_2021_22.pdf.

development spending. Domestic borrowing financed 77.6% of the fiscal deficit, with 76.0% from the banks and 24.0% from nonbank sources. External borrowing financed the remaining 22.4%.

10. **Decline in remittances.** Workers' remittances is an important and growing source of foreign exchange for Pakistan, nearly matching Pakistan's merchandise export receipts in FY2022. In FY2022, merchandise exports amounted to $32.5 billion while remittances to Pakistan totaled $31.2 billion.[11] Pakistan ranks fifth in the world that receives the most remittances every year, with over nine million Pakistanis (or more than four percent of the country's population) residing in 115 countries around the world.[12] At 8.4% of GDP, remittances play a major role in stabilizing Pakistan's external sector and alleviate poverty by enhancing income of the recipient households which, in turn, supports higher private consumption, and real estate investment. The war in Ukraine is projected to dent global growth in 2022 and 2023. Consequently, the remittance inflow to Pakistan is expected to come under pressure, which will reduce personal consumption and also adversely affect demand for construction and real estate sectors of Pakistan, posing a risk to 6.4 million employed in the construction sector within Pakistan.[13]

11. **Lower foreign direct investment.** Given its fragile balance of payments position and urgent need to boost industrial production, Pakistan needs to significantly increase its mobilization of foreign resources. Pakistan's foreign direct investment (FDI) is low, and the country is stuck in a low-savings, low-investment trap that is hampering its growth potential.[14] In FY2022, FDI in Pakistan stood at $1.9 billion, marginally up from the previous year, with roughly half of it concentrated in the energy sector. The People's Republic of China was the leading source of FDI in FY2022 with over a quarter of total FDI inflows to Pakistan. While investment relations between Russian Federation and Pakistan have remained stagnant for many decades, the two countries signed a shareholders' agreement in July 2021 to construct a $2.5 billion natural gas pipeline in Pakistan. However, the financing of the project is now at risk due to constrained capital flows from Russian Federation. Moreover, tightening of global financing conditions due to increased uncertainty of global economic outlook is expected to also reduce FDI inflows from other countries.

12. **Low market confidence.** Moody's, Fitch, and Standard and Poor's revised Pakistan's outlook from "Stable" to "Negative" in June and July 2022. The rating agencies maintain that the revision of the outlook to "negative" reflects a significant deterioration in Pakistan's external liquidity position due to higher commodity prices, rupee depreciation, and tighter financing conditions since early 2022. Even though both sovereign credit ratings agencies assume IMF Board approval of the 7th and 8th review of the EFF program in August 2022, they see considerable risks to its implementation. External resources are likely to remain under pressure in a challenging economic and political climate.

13. **Exacerbating poverty.** The poverty rate fell from 50.4% in 2006 to 24.3% (about 48 million people) in 2015. Another 19.9% (about 20 million people) are near-poor and vulnerable to shocks that could pull them below the poverty line.[15] The country's multidimensional poverty headcount ratio is estimated at 39.0%, with the greatest contribution to poverty stemming from educational deprivation (42.8%), living standards (31.5%), and health care (25.7%). The rural

[11] State Bank of Pakistan. July 2022. *Summary of Balance of Payment as per BPM6.*

[12] Migrant Resource Centre, Islamabad. https://www.mrc.org.pk/en/information-hub/remittances *accessed on 31 July 2022*.

[13] Construction provided jobs to 9.5% of total 67.3 million employed in FY2021. *Economic Survey of Pakistan 2021-22*. Ministry of Finance.

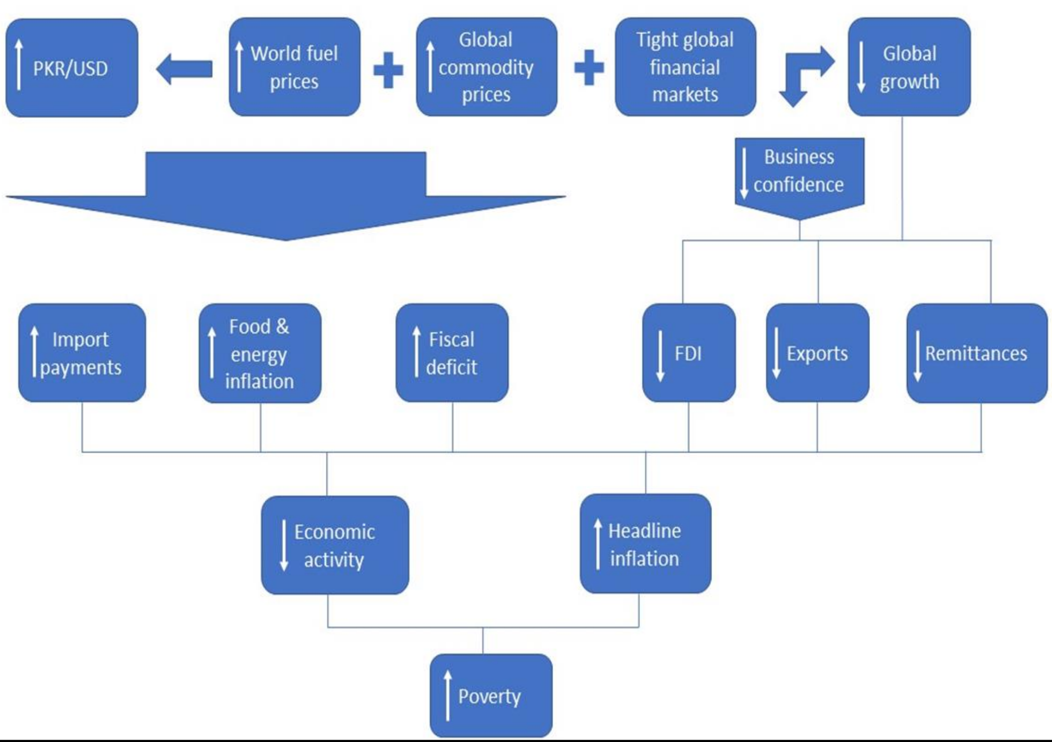
[14] ADB. 2020. *Country Diagnostic Study: Pakistan–Reviving Growth through Competitiveness*. Manila.

[15] Ministry of Planning, Development and Reforms. 2018. *National Poverty Report 2015–2016*. Islamabad.

poverty head count ratio of 30.7% is more than double the urban ratio of 12.5%. Women, who dominate the informal labor market, and girls from poor families are disproportionately affected in times of economic crises. Growing fiscal and current account imbalances caused by exogenous shocks and structural weaknesses necessitated a significant demand slowdown to stabilize the economy. Government has started implementing strong reform measures under the IMF's ongoing EFF program to reduce fiscal deficit and rebuild foreign exchange reserves, including substantial reduction in fuel subsidies, upward adjustments in electricity and gas prices, additional tax policy measures, and tightening of the monetary policy. As a result, there will be a sharp and prolonged increase in inflation.

14. In addition, economic activities are expected to decelerate to 3.5% in FY2023 from 6.0% in FY2022, trimming job creation, and increasing the financial hardship for poor and vulnerable groups. Simultaneously, a slowdown in remittances will affect the income of dependent households, pushing several of these into poverty. Over three million self-employed women, who are mainly engaged in agriculture, handicraft, textile products and housekeeping, may get affected by sluggish economic activities and reduction in households' income. Without expanded social and economic support to counter high inflation, anticipated loss in households' income from remittances, and reduced job opportunities, including for women, poverty in Pakistan will worsen. Modeling of the impact of the macroeconomic crisis on poverty levels in Pakistan concluded that headline poverty ($3.2 per day per person) is projected to increase from 38% in FY2021 to 40% in FY2022, and further to 42.8% in FY2023, an increase of more than 10 million people since FY2021. Recent flooding due to excessive monsoon rain adversely affected the low-income households in the affected areas.

Figure 1 Transmission Channels



D. Government's Countercyclical Expenditure Measures

15. The government has been quick to respond to the crisis triggered by the Russian invasion of Ukraine. In February 2022, the government announced slashing prices of fuel and electricity and freezing these prices at these lower levels till June 2022 to mitigate the shock on the economy and the vulnerable. This increased the power and petroleum subsidies to about $2.5 billion in FY2022, double the target amount in the budget for the year. The countercyclical expenditure measures for FY2023 are targeted to support the poor and vulnerable, and especially women and girls, cope with the impact of the cumulative exogenous shocks. The measures include increase social protection expenditure through the flagship national social protection program, input subsidies for food security, support for small business through employment and entrepreneurship schemes, and support for export-oriented businesses through LNG and electricity subsidies (please refer to Table 1 of the Report and Recommendation of the President to the Board of Directors).

E. The BRACE Program

16. The Building Resilience with Active Countercyclical Expenditures Program (BRACE) Program supports the government's countercyclical expenditure measures (para. 15). The outcome will be adverse socioeconomic effects of the crisis mitigated, and resilience of poor, and vulnerable groups enhanced. The program outputs are aligned with the government's countercyclical expenditure measures, and the targeted program indicators included in the design and monitoring framework are as follows.

17. **Output 1: Increased social protection measures implemented.** The following measures under this output aim to cushion the economic shock on the poor and vulnerable households and include (i) increase in the number of unconditional cash transfer (UCT) beneficiaries from 7.8 million to 9 million households, (ii) one-time direct cash transfer of PRs2,000 as fuel subsidy to households with monthly income below PRs40,000, and (iii) increase in the number of conditional cash transfer beneficiaries for health services and nutritional supplies from 185,703 to 1.0 million. The design and monitoring framework of the national socioeconomic registry guarantees directly targeting the vulnerable segment including low-income families with children.[16]

18. **Output 2: Increased food security measures implemented.** Aimed at ensuring adequate supply of essential food items at stable prices, interventions under this output include (i) freight subsidy on transportation of wheat to different parts of the country through Pakistan Agricultural Storage and Services Corporation Limited; (ii) financial support by the government to the Utility Stores Corporation for provision of basic commodities to the general public at prices lower than those in the open market; (iii) subsidy on agricultural inputs, including fertilizer and urea; and (iv) sales tax exemptions on imports of seeds and tractors. Pakistan produces 86% of its fertilizer domestically and imports 14%. Imported fertilizer is mostly phosphate and its prices

[16] BISP is the flagship social protection program of Government and is one of the most extensively documented and evaluated program in the public sector in Pakistan. Its expansion has been accompanied by key developments such as: (i) switching from community-based targeting to more effective targeting using a proxy means test-based poverty score cards, (ii) developing one of the largest databases of poor households (the National Socioeconomic Registry), and (iii) increasing the use of personal identification number (or PIN) controlled debit cards or biometric verification card-less system for payments to beneficiaries. BISP identifies the beneficiary household through its female member and provides cash transfers in her name.

have doubled due to Rupee depreciation. Local production of fertilizer is primarily urea based for which natural gas is an input. Local urea production uses 20% of domestic gas consumption and due to shortages, reliance on imported LNG is growing. Higher international LNG and fertilizer prices are leading to lower application on crops as farmers cut input costs. This lower application of fertilizer is expected to negatively impact the FY2023 crop yields. These measures will be complemented by increased allocation for food security initiatives by provincial governments of Sindh and Punjab.

19. **Output 3: Enhanced support for businesses implemented.** Measures planned under this outcome aim to build self-employment and entrepreneurship opportunities for the young population and support export growth. These include (i) various entrepreneurship and employment schemes including providing subsidized business loans to a target 2 million youths for startups or expansion of existing businesses; and (ii) subsidy on electricity and gas prices to five export-oriented sectors to support price competitiveness.

F. Program Beneficiaries and Benefits Transmission

20. This program will benefit (i) general population who will benefit from stable food prices and adequate supply of wheat flour (Output 1); (ii) the poor and vulnerable population, including low-income families, elderly, disabled, pensioners, and the unemployed who will benefit from the stable prices of food and essential commodities (Output 1), social assistance support such as one-time social assistance (Output 1), and skills-development training for improved employment prospects, and financing support for setting up own businesses (Output 3); (iii) exporters, who will benefit from improved liquidity position from lower energy costs due to electricity and gas subsidy, which will make exports more competitive (Output 3); (iv) businesses in food and retail, who will benefit from stability in prices of essential items and the resulting increased demand (Output 2); (v) employees of export companies, and food and retail businesses, who will benefit from business sustainability and stable job opportunities (Outputs 2 and 3); (vi) public servants, who will benefit from increased capacity for monitoring and evaluation and managing crisis (overall); and (vii) women and girls, who are the beneficiaries in all outputs, included targeted support under Output 1.

G. Program Benefits

21. **Improved social resilience.** Poor and marginalized people are more vulnerable to the adverse impact of the current crisis because low-income and minimal assets severely limit coping strategies available to them. The BRACE program primarily aims to mitigate the adverse impact of the crisis on the poor and vulnerable population, which is expected to suffer the most because of the increase in inflation (paras. 6 and 7), decrease or loss of income, and rise in unemployment (paras. 10, 11 and 14). The program supports expansion of direct cash transfer benefits through the Benazir Income Support Programme (BISP) to an additional 1.2 million poor and vulnerable households (from 7.8 million to 9 million), considering the likely increase in low-income population after the current crisis (Output 1). The government is also providing a one-time cash transfer of PRs2,000 to the vulnerable population (with monthly income of below PRs40,000) to mitigate the impact of higher fuel inflation. The program includes measures to ensure stable food prices and adequate supply of wheat across Pakistan (Output 2). The benefits of stable food prices are reaped the most by the poor and vulnerable since food forms a significant proportion of their monthly expenses. A stable price environment is also conducive for businesses, and therefore will support expansion in employment opportunities. As a result, these measures will strengthen resilience of the affected population against the current crisis triggered by the Russian invasion of Ukraine. The program measures will also help manage the resistance to the much-needed

stabilization and structural reforms, which may have a short-term impact on prices but will make the economy more resilient in the medium-to long-term.

22. **Improved economic resilience.** Pakistan's economy recorded two successive years of strong growth, with real GDP increasing by 5.7% and 6.0% in FY2021 and FY2022 respectively, following the pandemic-induced contraction of 0.9% in FY2020. However, constrained by low-investment and taxes, as a share of GDP, a structural trade deficit, and unbalanced macroeconomic policy mix, this high economic growth led to large fiscal and current account deficits. The government's countercyclical expenditures measures supported by the BRACE program, along with the stabilization and structural reform measures under the EFF is targeting the mitigation of the adverse effects of the current crisis, curbing the rising fiscal, and external current deficits and address structural weaknesses. While the strong stabilization measures are expected to slow GDP growth in FY2023 to 3.5%, the combined measures supported by BRACE and EFF will strengthen the economy's capacity and address key constraints to achieving long-term high economic growth rates.

23. **Improved fiscal resilience.** The program will support Pakistan in building critical fiscal space to divert its scarce fiscal resources toward meeting long-term development requirements, which will enhance the country's prospects of achieving a sustainable higher economic growth without jeopardizing macroeconomic stability. ADB's support through the BRACE program and additional support from other development partners will help the government finance its fiscal gap and control its financing costs, that will have a favorable impact on future deficits. Meanwhile, despite $2.5 billion countercyclical expenditure measures, government's strong medium-term fiscal consolidation program is projected to reduce fiscal deficit from 7.1% of GDP in FY2022 to 4.9% in FY2023 and to 2.8% in the medium-term.

24. **Improved gender impact.** Already exacerbated by existing gender disparities, external shocks from sharply rising international commodity prices is likely to have a further adverse impact on women and girls, in terms of access to education, health and nutrition, livelihood opportunities, overall mobility, and food security. The program is categorized as *effective gender mainstreaming* primarily because the government's relief measures are specifically targeted to preserve consumption, incomes, and livelihoods of women, children, and low-income households. These include (i) support for unconditional cash transfer to women beneficiaries under BISP, (ii) targeted food subsidy program, and (iii) easing access to finance for women entrepreneurs with at least 15% of beneficiaries the government's entrepreneurship scheme targeted at women entrepreneurs. Broadly speaking, ADB support for gender empowerment through deep diagnostic work and technical assistance, concerted policy dialogue, and several projects and program loans have helped to ensure the government's gender empowerment measures are (i) well developed, designed, and targeted (short-term response); and (ii) focused on improved access for women and girls to education, health, nutritional supplies; and financial services—human capital development measures that help to reduce intergenerational poverty and enhance improved employment and livelihood prospects.[17]

[17] ADB. 2020. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Islamic Republic of Pakistan for the Trade and Competitiveness Program*. Manila; ADB. 2020. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Islamic Republic of Pakistan for the Third Capital Market Development Program*. Manila.

H. Program Risks

25. Program risks include: (i) the crisis continues beyond projected timeframes resulting in increased hardship, employment and income losses, and poverty; (ii) restrictions on exports of wheat and other essential commodities by the key exporting countries may affect food security in Pakistan; (iii) trade routes may get further restricted if the crisis resulting from Russian invasion of Ukraine prolongs or escalates; (iv) aggressive tightening by the US Federal Reserve could further increase financial market volatility and risk currency depreciation; and (v) prolonged economic slowdown shifts the government's focus away from implementing key structural reforms related to macroeconomic management, gender empowerment, domestic resource mobilization, public financial management, state-owned enterprise governance, and public–private partnerships.

I. Sustainability of the Reform

26. While the government's countercyclical expenditures measures are temporary to address the adverse impact of the current crisis, mainly on the poor and vulnerable, it is expected to provide a strong foundation for quick and sustained recovery and ensure the sustainability of structural reforms being undertaken in parallel. In the absence of the BRACE program, the government's attention would get diverted from structural reforms to more immediate crisis needs. The program is closely coordinated with key government agencies and development partners through ADB's resident mission and technical assistance will be provided to support the administrative and implementation effort and strengthen monitoring and evaluation of existing government programs.