INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/274

CHAD

August 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHAD

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Chad, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 22, 2016 consideration of the staff report that concluded the Article IV consultation with Chad.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 22, 2016, following discussions that ended on March 20, 2016, with the officials of Chad on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 8, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Chad.

The documents listed below have been or will be separately released.

Selected Issues

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 16/360
FOR IMMEDIATE RELEASE
July 25, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Chad

On July 22, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Chad.[1]

Macroeconomic outcomes continue to underperform potential, due to the major impact of two exogenous shocks: the lower oil prices and the elevated regional insecurity. Oil revenues have collapsed to a fraction of their previous level and are expected to only partially and gradually recover. The threat to security in the region remains serious, causing economic disruption, reprioritization of spending to defense, hosting of refugees and internally displaced persons, and exacerbating the difficult economic situation.

Economic activity has slowed sharply in 2015, with GDP growth estimated to have decelerated to 1.8 percent from 6.9 percent in 2014. Disruptions to cross–border trade flows with Cameroon and Nigeria have led to increased volatility of domestic prices, reaching 3.7 percent on average in 2015, slightly above the CEMAC target of 3 percent. Despite a large fiscal adjustment, the overall fiscal deficit remained high (6.6 percent of non-oil GDP) in 2015 and domestic arrears were accumulated to reach 3.9 percent of non-oil GDP (CFAF 200 billion) at the end of the year. Money supply contracted and credit to the private sector slowed significantly in 2015. The external current account deficit widened from 9 percent of GDP in 2014 to an estimated 12.4 percent of GDP in 2015 on account of the further decline in oil prices and a corresponding fall in exports.

The short and medium term outlooks remain challenging. Including a contraction of 1.1 percent in 2016, GDP growth is projected to average about 2 percent per year over 2016–18, compared to almost 5 percent over 2013-15. A gradual recovery of non-oil GDP growth is expected over 2016-2018, reaching 4 percent per year over the medium term. This would be largely driven by agriculture, commerce, and transportation and as fiscal constraints ease with a rebound of fiscal oil revenues. The external position is projected to remain weak, with

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

only a gradual improvement in the trade balance starting in 2017. Foreign direct investment in the oil sector will remain a key source of external financing.

Executive Board Assessment[2]

Executive Directors welcomed the Chadian authorities' policy efforts, with a substantial fiscal adjustment achieved, and progress on the structural front despite an adverse external environment. Nonetheless, the macroeconomic situation and the near-term outlook are being seriously affected by the collapse in oil revenue and the elevated regional insecurity, which have weakened economic activity and worsened the fiscal situation. Against this backdrop, Directors stressed that additional fiscal efforts and bolder structural reforms are needed to safeguard fiscal and financial stability and the recent progress in human development as well as to bolster the non-oil economy. Continued close engagement with the Fund and the international community is crucial to support the authorities' efforts.

Directors welcomed the fiscal adjustment measures adopted, including in the revised 2016 budget. Noting the precarious liquidity situation and uncertainty regarding exceptional receipts from the sale of an oil sector asset, they urged the authorities to elaborate a contingency plan to guide spending should the risk of a significant shortfall in fiscal receipts materialize. Directors also recommended limiting spending commitments strictly to available resources to avoid a breakdown in the expenditure chain and further accumulation of arrears. They stressed that a comprehensive arrears clearance strategy, based on the validation process of an independent audit, is imperative.

Directors underscored the need for a medium-term fiscal strategy that incorporates a sizable permanent adjustment while protecting the more vulnerable segments of the population. Welcoming the authorities' intention to mobilize more non-oil revenue, Directors noted the importance of expanding the non-oil revenue base, reducing tax exemptions, and strengthening tax and customs administrations.

Directors encouraged the authorities to continue their efforts to strengthen public financial management, with a focus on stricter spending controls and enhanced spending efficiency. They stressed that enhanced oil revenue transparency is crucial for better budget preparation and execution as well as for accountability.

Directors noted that, despite high liquidity levels, the banking sector is vulnerable to the fiscal deterioration and needs to be closely monitored in coordination with relevant regional bodies. They encouraged the authorities to be mindful of possible crowding out of credit to the private sector when placing government securities with commercial banks.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing ups can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors stressed that the challenges posed by the difficult economic environment represent an opportunity to press ahead with bold structural reforms aimed at diversifying the economy, improving the business climate, fostering financial inclusion, and achieving more inclusive growth. They looked forward to the details of the authorities' upcoming national development plan covering 2016–2020, particularly in the areas of agriculture, human capital, governance, judiciary reform, and social protection.

INTERNATIONAL MONETARY FUND

CHAD

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

July 8, 2016

KEY ISSUES

Context. Macroeconomic outcomes continue to underperform potential, due to the major impact of two exogenous shocks: the lower oil prices and the elevated regional insecurity. Oil revenues have collapsed to a fraction of their previous level and are expected to only partially and gradually recover. Spending has been significantly retrenched, but liquidity problems abound, and domestic arrears are accruing on a large scale. Given the government's share in the economy, the spillovers to the rest of the economy are severe and recent gains in development outcomes under threat. The threat to security in the region remains serious, causing economic disruption, reprioritization of spending to defense, hosting of refugees and internally displaced persons, and exacerbating the difficult economic situation.

Article IV discussions focused on the adaptation of the fiscal stance to low oil prices, on macro-financial linkages— financial sector vulnerabilities have increased—and on the strategy to diversify the economy, including through enhanced effectiveness and transparency of government operations. Progress should help Chad exit from fragility.

Key policy recommendations:

- Ensure a fully-financed 2016 budget. Implement cash-based budget management procedures for the remainder of the year to avoid the accumulation of new arrears.
- Target medium-term non-oil primary deficits consistent with fiscal and debt sustainability, and expand fiscal space through non-oil revenue mobilization efforts. A large upfront fiscal adjustment is needed and under current oil price and volume prospects would need to be mostly permanent.
- Define and implement a comprehensive strategy for clearing domestic arrears and avoid further accumulation going forward.
- Strengthen public financial management, including investment planning and execution, and enhance oil revenue transparency and integrity.
- Closely monitor the health of the banking system given its high direct and indirect exposure to government operations.
- Foster inclusive growth and economic diversification by implementing the priorities of the upcoming 2016-2020 National Development Plan including improving the business environment and strengthening financial inclusion.

Approved By
David Robinson and Catherine Pattillo

Discussions took place in N'Djamena (March 7-20) and in Washington D.C. (April 12-16). The staff team comprised Messrs. Villafuerte (Head), Léost, Nsumbu, Op de Beke (all AFR), Salas (SPR), Nachega (Resident Representative), and Topeur (local Economist). Mr. Nguema Affane (Senior Advisor to Executive Director) participated in the discussions in Washington. The mission met with the Prime Minister, Mr. Albert Pahimi Padacké, the President of the National Assembly, Mr. Haroun Kabadi, the Minister of Finance and Budget, Mr. Alamine Bourma Treye, the Minister of Plan, Ms. Mariam Mahamat Nour, the Minister of Infrastructure, Mr. Adoum Younousmi, the ad interim National Director of BEAC for Chad, Mr. Balandi Djagba and other ministers, as well as senior government officials, representatives of the private sector, and technical and financial partners of Chad.

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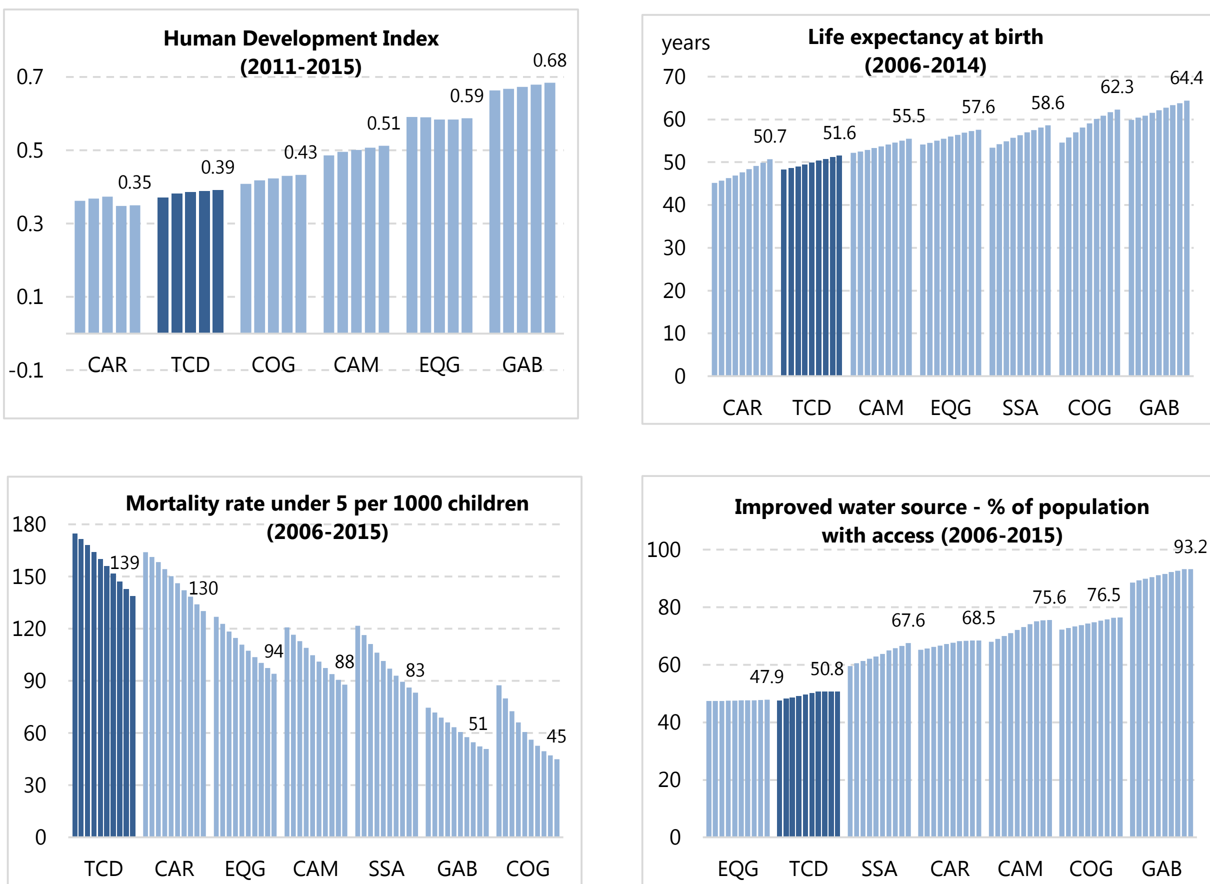
BACKGROUND

1. **Human development indicators are improving slowly in Chad, but challenges to long-term development remain**. The onset of oil production in 2003 helped increase spending in various socio-economic areas and accelerated economic growth. Real GDP per capita increased by around 20 percent between 2007 and 2014. But because of rapid population growth and domestic armed conflicts that plagued Chad up to 2009, the absolute number of the poor still increased and per capita consumption for the poorest rural households declined. The arrival in 2010 of internal political stability paved the way for improved economic management and Chad achieved the HIPC Completion Point in April 2015. Still, despite the progress, Chad's human development indicators remain among the lowest in the region (Text Fig. 1). A recent deterioration in external (economic and security) conditions poses challenges to the achievement of the country's socio-economic development goals.

Text Figure 1. Chad: Human Development Indicators – Regional comparison



Sources: World Bank Indicators, UNDP

CAR-Central African Republic; TCD-Chad; COG-Republic of Congo; CAM-Cameroon; EQG-Equatorial Guinea; GAB-Gabon

SSA: Sub-Saharan Africa (average)

2. **In Presidential elections in April 2016, President Déby comfortably won a fifth term in office.** Mr. Déby, who is in office since 1990, received nearly 62 percent of the votes while running against 12 opposition candidates. Legislative elections are also due for 2016 but no date has been set yet.

3. **The massive and persistent decline in oil prices since mid-2014 combined with elevated regional insecurity pose huge challenges for Chad**. From 2013 to 2015, Chad has experienced an 80 percent reduction in fiscal oil revenue. This is mainly the result of the drop in oil prices, but also the repayment of the 2016 installments on the oil sales' advances which funded the government's acquisition in 2013 of a large oil asset. Meanwhile, the deterioration in regional security is disrupting economic activity, especially cross-border trade. N'Djamena was the target of terrorist attacks by Boko Haram in June and July 2015. Chad plays a key role in the regional military counteroffensive against Boko Haram, and continues to assist the Mali government, bearing the associated fiscal costs. In addition, Chad hosts some 750,000 refugees and displaced people, with significant direct and indirect economic costs.

4. **The authorities' response to those shocks over 2014-15 included a large fiscal adjustment (with a 30 percent reduction in domestically-financed spending) and the mobilization of additional financing**. Financing flows included advances from the regional central bank (BEAC), securities' issuances in the regional market, an agreement on a new repayment schedule of the oil sales' advances, and budget support from the World Bank, the European Union, the African Development Bank, and Saudi Arabia, complemented by disbursements from the Fund and debt relief under the HIPC Initiative. Still, domestic payment arrears accumulated with knock-on effects on economic activity and the health of the banking system.[1]

5. **Traction of previous policy advice has been broadly satisfactory as attested by the approval of an ECF-supported program in 2014 and completion of two reviews by December 2015 (Box 1).** The advice of the 2013 Article IV fed into the ECF approved in August 2014 and is being followed up in the context of its reviews. However, the policy dialogue and advice have had to adapt to the impacts of the sharp and sustained fall in oil prices and the deterioration of the security situation.

[1] The oil sales' advances were rescheduled, extending the repayment period from 4 to 6-7 years, but also now calling on other oil revenue beyond the income from the asset, for their repayment.

Box 1. Chad: Implementation of Key Recommendations from the 2013 Article IV Consultation (completed March 2014)

Key recommendations: Fiscal policy should remain anchored on a sustained reduction of the non-oil primary deficit, supported by public management reforms and sizable increases in non-oil revenue collection to offset the projected exhaustion of oil revenue. A more diversified and competitive economy over the medium- and long-terms will require increased efforts to improve the business environment for the private sector, promote agricultural activities, and expand access to basic and financial services.

Implementation: A three-year arrangement under an ECF approved in August 2014 planned a smooth decline in the non-oil primary deficit (NOPD) in the context of a doubling of oil export volumes and a gradual decline in international oil prices. The focus of the government's structural reform agenda under the program was on strengthening public financial management (PFM) and on improving governance and the business climate.

Given the sharp decline in oil prices, preserving fiscal and debt sustainability required a much more rapid reduction in the NOPD than planned. A large expenditure compression took place in 2014-2015 combined with the mobilization of more domestic and external (concessional) financing to smooth the adjustment and limit adverse effects on non–oil economic activity.

Implementation of structural reforms was framed within the 2013-15 National Development Plan. The use of emergency spending procedures (*Dépenses avant Ordonnancement*, DAOs) was curtailed, most CEMAC PFM directives were transposed into domestic legislation, quarterly budget execution reports were published, and inter-ministerial debt and oil revenue coordination units were established. However, actual progress has been slow and uneven due to limits to institutional capacity including the capacity to absorb technical assistance.

RECENT ECONOMIC DEVELOPMENTS

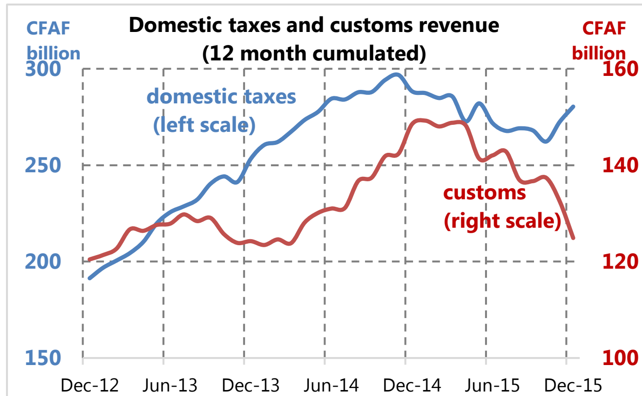
Macroeconomic outcomes have weakened in the face of the persistent oil price shock and regional security problems. Acute liquidity problems in the first half of 2016 have forced the government to severely limit spending and to continue to accrue domestic arrears with adverse impacts on private sector activity and the banking system.

6. Economic activity has slowed sharply. GDP growth is estimated to have decelerated significantly to 1.8 percent in 2015 from 6.9 percent in 2014 (Text Figure 2b). This sharp slowdown was largely due to a 2.9 percent contraction in the non–oil sector (compared to a 7.1 percent expansion in 2014). Erratic rainfall hit food crops, while livestock and fishing activities were affected by the weakened security situation and a difficult economic situation in Nigeria. Both the secondary and tertiary sectors contracted significantly due to the sharp adjustment to fiscal spending and to disruptions caused by the deterioration of security conditions.

7. Disruptions to cross–border trade flows with Cameroon and Nigeria have led to increased volatility of domestic prices. Due in particular to food items (46 percent of the consumer price index), inflation reached 7.6 percent year-on-year in August 2015, then turned negative at end-2015 (-0.3 percent year-on-year), and going further negative in 2016, reaching -3.4 percent in March. The annual average for 2015 was 3.7 percent, slightly above the CEMAC target of 3 percent.

8. Despite a large fiscal adjustment, the overall fiscal deficit remained high in 2015 and domestic arrears accrued. Total fiscal revenue fell 40 percent short of the 2015 revised budget target. In particular, customs revenue disappointed: it fell by 16 percent relative to 2014 on account of security disruptions to cross-border trade and a slowdown in demand from Nigeria (Text Figure 2a). Oil revenues were only one third of the amount originally projected. Even though expenditure commitments were held 1.6 percent of non-oil GDP below the revised budget, the overall fiscal deficit on a commitment basis still amounted to 6.6 percent of non-oil GDP. Despite substantial statutory and exceptional advances from the BEAC (CFAF 232 billion or 4.5 percent of non-oil GDP), CFAF 148 billion in domestic arrears were accumulated, raising its end-2015 stock to 3.9 percent of non-oil GDP (CFAF 200 billion). A successful expansion in the placement of Treasury bills and bonds in the regional market (a net issuance of CFAF 188 billion) was mostly used to swap non-tradable public debt and pay some claims that were under litigation.[2] External budget support amounted to CFAF 90 billion.[3] After a temporary increase in September on account of the statutory and exceptional advances, government deposits at the BEAC declined to CFAF 93.4 billion at the end of 2015, against CFAF 119.3 billion one year before.

Text Figure 2a. Chad: Evolution of non-oil revenue



Source: Ministry of Finance and Budget, IMF staff calculation

9. The sharp decline in oil revenue in early 2016 has seriously complicated fiscal management. Oil revenues (net of oil sales advances' repayments and cash calls contributions) were only 0.4 percent of non-oil GDP in the first quarter, while non-oil revenue also lagged due to an apparent deceleration of economic activity. The government paid salaries and debt service with difficulty (even accruing some small external arrears with multilateral creditors for a few days) and appeared to be forced to drastically restrict spending on goods and services, transfers, and investment even in the run-up to the presidential elections. Apart from an increase in the stock of arrears to CFAF 280 billion at end-March, available data do not allow to ascertain the success of those restrictions in containing spending commitments.

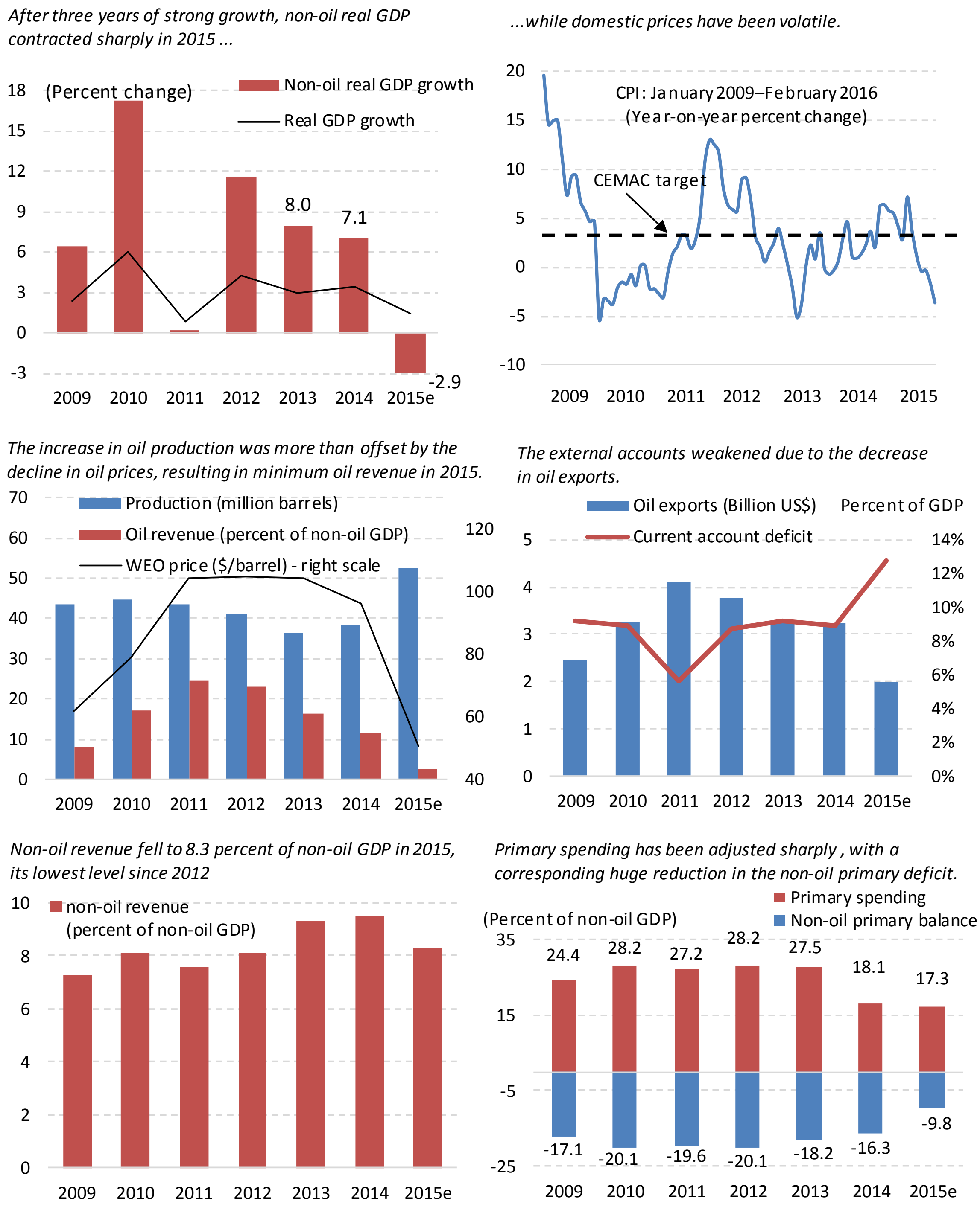
10. Money supply contracted and credit to the private sector slowed significantly in 2015. Broad money fell by 4.7 percent while credit to the private sector (equivalent to 10.5 percent of non-

[2] See Selected Issues Paper (SIP) on Chad's first steps in the regional public securities market.
[3] Including a budget grant of CFAF60 billion from Saudi Arabia. Part (CFAF25 billion) of the total of CFAF54 billion in budget support committed by the WB, the E.U., and the ADB for 2015 was received by the Treasury only in early 2016.

oil GDP) decelerated sharply during the year and increased by only 0.7 percent on an annual average basis. The health of the banking system has been impacted by the difficult economic situation and the accumulation of arrears by the government. Non-performing loans (NPLs) rose from 11.7 to 16.5 percent of total loans over the twelve months up to December 2015 and their provisioning was limited to 56.1 percent against 68.3 percent one year before. This could negatively affect banks' capacity and willingness to lend.

11. The external accounts weakened in 2015. The external current account deficit widened from 9 percent of GDP in 2014 to an estimated 12.4 percent of GDP in 2015 on account of the further decline in oil prices and a corresponding fall in exports. The current account deficit was partially financed by foreign direct investment, concentrated in the oil sector. The remainder was financed with a rundown in the level of pooled international reserves imputed to Chad from US$1.19 billion at end-2014 to US$390 million at end- 2015 (approximately 1 month of imports).

Text Figure 2b. Chad: Recent Economic Developments, 2009-15



Source: Chadian authorities, IMF staff calculations

OUTLOOK AND RISKS

The short and medium-term outlooks are challenging in the context of permanent external shocks.

12. Real GDP growth is expected to continue to slow as the non-oil sector lags. Including a contraction of 1.1 percent in 2016, GDP growth is projected to average about 2 percent per year over 2016–18, compared to almost 5 percent over 2013-15. Sizable planned production increases in certain fields have been delayed until oil prices improve sufficiently. A gradual recovery of non-oil GDP growth is expected over 2016-2018, reaching 4 percent per year over the medium term. This would be largely driven by agriculture, commerce, and transportation and as fiscal constraints ease with a rebound of fiscal oil revenues. In contrast, contracting bank credit to the private sector during this period would slow the recovery of non-oil tertiary activities.

Text Table 1. Chad: Medium-Term Projections

(In percent of non-oil GDP, unless otherwise indicated)

	2013-2015	2016		2017		2018		2019	
	Average	Prog.	***Proj.***	Prog.	***Proj.***	Prog.	***Proj.***	Prog.	***Proj.***
GDP growth (percent per year)	4.8	2.5	***-1.1***	5.2	***1.7***	5.8	***5.2***	6.0	***8.2***
Non-oil GDP growth (percent per year)	4.1	1.9	***-0.3***	3.1	***2.7***	3.8	***3.8***	4.2	***4.3***
Current account balance (percent of GDP)	-10.2	-7.8	***-8.7***	-8.0	***-7.8***	-4.1	***-7.3***	-1.3	***-5.7***
Government revenue	22.0	17.1	***15.4***	19.4	***16.7***	22.8	***17.6***	26.5	***20.4***
Overall fiscal balance (commitment basis)	-5.5	-6.3	***-4.6***	-2.8	***-2.2***	-1.7	***-2.1***	0.5	***-0.2***
Non-oil primary fiscal balance (commitment basis)	-14.8	-10.1	***-7.0***	-7.1	***-5.0***	-8.0	***-5.0***	-10.1	***-5.9***
Chadian crude oil price (US$ per barrel)	81.8	46.6	***33.8***	51.9	***45.2***	56.0	***48.5***	58.1	***50.8***

Sources: Country authorities; and Staff projections.

13. The external position is projected to remain weak, with only a gradual improvement in the trade balance starting in 2017. Foreign direct investment in the oil sector will remain a key source of external financing. Imputed international reserves will remain low.

14. Risks are mostly tilted to the downside (Annex 1, Risk Assessment Matrix), reflecting internal and external vulnerabilities. Internally, a potential deterioration in food security is a key risk that could lead to social and political tensions in an already fragile environment and jeopardize the government's fiscal position as authorities respond to a crisis. Externally, a deterioration of regional security and low (and volatile) international oil prices pose significant fiscal risks and could further dampen economic growth prospects. The pick-up in oil production levels now envisaged for 2018-19 could be delayed further if oil prices do not recover as currently projected. Budgetary pressures in Chad could spill over to other CEMAC countries through a deterioration in regional security conditions if Chad's military efforts weakened, or through pressures on the currency union, if Chad presses the regional central bank for additional monetary financing.

POLICY DISCUSSIONS

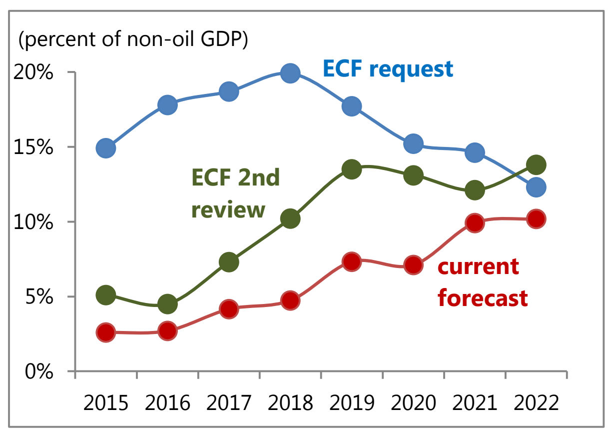
In addition to the outlook and risks, discussions focused on the fiscal adjustment to permanently lower oil prices while addressing development needs, the implications of macro-financial linkages for financial sector stability, options for diversifying the economy, and the effectiveness and transparency of government operations.

A. Living with Low Oil Prices: Adjusting the Fiscal Stance for Long-Term Debt Sustainability while Addressing Development Needs

15. Chad's fiscal strategy needs to include a sizable permanent adjustment. Prospects for the short-term are more difficult on account of lower oil prices and export volumes and the repayment of oil sales' advances. While liquidity constraints are expected to be gradually loosened over the medium-term, government spending would have to be adjusted significantly relative to the pre-2015 levels. This adjustment is also needed to bring Chad into compliance with the regional convergence framework over the medium-term.[4]

16. Lower oil prices are negatively affecting oil production prospects and increasing the share of revenue devoted to debt repayments. Fiscal oil revenue is expected to be significantly lower in the medium-term than in previous staff estimates mostly because oil companies scaled back their plans for increasing production given the environment of lower oil prices (Text Fig. 3). While oil revenues would still progressively increase between 2016 and 2022, from 2.7 to 10.2 percent of non-oil GDP, cumulative revenue is now estimated to be about 40 percent lower than estimated at the time of the ECF arrangement's 2nd review. The outlook for non-oil revenue remains subdued due to the deterioration in economic conditions and in regional security aggravated by a proliferation of VAT exemptions and numerous specific tax agreements that have seriously eroded the tax base. A recent FAD technical assistance mission estimated the VAT gap at 3 percent of GDP and the overall non-oil tax gap at 5.2 percent of GDP.

Text Figure 3. Chad: Change in Fiscal Oil Revenue Forecasts



Source: Chadian authorities; and IMF staff calculations.

[4] As elaborated in CEMAC--Staff Report on the Common Policies of member Countries (SM/16/99), in late 2015, the CEMAC Commission presented a revised regional convergence framework to enter into force on January 1, 2017. The new framework includes a new fiscal rule based on a three-year average overall budget balance excluding a share of oil revenues.

17. Reflecting the weaker than expected revenue performance in early 2016, the government has submitted to parliament a revised budget for 2016 with further expenditure adjustment. With lower revenue, and the decision to pay down CFAF 65 billion in domestic arrears (Box 3), the 2016 budget that was approved in December 2015 is estimated to have a financing gap of at least 3.9 percent of non-oil GDP (CFAF 204 billion). The revised budget submitted to the National Assembly in late May addresses this with further spending cuts of 2 percent of non-oil GDP, mostly in domestically-financed investment. It includes a slight expansion of the wage bill to accommodate recruitment of youngsters, and protects poverty-reducing social spending. For covering the remaining financing gap, the revised budget counts on continued borrowing from the regional market, financing under the ECF-supported program (Box 2), and budget support from other international partners (AfDB, E.U., and World Bank) of approximately 1.4 percent of non-oil GDP (CFAF 70 billion).

Box 2. Chad: Status of the ECF-Supported Program

On August 1st, 2014, a three-year ECF arrangement was approved in support of the authorities' medium-term economic program aimed at reinforcing economic growth and making it more inclusive, while maintaining macroeconomic stability and fiscal sustainability. The government's structural reform agenda focused on strengthening public financial management (PFM) and on improving governance and the business climate. The approval of the arrangement and the completion of the first review on April 27, 2015 together with an augmentation of access, then the second review on December 14, 2015, enabled total disbursements of SDR 53.93 million (about US$75 million).

Despite an extremely difficult economic and financial environment, performance under the ECF-supported program was broadly satisfactory at end-2015. All but one performance criteria (PCs) for end-December 2015 were met and progress on the structural agenda was in line with program objectives. While the non-oil primary deficit target was met thanks to lower than programmed public investment, the ceiling on the non-accumulation of domestic arrears was missed by a large margin on account of a further drop in oil and non-oil revenue and domestic financing shortfalls. Key structural reforms implemented in 2015 included: incorporating more detailed oil revenue information in budget execution reports, limiting expenditures executed through extraordinary procedures, and updating and expansion of the taxpayers' database were met. However, progress in implementing the structural agenda has slowed in recent months.

Discussions with staff are continuing on policies that would allow completion of the third review. In particular, there is a need to ensure that adequate financing assurances are in place for the implementation of the 2016 budget (¶18). In addition, in the face of consecutive breaches to the PCs on the accumulation of domestic arrears, staff and authorities have discussed a comprehensive strategy targeting both the clearance of existing arrears and strengthening control over expenditure commitments to avoid a reoccurrence of this problem.

18. Uncertainty over the timing and magnitude of revenues from the planned sale of an oil asset in 2016, raises concerns on the ability of the authorities to implement the revised budget. Both the initial and revised 2016 budgets include CFAF 300 billion (5.8 percent of non-oil GDP) from the sale of Chad's 10 percent share in oil fields operated by the China National Petroleum Company International (CNPCI). However, this operation has not yet materialized and negotiations are still ongoing. In this context, staff recommended that the authorities elaborate a contingency plan including: a further cut in investment spending, to be informed by a rigorous evaluation of the status of projects under execution; slowing additional hiring; and possibly sale of other assets.. Staff advised to align further arrears clearance operations with assurances about the required financing from asset sales, to avoid accumulation of new arrears. In this context, staff 2016 projections assume that the CFA 300 billion gap is covered, in broadly equal proportions, with further spending cuts, proceeds from an asset sale, and financing sources yet to be identified.

19. A strict cash-based budget execution for the remainder of 2016 would help limit commitments to available financing. The liquidity situation remains precarious: net oil revenues are small and hard to predict in part due to complex schemes to set repayments of oil sales advances; most budget support is projected for the end of the year; and the timing and size of any oil asset sale are uncertain. In that context, to avoid the accumulation of arrears and the breakdown of the expenditure chain, staff recommends that spending units in sectoral ministries not be allowed to commit to spending unless notified of the availability of resources by the Treasury. One option would be to prepare a revise budget based on very prudent resource availability assumptions and with pre-defined spending prioritization criteria. Over the medium term the government will have to address the accumulated arrears, through the elaboration of a comprehensive arrears clearance strategy with claims identified and validated by an independent audit (Box 3).

Authorities' views

The authorities consider producing a fully-financed 2016 budget a matter of urgency and continue to pursue the sale of their oil asset at the projected price later this year, possibly through an international tender. Nonetheless, they are also considering further limits in budgetary appropriations and bridge financing options on a concessional basis. In the meantime, they have prepared a quarterly cash flow plan to calibrate spending and domestic financing in line with available liquidity while protecting social spending as much as possible. The costs of the hiring of additional youth were partly offset by the plan not to replace retirees. While favoring a speedier repayment of domestic arrears, the authorities agreed it would have to be consistent with available resources. They were optimistic that their domestic financing could be realized, considering the relatively low volume of debt maturing in 2016 and the comfortable level of liquidity in the region's banks following the recent reduction in reserve requirements by the BEAC.

Box 3. Chad: Management and Prevention of Government Domestic Payments' Arrears

Domestic arrears quadrupled in 2015. Domestic payment arrears are defined as expenditures committed, with goods and services delivered, and approved for payment by the Treasury but which have not been paid within 90 days after issuance of the payment order. From the relatively low level of 1 percent of non-oil GDP at end-2014, these arrears increased to CFAF 200 billion (3.9 percent of non-oil GDP) in 2015.

Lower oil revenue and domestic financing were the main causes. Arrears accrued on account of lower-than-expected oil fiscal revenue and a shortfall in net domestic financing (aside from BEAC financing) as a large part of the placements of public securities in the regional market were used to swap non-tradable public debt. In addition, the authorities unexpectedly repaid a claim of 0.9 percent of non-oil GDP that was under litigation and hitherto unrecorded in the domestic arrears stock.

Government strategy for clearing domestic arrears. The authorities planned in 2016 to repay CFAF 65 billion in existing arrears, funded by securities issued in late-March 2016. The proceeds were transferred to a local commercial bank which was tasked with the repayment of specific arrears identified by a government commission.

These arrears were selected based on size and longevity, the business sector, the size of the creditor, and the impact settlement would have on employment. They were separately validated by the Inspector General at the Presidency. Creditors who chose to avail themselves of this facility would be repaid 93 percent of their claims, with the 7 percent discount a benefit of the bank managing the operation.

Next steps. Based on international best practices, the following principles should guide the Chadian authorities' arrears clearance strategy going forward:

- The repayment of arrears has to be consistent with the availability of resources under the short- and medium-term fiscal projections.
- An audit needs to identify and validate comprehensively all domestic payment arrears and spending commitments which may not have been entered into the expenditure chain but have legal merit.
- A strategy needs to be developed to address the root causes. In particular, commitment controls need to be strengthened to prevent spending (particularly investment) for which there is no budget allocation.

20. The Debt Sustainability Analysis (DSA) concludes that preserving fiscal and debt sustainability will require targeting NOPDs of about 5 percent of non-oil GDP in 2017-18 and 6-7 percent over the medium-term.[5] This could be achieved by limiting the wage bill growth, strictly prioritizing investments, and rationalizing transfers further, while protecting priority social spending as much as possible. In addition, fiscal space will need to be created by expanding the non-oil tax base through a rationalization of exemptions.

21. The DSA update indicates that Chad remains at a high risk of debt distress, with vulnerabilities concentrated in the short term. With oil prices lower than in the previous DSA, some external debt ratios have deteriorated. The high risk of debt distress is further explained by large debt service payments falling due in the short- to medium-term linked to the non-concessional oil sales' advances from Glencore. The DSA also identifies vulnerabilities related to

[5] See attached joint International Monetary Fund – World Bank Debt Sustainability Analysis.

domestic debt given the accumulation of domestic arrears and the increased issuances of debt securities in the regional market. Moreover, a small amount of arrears has been recently accrued to the WB and the AfDB. The substantial fiscal adjustment assumed in the baseline scenario would keep debt indicators below their indicative thresholds in the medium- to long-term.

Authorities' views

The authorities agreed on the need to target prudent NOPDs to preserve fiscal and debt sustainability. They stressed that the composition of expenditure adjustments would need to be synchronized with the national development plan for 2016-20. They were strongly committed to raise non-oil revenue mobilization with reforms drawn from the recent technical assistance recommendations. They broadly agreed with the results of the DSA exercise, in particular that a moderate stock of debt in terms of GDP nonetheless posed risks given the vulnerability to the oil price shocks and the heavy short-term burden of the recent oil sales advances. The authorities have resolved the arrears to multilateral creditors that have been recently accumulated due to liquidity shortages.

B. Enhancing Financial Sector Stability and Development[6]

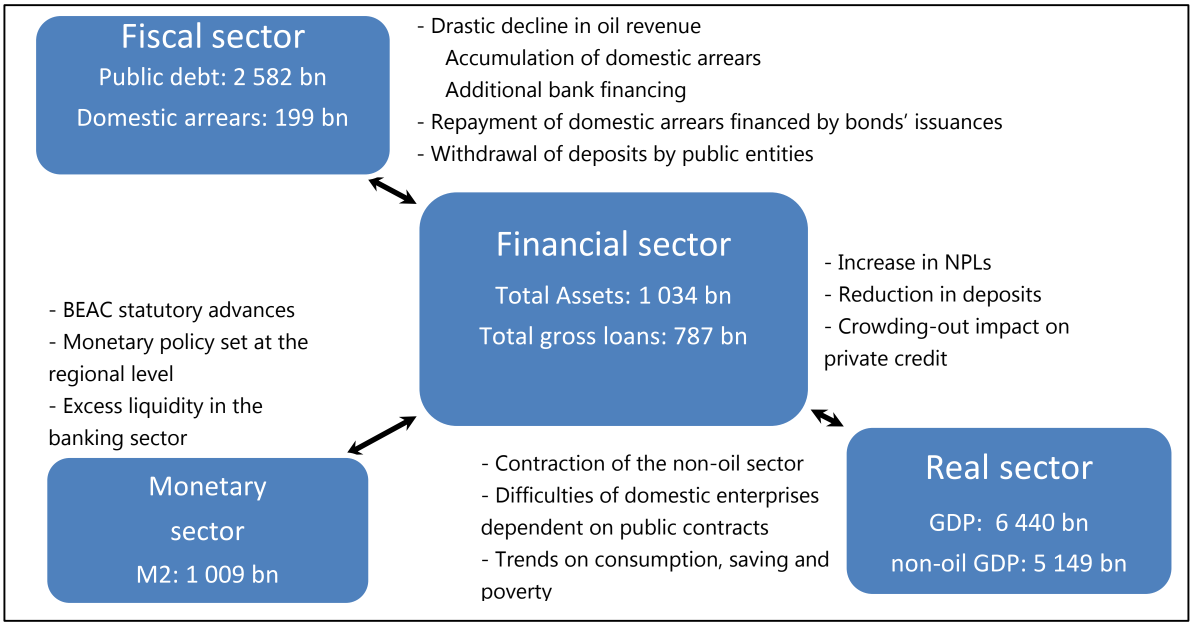
22. While the financial system is small, the latest available indicators suggest some deterioration in banking sector soundness as the macroeconomic environment has weakened (Table 7). Financial system assets represented just 16 percent of GDP as of December 2015, or only 7 percent of CEMAC banks' assets (versus a 15 percent share of CEMAC's total GDP). It is dominated by a handful of commercial banks, with three banks holding close to two thirds of total assets. The ratio of NPLs to gross bank loans rose to 16.5 percent as of end-2015, a 5 percentage point increase from 2014. Returns on assets and on equity have also declined for two consecutive years. The capital adequacy ratio remained moderate at 14.6 percent as of end-2015 but well below the peak of 22 percent in 2013, while liquidity ratios remained favorable, with for instance liquid assets representing 26 percent of total assets. Going forward, with a dimmer domestic economic outlook there are significant risks to financial stability.

23. The link between declining oil prices and deteriorating banking soundness indicators is critically driven by banks' exposure to government operations. While extractive industries accounted for only 3.9 percent of banks' loans to the private sector in 2015, the banking system is highly exposed to the government and to companies dependent on government operations, making it vulnerable to the impact of the sharp fall in oil prices on public finances (Text Fig. 4). Exposures to government are increasing: commercial banks' credit to the public sector reached 28 percent of total credit in 2015, up from 21 percent in 2014; and public sector deposits constituted about 21 percent of total deposit in 2015, down from 26 percent in 2014. With government spending accounting for a large portion of economic activity in Chad (more than 30 percent of non-oil GDP

[6] See the SIP on macro-financial linkages for a more detailed analysis.

over 2009-2014), recent cuts in public spending and accumulation of domestic payment arrears can drag private sector contractors and borrowers into financial distress, elevating risks of NPLs.

Text Figure 4. Chad: Key Macro-Financial Linkages

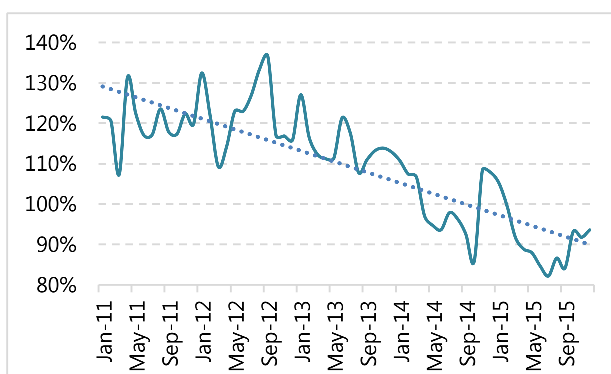


Sources: Chadian authorities, BEAC, COBAC, and Staff calculations. All figure at end-2015, in CFAF.

24. Changes in the composition of assets and liabilities have added to banks' vulnerabilities. High liquidity and largely deposit-based funding are traditionally key strengths of Chadian commercial banks. Sight deposits account for 85 percent of total deposits (the highest ratio among CEMAC members). With liquid assets representing 142 percent of short-term liabilities at end-2015, the banking system is highly liquid. The deposit intermediation level remains prudent with a deposits-to-loans ratio of 94 percent at end- 2015, however it is on a trend decline (Text Fig. 5). The following developments have tilted risks up for Chad's banking system:

- Many decentralized public entities (e.g., universities, hospitals) have been forced to withdraw deposits (and have in some cases resorted to bank overdrafts) to maintain their operations in the face of a reduction in government transfers.
- The successful introduction of government Treasury bonds—with an average maturity of 3 years—absent a liquid secondary market increases the risk of maturity mismatches between short-term deposits and banks' assets.

Text Figure 5. Chad: Customer deposits to total loans



Sources: COBAC; and IMF staff calculations.

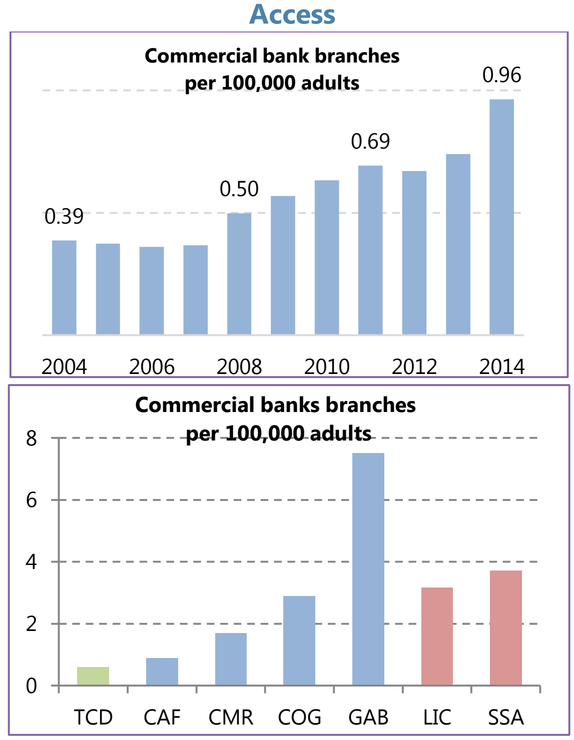
- The placement of (medium-term) government securities (¶17 and Box 3) to pay domestic arrears can lead to increased direct exposure to the government and a reduction in short-term credit to private companies with negative trickle-down effects on economic activity.

25. **Further increases in NPLs or declines in deposits could affect some banks' ability to comply with regulatory ratios, which calls for a close monitoring of the banking sector**. According to stress tests carried out in early 2016, if NPLs were to reach 20 percent of total loans, some banks would no longer meet the capital adequacy ratio, especially banks with capital originating in CEMAC countries. In the same vein, a further 25 percent decline in total deposits (e.g., through a 50 percent decline in government deposits plus a 20 percent decline in deposits from non-financial enterprises) would bring most banks below the regulatory liquidity ratio. In the staff's view, this calls for enhanced monitoring of banks. Also, in line with earlier FSAP recommendations, the COBAC (*Commission Bancaire de l'Afrique Centrale*) should be given the means to implement the powers it received in April 2014 to deal with stressed banks, and the role of the BEAC as a lender of last resort should be clarified.

26. **While recent BEAC decisions have boosted bank liquidity, the government's needs for additional domestic financing could crowd-out credit to the private sector**. In March and April 2016, BEAC raised the ceiling for bank refinancing and halved required reserves. Those measures should ease the liquidity of banks in Chad. Still, public sector financing needs could again reach the point of crowding-out bank credit to the private sector, as it did already in 2015.

27. **Financial inclusion in Chad has improved but access to financial services remains limited.** The use of financial services by households has improved along with the geographic expansion of banks over the last decade. Key measures such as the coverage of ATMs and commercial banks' branches have increased remarkably. However, Chad still lags behind its peers in CEMAC, LICs and Sub-Saharan Africa (Text Fig.6). Low penetration of financial services is prevalent across demographic groups but particularly severe for women.

Text Figure 6. Chad: Households' Financial Access



Source: Financial Survey Access, IMF

28. **While micro-financial institutions (MFI) are growing, their impact on financial inclusion remains limited.** The number of beneficiaries served by MFIs has continued to increase, along with the amount of outstanding savings, loans, and transfers. However, the share of MFIs in the financial market is still limited (1.6 and 2.3 percent of total deposits and total loans by the financial sector, respectively). Their weaknesses include poor management and the fact that they

concentrate in regions where they compete with banks instead of covering areas without bank network. Staff recommended that the regulatory/supervisory framework for the microfinance sector be improved as COBAC's resources permit.

Authorities' views

The authorities agreed on the significant macro-financial implications of the fiscal policy responses to the sharp fall in oil prices. They stressed the importance of plans to clear accumulated domestic arrears as quickly as possible as well as the BEAC's measures to inject liquidity into the banking system. The latter reinforced their confidence in achieving ambitious targets for the placement of securities. They noted the criticality of MFIs for economic development and stressed that the microfinance sector was a priority in their national development plan, including through a dedicated strategy.

C. Fostering Inclusive Economic Growth and Enhanced Effectiveness and Transparency of Government Operations

29. A challenging economic environment reinforces Chad's need for more inclusive growth. Poverty levels are high—particularly in rural areas—, the population is young (45 percent is under 15 years) and expanding by 3 percent per year, and the government is the main source of formal sector employment in urban areas. Chad needs to foster its private sector and job creation, particularly for the young and women. The authorities' development strategy is inspired by the over-arching Vision 2030 which aims at bringing Chad's development indicators to the level of emerging markets. The strategy will be implemented through detailed 5-year plans. The new national development plan for 2016-20 is expected to be finalized by September 2016, and will focus on strategic axes: (i) diversification, with a focus on agriculture and cattle; (ii) human capital; (iii) governance; and (iv) social protection.

30. The external stability assessment shows that Chad faces both difficult price and structural competitiveness challenges (Annex 2: External Sector Assessment). On price competitiveness, results of two alternative estimation methods suggest that the real effective exchange rate remains overvalued by 16-20 percent. On structural competitiveness, various business environment and competitiveness indicators (e.g. Global Competitiveness and Doing Business indicators) rank Chad among the worst performers in the world. Improving the business climate is therefore a promising route to export diversification and to attracting foreign investment beyond the oil sector. Given Chad's fixed peg, bold structural reforms to tackle impediments to private sector development are the principal means for strengthening the country's competitiveness and external position.

31. The current economic downturn has created a consensus on the need to diversify the economy and improve the business climate. It is believed that the agricultural sector has an enormous growth potential. The government views the promotion of agribusinesses as a credible strategy to shield the economy from the high dependence on oil. It is also keen in fostering small and medium-sized companies through cost reduction and simplification of business procedures.

Those companies should join the formal sector to gain access to greater financial resources. The government also intends to focus on judiciary reform over the next 5 years to improve the business climate and its predictability. Private business associations are urging investment in sectors with high value-added to create wealth and absorb labor.

Authorities' views

The authorities acknowledge the need to further improve the business environment to help diversify the economy, reduce the high dependence on oil, and promote more inclusive growth. They noted that the new five-year plan 2016-2020 will include some initiatives proposed by the private sector to improve the business climate and they intend to implement them in coordination with the private sector.

32. Fiscal structural reforms should continue to focus on spending control and efficiency of spending.

- Tighter and unpredictable resource envelopes make it even more critical to implement strict budget execution procedures (including for emergency spending, *DAOs*) and to enhance cash management (including through the preparation of monthly/quarterly Treasury plans).
- The public investment management process needs to be strengthened substantially. Indeed, while the impact of public investment plans financed by the 2003-14 oil windfall has been significant—especially in terms of improvements in economic and social infrastructure, their management framework is relatively weak.[7] In particular, the expenditure chain (commitment, validation, authorization, payment) needs to be streamlined as its current complexity undermines budget execution controls from the ministry of finance and leads to a sub-optimal allocation of resources. In addition, there is a need to align the allocations for goods and services and transfers with the resources needed to ensure the proper operation and maintenance of public investments.
- Institutional reforms in debt management need to be consolidated to maintain debt sustainability in the context of low oil prices.

33. Enhanced transparency and integrity arrangements have the potential of improving oil revenue collection and utilization. Chad's oil sector has increased in complexity over the past decade—with more producers, a new fiscal regime, a refinery, a state oil company, in kind revenue, greater state participation, and oil collateralized debt.[8] The management and regulatory challenges to the government have increased commensurately. With very little government reporting on the oil sector, more transparency will inform a broader public debate.[9] Accurate oil revenue projections are critical, as are proper audits of oil company tax declarations. Information from the companies collected by the Ministry of Petroleum should flow freely to the Ministry of Finance and other

[7] See SIP on public investment efficiency.
[8] See the SIP on Chad's petroleum sector.
[9] The Extractive Industries Transparency Initiative (EITI) produces informative annual reports on Chad, see http://itie-tchad.org/

agencies. The much enhanced role of the state oil company (*Société d'Hydrocarbures du Tchad*-SHT)—marketing the government's oil, purchasing and managing government oil assets, and contracting debt guaranteed by the state—should be accompanied by accountability mechanisms, with the production and publication of independently audited international standard financial reports a first priority. Information on all oil revenues should be centralized in the Ministry of Budget and Finance.

Authorities' views

The authorities highlighted the recent adoption of a new regulatory framework to implement the PFM law compliant with CEMAC directives, the adoption of a new public procurement code, the publication of quarterly budget execution reports, and the establishment of an audit court ("Cour des Comptes") operational since January 2015. Debt management reports and medium-term external borrowing plans should start to be produced this year. The authorities noted that improving the flow of oil sector information within the administration was high on their agenda. They are committed to invigorate the inter-ministerial structure created last year for consolidating and reporting all oil revenue information and to put in place proper oversight procedures for SHT. The authorities appreciated the EITI and indicated their intent to facilitate the compilation of the 2014 report during 2016. To enhance revenue collection, all oil companies plus the refinery were being audited by an international audit firm.

OTHER ISSUES

34. While some progress has been achieved in recent years, there is still scope to improve the quality, coverage and timeless of statistics. Chad has been a participant in the IMF's GDDS since September 24, 2002, and the World Bank's Statistical Capacity Indicator, ranks Chad as better than the average of SSA countries.[10] Statistics from all sectors (national accounts, Consumer Price Index, government finance, monetary and balance of payments) are broadly adequate for surveillance, though some shortcomings are identified (see details in the Informational Annex).

35. In line with the authorities' reform strategy, capacity development priorities will focus on strengthening public financial management and statistical capacity. In public financial management, priority areas will be the development of a comprehensive domestic arrears clearance strategy and the strengthening of the public investment process. Support priorities in statistics will continue to be in the areas of national accounts and balance of payments with the aim of facilitating macroeconomic surveillance.

36. Weak institutional capacity and high turnover of government officials and their technical teams are obstacles for technical assistance absorption. While technical assistance

[10] The Statistical Capacity Indicator is a composite score assessing the capacity of a country's statistical system. It is based on a diagnostic framework assessing the following areas: methodology; data sources; and periodicity and timeliness. Countries are scored against 25 criteria in these areas, using publicly available information and/or country input. http://datatopics.worldbank.org/statisticalcapacity/

missions to improve the statistical capacity in various areas and fiscal management have intensified in the recent past (see Informational Annex), staff stressed the importance of enhancing institutional stability to maximize the impact of those activities.

37. **Staff noted progress in the implementation of the BEAC's safeguards recommendations**. The implementation of safeguards recommendations is currently reviewed annually and is a pre-condition for granting new IMF financial support to, and reviewing existing IMF financial arrangements with CEMAC countries. The 2016 safeguards monitoring visit found that two priority recommendations remain outstanding. However, in early May 2016, the BEAC Board mandated the institution to initiate work on improving governance and transitioning to International Financial Reporting Standards (IFRS). This is an important initial step toward successful completion of safeguards reform. The authorities should maintain the momentum on the implementation of the reforms to restore credibility on the BEAC's ability to safeguard IMF financial resources.

Authorities' views

The authorities appreciated the capacity development support from the Fund in various areas. In terms of statistics, they noted recent progress in national accounts and balance of payments data with help from AFRITAC Central, and the production of a new CPI with broader product and geographical coverage. At the same time, they requested increased financial support to computerize key government institutions (like the national statistical office) and processes. They expressed interest in receiving assistance from the Fund's Topical Trust Fund on Managing Natural Resource Wealth given the country's high dependence on oil exports. The authorities agreed that the high turnover of civil service staff not only delays the production of consistent data but also weakens the effectiveness of training and capacity development.

STAFF APPRAISAL

38. **Chad continues to suffer from the consequences of the massive and persistent decline in oil prices and the elevated regional security threats**. Consequently, macroeconomic outcomes have been weaker than envisaged, and acute liquidity problems have forced the government to severely limit spending and domestic payments arrears have been accrued. In addition, risks are tilted to the downside, reflecting internal and external vulnerabilities.

39. **Much fiscal adjustment has already been implemented but more efforts are needed**. While resource constraints are expected to gradually loosen over the medium-term, a sizable permanent adjustment is needed now. The government is reformulating its 2016 budget, including additional cuts in investment spending, while protecting poverty-reducing social spending as much as possible. But uncertainty regarding the planned sale of a large oil asset highlights the need to elaborate a contingency plan to guide budget execution in the event that receipts do not materialize as envisaged. Even so, liquidity constraints are likely to remain severe and government spending should be executed with the utmost caution, including by introducing cash-based commitment controls to help reduce the risk of further accumulation of arrears, both domestic and external.

40. A comprehensive strategy is needed to clear the large volume of accumulated domestic arrears. It should be based on the findings of an independent audit to verify claims. Repayments should be consistent with the availability of resources under realistic medium-term fiscal projections.

41. Further progress in fiscal reform, in particular PFM, is essential in ensuring budget predictability, efficiency, and transparency. The authorities have made significant progress but much remains to be done to implement strict budget execution procedures, including on investment planning and execution, and to enhance cash management. Enhancing oil revenue transparency, including the flow of information within the administration, is crucial for better budget preparation and execution and for accountability.

42. The banking sector is affected by the direct and indirect impacts of the deteriorating fiscal situation, calling for close monitoring. The sharp fiscal adjustment and the government's growing financing are increasing bank vulnerabilities by changing the composition of assets and liabilities. These vulnerabilities may subsequently negatively affect economic conditions in certain economic sectors. A close monitoring of the banking system, in coordination with the regional regulator, is warranted. In addition, the COBAC should be given the means to implement the powers it received in April 2014 to deal with stressed banks, and the role of the BEAC as a lender of last resort should be clarified.

43. Data are broadly adequate for surveillance. There remains however scope to enhance the quality, coverage, and timeliness in most macroeconomic datasets as well as in the compilation of the international investment position that is not currently reported due to capacity constraints.

44. The oil price shock has highlighted the importance of economic diversification to economic resilience. The authorities are encouraged to rely on the priorities of the upcoming five-year plan 2016-2020, to improve the business environment and to strengthen financial inclusion, in order to promote inclusive growth and economic diversification, and ultimately create the conditions for exiting fragility.

45. It is proposed that the next Article IV consultation take place on a 24-month cycle.

Table 1. Chad: Selected Economic and Financial Indicators, 2013–20

	2013	2014	2015	2015	2016	2016	2017	2018	2019	2020
		Prel.	Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.			
	(Annual percentage change, unless otherwise indicated)									
Real economy										
GDP at constant prices	5.7	6.9	3.8	1.8	2.5	-1.1	1.7	5.2	8.2	3.4
Oil GDP	-7.2	5.7	37.6	32.2	5.0	-4.8	-3.2	12.5	27.6	-0.2
Non-oil GDP	8.0	7.1	-1.5	-2.9	1.9	-0.3	2.7	3.8	4.3	4.4
Consumer price index (annual average)	0.2	1.7	4.6	3.7	3.3	0.0	4.2	3.0	3.0	3.0
Consumer price index (end of year)	0.9	3.7	3.7	-0.3	3.0	5.0	3.0	3.0	3.0	3.0
Oil prices										
WEO (US$/barrel)[2]	104.1	96.2	51.6	50.8	50.4	42.9	50.0	52.2	53.1	54.7
Chadian price (US$/barrel)[3]	103.9	98.0	44.9	43.4	46.6	33.8	45.2	48.5	50.8	52.7
Oil production (millions of barrels)	36.3	38.5	54.8	52.5	57.8	49.7	48.1	55.0	71.5	71.8
Exchange rate CFAF per US$ (period average)	493.9	493.6	…	591.2	…	…	…	…	…	…
Money and credit[4]										
Net foreign assets	-2.6	-1.8	-23.8	-40.3	6.3	-10.2	1.0	…	…	…
Net domestic assets	11.2	28.2	26.6	35.6	-2.1	11.2	6.3	…	…	…
Of which : net claims on central government	10.0	18.0	16.4	31.6	-4.1	1.7	1.5	…	…	…
Of which : credit to private sector	2.8	17.3	1.7	0.3	3.3	-2.7	2.1	…	…	…
Broad money	8.6	26.5	2.8	-4.7	4.2	1.0	7.3	…	…	…
Income velocity (non-oil GDP/broad money)	5.5	4.8	4.8	5.0	4.8	5.0	5.0	…	…	…
External sector (valued in CFA francs)										
Exports of goods and services, f.o.b.	-8.6	1.4	-29.2	-34.1	9.6	-17.4	20.7	18.7	30.3	3.0
Imports of goods and services, f.o.b.	-7.7	9.9	-22.1	-23.7	1.6	-12.3	6.5	8.5	12.9	4.2
Export volume	-13.7	5.6	33.0	27.6	11.3	-7.9	6.7	14.6	16.0	-1.3
Import volume	-5.4	9.8	-19.3	-21.2	1.1	-9.9	5.7	8.0	12.2	3.5
Overall balance of payments (percent of GDP)	-0.2	-1.2	-3.4	-6.4	0.3	-2.6	-1.0	-0.6	-0.3	-0.5
Current account balance, including official transfers (percent of GDP)	-9.2	-9.0	-11.0	-12.4	-7.8	-8.7	-7.8	-7.3	-5.7	-6.2
Terms of trade	8.5	-4.1	-44.9	-46.6	-2.0	-7.9	12.2	3.2	11.7	3.6
External debt (percent of GDP)	21.2	29.2	27.2	25.1	23.8	23.9	20.2	17.6	14.5	12.8
NPV of external debt (percent of exports of goods and services)	33.5	62.9	89.1	85.0	73.6	91.8	68.9	52.5	36.3	31.9
	(Percent of non-oil GDP, unless otherwise indicated)									
Government finance										
Revenue and grants	27.8	23.3	16.7	14.8	17.1	15.5	16.8	17.7	20.5	20.5
Of which : non-oil	9.3	9.5	8.0	8.3	8.6	8.5	8.8	9.1	9.4	9.6
Expenditure	31.4	29.6	22.5	21.4	23.4	20.1	18.9	19.7	20.6	20.8
Current	17.7	16.7	13.7	14.1	13.7	14.3	12.5	12.9	12.7	12.2
Capital	13.7	12.9	8.8	7.3	9.7	5.8	6.4	6.8	8.0	8.6
Non-oil primary balance (commitment basis, excl. grants)[5]	-18.2	-16.3	-9.7	-9.8	-10.1	-7.0	-5.0	-5.0	-5.8	-5.9
Overall fiscal balance (incl. grants, commitments basis)	-3.6	-6.3	-5.7	-6.6	-6.3	-4.6	-2.1	-2.0	-0.1	-0.3
Overall fiscal balance (incl. grants, cash basis)	-6.6	-4.5	-7.2	-5.2	-6.3	-5.8	-3.0	-2.7	-0.9	-0.9
Total debt (in percent of GDP)[6]	30.3	39.2	40.2	42.6	38.4	45.0	39.3	35.6	29.6	26.1
Of which : domestic debt	9.1	10.0	13.0	17.5	14.6	21.1	19.1	18.0	15.1	13.3
Memorandum items:										
Nominal GDP (billions of CFA francs)	6,397	6,885	6,642	6,444	7,003	6,159	6,826	7,294	8,242	8,756
Of which: non-oil GDP	4,661	5,152	5,264	5,153	5,486	5,144	5,562	5,788	6,262	6,724

Sources: Chadian authorities; and IMF staff estimates and projections.

[1] IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351)

[2] WEO, latest Crude Oil Price Baseline

[3] Chadian oil price is Brent price minus quality discount.

[4] Changes as a percent of broad money stock at the beginning of period.

[5] Total revenue excluding grants and oil revenue, minus total expenditure excluding net interest payments and foreign-financed investment.

[6] Central government, including government-guaranteed debt.

Table 2. Chad: Real GDP per sector, 2013–20

(In Annual percentage change, unless otherwise indicated)

		2013	2014	2015		2016		2017	2018	2019	2020
	Weight[1]		Prel.	Prog.[2]	Prel.	Prog.[2]	Proj.	Proj.			
Primary sector	44	-2.1	6.4	15.1	10.1	3.4	-1.6	1.3	7.7	13.6	2.7
Agriculture	12	2.2	7.9	4.9	-3.3	4.0	1.1	3.9	3.9	3.9	3.9
Food crops	11	0.9	8.0	4.5	-4.0	4.0	1.0	4.0	4.0	4.0	4.0
Industrial crops	1	27.9	7.1	12.0	8.0	3.6	2.0	3.0	3.0	3.0	3.0
Livestock, Forestry and Fishing	11	3.4	3.0	0.5	0.5	2.0	2.0	4.0	5.0	5.0	5.0
Mining and Quarrying	3	4.5	10.3	5.2	5.2	-6.5	-6.5	3.0	4.0	4.5	4.5
Oil and Gas Extraction	19	-11.9	6.0	42.3	36.3	5.5	-5.1	-3.3	14.3	30.0	0.5
Secondary sector	12	20.9	8.1	-4.2	-4.3	2.8	-1.6	1.5	3.5	3.8	2.9
Manufacturing (non petroleum)	1	26.7	13.2	-2.5	-2.5	1.0	1.0	3.0	6.0	5.0	5.0
Handicrafts	5	24.8	11.5	2.0	2.0	2.5	1.0	3.5	4.0	4.5	5.0
Utilities	0	16.1	4.6	3.5	3.5	3.5	3.0	4.0	4.5	4.5	4.5
Construction	6	15.0	4.0	-12.5	-12.5	3.5	-6.0	-1.5	2.5	3.0	-0.4
Of which : oil related	2	75.5	4.5	1.0	1.4	-4.8	-1.6	-3.0	-7.9	-0.5	-19.1
Tertiary sector	41	9.1	7.1	-3.3	-3.3	1.4	-0.5	2.1	3.2	4.2	4.4
Commerce, transport, and communication	22	8.0	4.9	-3.8	-3.8	1.1	-0.8	2.2	3.1	4.5	4.5
Commerce	20	7.1	4.5	-4.5	-4.5	1.0	-1.0	2.0	3.0	4.5	4.5
Transport and communication	3	15.0	8.0	1.0	1.0	2.0	0.5	3.5	4.0	4.5	4.5
General government	7	6.8	4.2	-12.5	-12.5	1.0	-4.0	0.5	3.0	3.5	3.3
Other	12	12.0	12.0	1.0	1.0	2.0	1.0	2.5	3.5	4.0	4.5
Duties and taxes on imports	2	4.7	4.7	-5.7	-5.7	1.0	-1.5	1.0	2.0	3.0	3.0
Total GDP (market prices)	100	5.7	6.9	3.8	1.8	2.5	-1.1	1.7	5.2	8.2	3.4
Oil GDP (including investment)	20	-7.2	5.7	37.6	32.2	5.0	-4.8	-3.1	12.5	27.6	-0.2
Non-oil GDP	80	8.0	7.1	-1.5	-2.9	1.9	-0.3	2.7	3.8	4.3	4.4

Sources: Chadian authorities; and IMF staff estimates and projections.

[1] Average share of 2005–10 GDP.

[2] IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351)

Table 3. Chad: Fiscal Operations of the Central Government, 2013–20

(In Billions of CFAF, unless otherwise indicated)

	2013	2014	2015		2016			2017	2018	2019	2020
		Prel.	Prog.[1]	Prel.	Prog.[1]	LFR[2]	Proj.	Proj.			
Total revenue and grants	1,294	1,202	881	763	938	793	796	933	1,024	1,283	1,376
Revenue	1,182	1,094	691	561	720	586	576	724	808	1,053	1,132
Oil[3]	749	607	270	133	250	116	141	237	281	467	486
Non-oil	433	487	420	428	470	470	435	487	527	586	646
Tax	420	464	400	407	435	435	410	456	486	539	592
Non-tax	13	23	20	22	35	35	25	31	41	47	54
Grants	113	107	190	202	219	207	220	210	216	230	244
Budget support	5	0	53	90	40	70	83	45	45	45	45
Project grants	108	107	137	112	179	137	137	165	171	185	199
Expenditure	1,464	1,525	1,182	1,101	1,283	1,155	1,033	1,052	1,141	1,292	1,397
Current	823	861	720	725	749	753	733	697	746	792	818
Wages and salaries	333	341	370	369	376	391	391	410	425	438	444
Goods and services	136	147	67	93	70	70	70	83	87	94	101
Transfers and subsidies	320	327	239	240	264	253	233	161	168	200	215
Interest	34	46	44	23	39	39	39	42	67	60	58
Domestic	10	24	21	13	20	20	20	22	23	26	26
External	24	22	23	10	19	19	19	20	44	35	31
Investment	641	664	462	377	533	401	299	355	395	500	579
Domestically financed	491	510	255	231	313	204	102	110	135	220	280
Foreign financed	149	154	207	146	220	197	197	245	260	280	299
Overall balance (incl. grants, commitment)	-169	-323	-302	-338	-344	-362	-237	-119	-117	-9	-20
Non-oil primary balance (excl. grants, commitment)[4]	-848	-838	-511	-504	-553	-448	-361	-278	-287	-366	-394
Float from previous year[5]	-231	-135	-181	-181	-105	-103	-103	-105	-106	-117	-118
Float at end of year[5]	135	181	105	103	105	105	105	106	117	118	125
Var. of Arrears	-10	12	0	148	0	-65	-65	-50	-50	-50	-50
Overall balance (incl. grants, cash)	-310	-230	-378	-268	-344	-425	-300	-167	-156	-58	-64
Financing	310	230	378	263	344	424	190	141	130	40	40
Domestic financing	80	363	399	265	357	418	184	71	53	-43	-47
Bank financing	55	118	279	289	42	…	26	18	-6	-68	-59
Central Bank (BEAC)	59	113	219	292	26	…	26	18	-6	-68	-59
Deposits	60	104	-47	26	0	…	0	0	0	-20	-10
Advances (net)	0	0	233	232	0	…	0	0	-6	-48	-48
IMF	-1	9	34	34	26	…	26	18	0	0	-1
Commercial banks (deposits)	-3	5	…	-3	16	…	0	0	0	0	0
Other financing (net)	24	-32	80	-48	15	…	59	54	59	25	12
Privatization and other exceptional receipts[6]	0	277	40	24	300	330	100	0	0	0	0
Foreign financing	230	-133	-21	-2	-13	6	6	69	76	83	87
Loans (net)	198	-133	-41	-22	-43	-24	-24	38	48	55	61
Disbursements[7]	338	46	78	34	41	60	60	80	89	95	100
Financing gap	…	0	0	5	0	0	110	27	27	17	24
Memorandum items:											
Non-oil GDP	4,661	5,152	5,264	5,153	5,486	5,144	5,144	5,562	5,788	6,262	6,724
Poverty-reducing social spending	335	309	243	260	246	…	…	…	…	…	…
Bank deposits (mostly BEAC)	214	119	157	93	157	93	93	93	93	113	123
(In months of domestically-financed spending)	2.0	1.0	1.9	1.2	1.8	1.2	1.3	1.4	1.3	1.3	1.3
BEAC statutory advances[8]	223	223	416	455	416	455	455	455	449	401	354

Sources: Chadian authorities; and IMF staff estimates and projections.

[1]IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351).

[2]Loi de Finances Rectificative (Revised Budget Law).

[3]Net of debt service on oil sales advances.

[4]Total revenue, less grants and oil revenue, minus total expenditures, less net interest payments and foreign financed investment.

[5]Difference between committed and cash expenditure.

[6]Extraordinary receipts linked to a settlement of a dispute with an oil company are included in 2014. CFAF300 billion from an oil asset sale are included in the 2016 LFR. Given uncertainties, only CFAF100 billion are projected under the baseline scenario.

[7]The oil sales advance with Glencore Energy in 2013 in an amount of US$600 million (about CFAF 296 billion) was recorded as budget borrowings.

[8]Includes exceptional advance in 2015

Table 4. Chad: Fiscal Operations of the Central Government, 2013–20

(In Percent of non-oil GDP, unless otherwise indicated)

	2013	2014	2015		2016			2017	2018	2019	2020
		Prel.	Prog.[1]	Prel.	Prog.[1]	LFR[2]	Proj.	Proj.			
Total revenue and grants	27.8	23.3	16.7	14.8	17.1	15.4	15.5	16.8	17.7	20.5	20.5
Revenue	25.4	21.2	13.1	10.9	13.1	11.4	11.2	13.0	14.0	16.8	16.8
Oil[3]	16.1	11.8	5.1	2.6	4.5	2.2	2.7	4.3	4.9	7.5	7.2
Non-oil	9.3	9.5	8.0	8.3	8.6	9.1	8.5	8.8	9.1	9.4	9.6
Tax	9.0	9.0	7.6	7.9	7.9	8.5	8.0	8.2	8.4	8.6	8.8
Non-tax	0.3	0.5	0.4	0.4	0.6	0.7	0.5	0.6	0.7	0.8	0.8
Grants	2.4	2.1	3.6	3.9	4.3	4.0	4.3	3.8	3.7	3.7	3.9
Budget support	0.1	0.0	1.0	1.8	0.8	1.4	1.6	0.8	0.8	0.7	0.7
Project grants	2.3	2.1	2.6	2.2	3.5	2.7	2.7	3.0	3.0	3.0	3.2
Expenditure	31.4	29.6	22.5	21.4	23.4	22.4	20.1	18.9	19.7	20.6	20.8
Current	17.7	16.7	13.7	14.1	13.7	14.6	14.3	12.5	12.9	12.7	12.2
Wages and salaries	7.1	6.6	7.0	7.2	6.9	7.6	7.6	7.4	7.3	7.0	6.6
Goods and services	2.9	2.8	1.3	1.8	1.3	1.4	1.4	1.5	1.5	1.5	1.5
Transfers and subsidies	6.9	6.3	4.5	4.7	4.8	4.9	4.5	2.9	2.9	3.2	3.2
Interest	0.7	0.9	0.8	0.5	0.7	0.8	0.8	0.8	1.2	1.0	0.9
Domestic	0.2	0.5	0.4	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4
External	0.5	0.4	0.4	0.2	0.3	0.4	0.4	0.4	0.8	0.6	0.5
Investment	13.7	12.9	8.8	7.3	9.7	7.8	5.8	6.4	6.8	8.0	8.6
Domestically financed	10.5	9.9	4.9	4.5	5.7	4.0	2.0	2.0	2.3	3.5	4.2
Foreign financed	3.2	3.0	3.9	2.8	4.0	3.8	3.8	4.4	4.5	4.5	4.4
Overall balance (incl. grants, commitment)	-3.6	-6.3	-5.7	-6.6	-6.3	-7.0	-4.6	-2.1	-2.0	-0.1	-0.3
Non-oil primary balance (excl. grants, commitment)[4]	-18.2	-16.3	-9.7	-9.8	-10.1	-8.7	-7.0	-5.0	-5.0	-5.8	-5.9
Float from previous year[5]	-5.0	-2.6	-3.4	-3.5	-1.9	-2.0	-2.0	-1.9	-1.8	-1.9	-1.8
Float at end of year[5]	2.9	3.5	2.0	2.0	1.9	2.0	2.0	1.9	2.0	1.9	1.9
Var of Arrears	-0.2	0.2	2.0	2.9	0.0	-1.3	-1.3	-0.9	-0.9	-0.8	-0.7
Overall balance (incl. grants, cash)	-6.6	-4.5	-7.2	-5.2	-6.3	-8.3	-5.8	-3.0	-2.7	-0.9	-0.9
Financing	6.6	4.5	7.2	5.1	6.3	8.2	3.7	2.5	2.2	0.6	0.6
Domestic financing	1.7	7.0	7.6	5.1	6.5	8.1	3.6	1.3	0.9	-0.7	-0.7
Bank financing	1.2	2.3	5.3	5.6	0.8	…	0.5	0.3	-0.1	-1.1	-0.9
Central Bank (BEAC)	1.3	2.2	4.2	5.7	0.5	…	0.5	0.3	-0.1	-1.1	-0.9
Deposits	1.3	2.0	-0.9	0.5	0.0	…	0.0	0.0	0.0	-0.3	-0.1
Advances (net)	0.0	0.0	4.4	4.5	0.0	…	0.0	0.0	-0.1	-0.8	-0.7
IMF	0.0	0.2	0.6	0.7	0.5	…	0.5	0.3	0.0	0.0	0.0
Commercial banks (deposits)	-0.1	0.1	1.1	-0.1	0.3	…	0.0	0.0	0.0	0.0	0.0
Other financing (net)	0.5	-0.6	1.5	-0.9	0.3	…	1.1	1.0	1.0	0.4	0.2
Privatization and other exceptional receipts[6]	0.0	5.4	0.8	0.5	5.5	6.4	1.9	0.0	0.0	0.0	0.0
Foreign financing	4.9	-2.6	-0.4	0.0	-0.2	0.1	0.1	1.2	1.3	1.3	1.3
Loans (net)	4.2	-2.6	-0.8	-0.4	-0.8	-0.5	-0.5	0.7	0.8	0.9	0.9
Disbursements[7]	7.3	0.9	1.5	0.7	0.8	1.2	1.2	1.4	1.5	1.5	1.5
Financing gap	…	0.0	0.0	0.1	0.0	0.0	2.1	0.5	0.5	0.3	0.4
Memorandum items:											
Non-oil GDP	4,661	5,152	5,264	5,153	5,486	5,144	5,144	5,562	5,788	6,262	6,724
Poverty-reducing social spending	7.2	6.0	4.6	5.0	4.5	…	…	…	…	…	
Bank deposits (mostly BEAC)	4.6	2.3	3.0	1.8	2.9	1.8	1.8	1.7	1.6	1.8	1.8
(In months of domestically-financed spending)	2.0	1.0	1.9	1.2	1.8	1.2	1.3	1.4	1.3	1.3	1.3
BEAC statutory advances[8]	4.8	4.3	7.9	8.8	7.6	8.8	8.8	8.2	7.8	6.4	5.3

Sources: Chadian authorities; and IMF staff estimates and projections.

[1] IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351).

[2] Loi de Finances Rectificative (Revised Budget Law).

[3] Net of debt service on oil sales advances.

[4] Total revenue, less grants and oil revenue, minus total expenditures, less net interest payments and foreign financed investment.

[5] Difference between committed and cash expenditure.

[6] Extraordinary receipts linked to a settlement of a dispute with an oil company are included in 2014. CFAF300 billion from an oil asset sale are included in the 2016 LFR. Given uncertainties, only CFAF100 billion are projected under the baseline scenario.

[7] The oil sales advance with Glencore Energy in 2013 in an amount of US$600 million (about CFAF 296 billion) was recorded as budget borrowings.

[8] Includes exceptional advance in 2015.

Table 5. Chad: Balance of Payments, 2013–20

(In Billions of CFA francs, unless otherwise indicated)

	2013	2014	2015		2016		2017	2018	2019	2020
	Prel.	Prel.	Prog.[3]	Prel.	Prog.[3]	Proj.	Proj.			
Current account, incl. official transfers	-591	-621	-732	-800	-546	-535	-529	-533	-467	-544
Trade balance	420	194	53	31	181	-3	198	391	835	804
Exports, f.o.b.	1,919	1,940	1,651	1,551	1,807	1,257	1,538	1,844	2,426	2,473
Of which : oil	1,593	1,592	1,291	1,191	1,429	884	1,136	1,411	1,957	1,967
Imports, f.o.b.	-1,499	-1,746	-1,598	-1,520	-1,626	-1,260	-1,339	-1,453	-1,591	-1,670
Services (net)	-1,043	-1,060	-1,043	-1,092	-1,036	-1,015	-1,082	-1,172	-1,361	-1,380
Income (net)	-294	-298	-163	-196	-120	4	-98	-224	-420	-457
Transfers (net)	326	544	420	458	430	479	452	472	479	489
Official (net)[1]	98	303	161	196	157	196	159	166	166	161
Private (net)	228	240	260	262	272	283	292	305	314	328
Financial and capital account	582	627	508	387	566	374	460	489	440	504
Capital transfers	104	104	133	108	175	133	161	168	182	195
Foreign direct investment[2]	257	-334	355	331	611	332	316	368	325	328
Other medium and long term investment	187	547	-30	-33	1	-51	26	34	40	46
Public sector	198	558	-19	-22	10	-39	38	48	55	61
Private sector	-10	-11	-11	-11	-12	-12	-13	-14	-15	-15
Short-term capital	34	310	50	-19	-218	-40	-42	-81	-107	-66
Errors and omissions	0	0	0	0	0	0	0	0	0	0
Overall balance	-9	6	-224	-412	20	-161	-69	-44	-28	-41
Financing	9	-6	171	359	-133	106	-6	-11	-17	-10
Change in official reserves (decrease +)	9	-6	171	359	-133	106	-6	-11	-17	-10
IMF (net)	0	9								
Financing gap	0	0	-53	-53	-113	-56	-75	-55	-45	-50
Financing gap (percent of GDP)	0	0	-0.8	-0.8	-1.6	-0.9	-1.1	-0.8	-0.5	-0.6
Exceptional Financing			54	54	56	56	48	28	28	27
IMF ECF			34	34	26	26	18	0	0	1
Debt relief (HIPC)			20	20	30	30	31	28	28	26
Remaining gap			0	0	-57	0	-27	-27	-17	-23
Memorandum items:										
Current account (percent of GDP)	-9.2	-9.0	-11.0	-12.4	-7.8	-8.7	-7.8	-7.3	-5.7	-6.2
Exports (percent of GDP)	30	28	25	24	26	20	23	25	29	28
Of which : oil	25	23	19	18	20	14	17	19	24	22
Imports (percent of GDP)	-23	-25	-24	-24	-23	-20	-20	-20	-19	-19
FDI (percent of GDP)	4.0	-4.9	5.3	5.1	8.7	5.4	4.6	5.0	3.9	3.7
Gross official reserves (billions of USD)	1.2	1.2	0.6	0.4	0.8	0.2	0.2	0.2	0.3	0.3
(In months of imports of goods and services)	2.5	2.1	1.5	1.0	1.8	0.6	0.6	0.6	0.6	0.6
(Idem, excluding oil sector imports)	3.0	2.5	1.8	1.2	2.4	0.7	0.7	0.7	0.7	0.7

Sources: Chadian authorities; and IMF staff estimates and projections.

[1]A payment linked to a settlement of a dispute with an oil company has been transferred to the government in 2014

[2] FDI are negative in 2014 due to the disinvestment by Chevron in Chad's biggest oil consortium.

[3]IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351).

Table 6. Chad: Monetary Survey, 2013–17
(In Billions of CFA francs)

	2013	2014	2015		2016		2017
		Prel.	Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.
Net foreign assets	537.7	522.7	266.1	88.6	336.3	-16.3	-6.4
Central bank	527.9	534.5	308.1	145.4	376.3	48.7	53.6
Commercial banks	9.8	-11.9	-42.0	-56.8	-40.0	-65.0	-60.0
Net domestic assets	314.4	555.0	842.0	938.5	818.5	1053.5	1118.7
Domestic credit	465.4	760.4	980.0	1123.3	997.5	1138.5	1193.7
Claims on the government (net)	50.4	204.2	380.9	544.6	335.8	562.0	578.0
Treasury (net)	35.7	165.6	342.3	484.8	297.2	512.0	533.0
Banking sector	35.7	165.6	342.3	484.8	297.2	512.0	533.0
Central bank	96.9	228.7	351.3	492.2	281.2	500.0	505.0
Claims on general government	260.3	268.2	440.8	530.0	405.8	530.0	530.0
Liabilities to general government	-163.5	-39.5	-89.5	-37.7	-124.6	-30.0	-25.0
Commercial banks	-61.2	-63.2	-9.0	-7.4	16.0	12.0	28.0
Claims on general government	66.6	86.2	112.0	141.7	124.0	156.0	170.0
Liabilities to general government	-127.7	-149.3	-121.0	-149.1	-108.0	-144.0	-142.0
Fund position	0.9	10.6	41.2	41.2	65.1	65.1	81.2
Other non-treasury	14.7	38.6	38.6	59.8	38.6	50.0	45.0
Credit to the economy	389.6	537.0	555.4	540.7	592.2	512.7	534.5
Capital Accounts	-113.9	-102.8	-100.0	-118.9	-127.0	-130.0	-120.0
Other items (net)	-27.5	-23.4	-38.0	45.1	-52.0	45.0	45.0
Money and quasi money	852.1	1077.7	1108.1	1027.0	1154.9	1037.2	1112.4
Currency outside banks	448.3	539.2	554.4	482.4	577.8	487.1	522.4
Demand deposits	336.3	460.5	473.5	453.9	493.4	458.4	491.6
Time and savings deposits	67.5	78.0	80.2	90.8	83.6	91.7	98.4
Memorandum items:							
Broad money (annual percentage change)	8.6	26.5	2.8	-4.7	4.2	1.0	7.3
Credit to the economy (annual percentage change)	6.1	37.8	3.4	0.7	6.6	-5.2	4.2
Credit to the economy (percent of GDP)	6.1	7.8	8.4	8.4	8.5	8.3	7.8
Credit to the economy (percent of non-oil GDP)	8.4	10.4	10.6	10.5	10.8	10.0	9.6
Velocity (non-oil GDP)	5.5	4.8	4.8	5.0	4.8	5.0	5.0
Velocity (total GDP)	7.5	6.4	6.0	6.3	6.1	5.9	6.1

Sources: Chadian authorities; and IMF staff estimates and projections.
[1] IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351).

Table 7. Chad: Financial Soundness Indicators, 2010–15

	2010	2011	2012	2013	2014	2015
Capital Adequacy						
Regulatory capital / Risk-weighted assets	12.5	20.0	18.1	22.0	13.4	14.6
Asset Quality						
Gross nonperforming loans/Gross banking loans	9.9	7.6	7.4	9.8	11.7	16.5
Provisions / Nonperforming loans	81.1	89.0	64.5	65.3	68.3	56.1
Net nonperforming loans/Gross banking loans	1.9	0.8	2.6	3.4	3.7	7.3
Profitability						
Return on assets	3.2	2.1	2.0	2.3	1.8	1.6
Return on equity	32.0	19.2	15.5	21.1	19.4	13.1
Liquidity						
Liquid assets / Total assets	29.4	24.3	28.1	24.0	25.7	26.0
Liquid assets / Short term liabilities	148.3	149.3	146.6	139.3	152.9	142.1

Source: COBAC.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Impact and Policy Response
Persistent decline in global oil prices	High	*Impact*: High. Permanently low oil prices, aggravated by weak global growth, would result in depressed fiscal oil revenues and larger current account deficits. The associated fiscal contraction could delay several public investment projects, notably in agriculture and infrastructure, negatively affecting long-term growth. *Policy responses*: Smooth public expenditure over the medium-term and strengthen non-oil revenue mobilization.
A deterioration of the security situation, including through regional spillovers (CAR, Mali, Nigeria)	Medium	*Impact*: High. It could cause: (1) political instability; (2) increased displacement of population and increased need for humanitarian assistance; (3) increased security-related government expenditures that could crowd out other priority spending such as social or investment; (4) disruptions in intra-region trade flows. *Policy response*: Rebuild fiscal buffers; budget sufficient resources for emergency security-related spending
A deepening of the food security crisis within Chad and across the Sahel region	Medium	*Impact*: Medium. It could affect Chad's most vulnerable population through a combination of high food prices, and increased malnutrition; could lead to social and political tensions in an already fragile environment; and could jeopardize government's fiscal position as authorities respond to the crisis. *Policy response*: Continue coordination with development partners to strengthen Chad's resilience to weather shocks; promote policies for economic diversification and higher labor productivity, particularly in agriculture; strengthen social safety net programs, targeted at protecting the poor and vulnerable segments of the society.
Lapses in the implementation of fiscal policy	Medium	*Impact*: High. A higher than anticipated non-oil primary deficit (NOPD) would lead to a buildup of arrears and increased borrowing from the securities market, with adverse implications on the ECF arrangement, donor support, and fiscal and debt sustainability. *Policy response*: Continue close monitoring of budget execution, including implementation of commitments under the ECF

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex II. External Sector Assessment

In 2014 an analysis of exchange rate and competitiveness suggested that the external position was weaker than the level consistent with medium-term fundamentals. Since then, the current account deficit has not improved, mainly as a result of lower oil exports. Foreign direct investment in the oil sector remains a key source of external financing. Two model-based approaches indicate that the current account balance is below the current account norm and the real effective exchange rate is overvalued. Overall, Chad's external position is projected to remain weak in 2016. Structural reforms to improve competitiveness and attract foreign investment are necessary to strengthen the external sector.

A. Balance of Payments and Exchange Rate Developments

1. Chad has recorded large current account deficits since 2009. The external current account deficit averaged 9 percent of GDP between 2009 and 2015, and is projected to remain at a similar level in 2016. These deficits have been consistently larger than in the CEMAC as a whole, although the regional current account balance has worsened at a fast pace in recent years (Figure 1a). The evolution of the current account in Chad was mainly driven by the goods and services balance, which has deteriorated from -7 percent of GDP in 2011 to -17 percent of GDP in 2015, partially as a result of the drop in oil exports (Figure 1b). The net income account also made a negative contribution to the current account through payments on foreign investment in the oil sector. Conversely, net current transfers positively contributed to the current account. In 2014, these transfers include proceedings from a $400 million fine paid by China National Petroleum Corporation for violations of environmental standards.

Text Figure 1. Chad: Current Account Balance and Components, 2009–16

(Percent of GDP)

Figure 1a. Current Account Balance, 2009-16

(Percent of GDP)

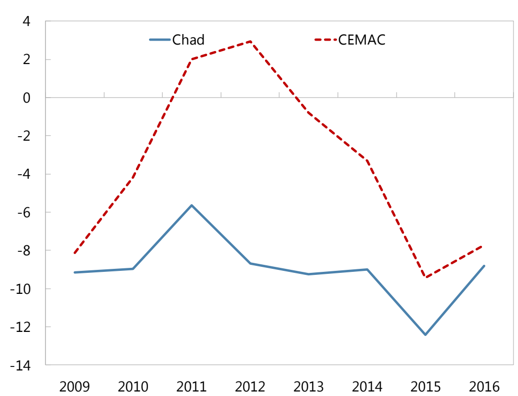
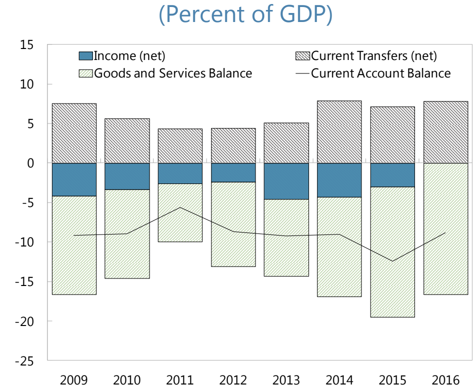


Figure 1b. Current Account Balance Components, 2009-2016

(Percent of GDP)

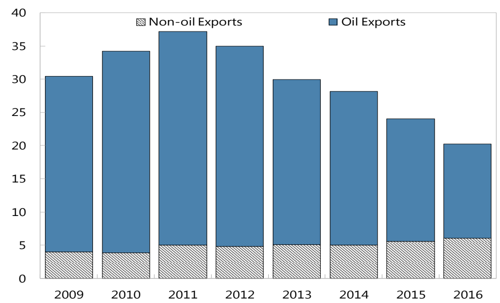


Sources: Country Authorities, BEAC, and staff estimates

2. The continuous decline in exports in recent years is explained by the fall in oil sales. Oil exports, which constitute the bulk of total exports, have reduced from 32 percent of GDP in 2011 to 19 of GDP in 2015, owing to a decline in oil production around 2012-2013 and the international oil price slump since 2014 (Text Figure 2). The continued reduction in oil prices in 2016 explains the projection of even lower oil exports for this year. Non-oil exports remain concentrated in a few products (especially cotton and livestock) and their contribution to total exports was stable at 5 percent of GDP between 2009 and 2015. This evidence suggests that Chad is affected by the economic dysfunction known as the "oil curse".

Text Figure 2. Chad: Oil and Non-Oil Exports, 2009-2016

(Percent of GDP)

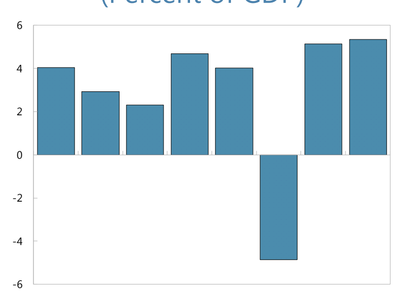


Source: Country authorities, BEAC, and staff estimates.

3. Foreign direct investment (FDI) in the oil sector has been an important source of external financing. The current account deficits have been partially financed by FDI, which concentrates in the oil sector and averaged 3 percent of GDP in the period 2009-2015 (Text Figure 3). The large negative value of FDI in 2014 is associated with the debt-financed government's purchase of Chevron's shares in Chad's largest oil consortium. Although investment from oil companies is envisaged to decline in 2016, FDI is expected to be above 5 percent of GDP in 2016 due to exceptional receipts (estimated at CFAF 100 billion) from the government's sale of a 10 percent equity stake in oil sector fields. In recent years, capital transfers in the form of debt relief and investment grants also helped to finance the current account deficit.

Text Figure 3. Chad: Foreign Direct Investment, 2009-2016

(Percent of GDP)

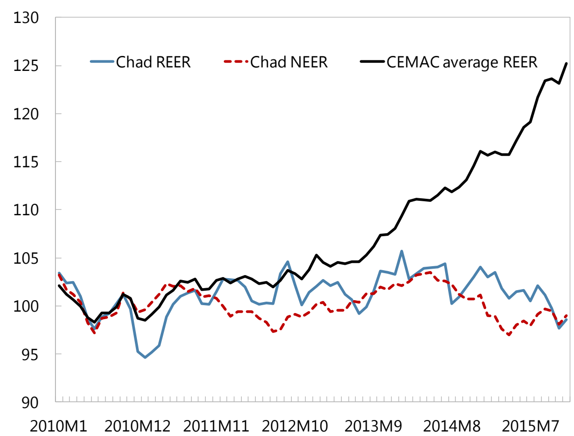


Source: Country authorities, BEAC, and staff estimates.

4. Despite some short-term volatility, the real effective exchange rate (REER) has remained fairly stable over the last five years. Following a period of depreciation after the global recession of 2008-09, the REER has fluctuated around a somewhat stable level since 2011 (Text Figure 4). In this way, the notable depreciation of the nominal effective exchange rate (NEER) in 2014 did not translate into important gains in price competitiveness. This relative lack of adjustment in the REER could be explained by structural competitiveness hurdles in the Chadian economy. The movements in the NEER closely track the evolution of the nominal effective exchange rate of the euro, to which Chad's common currency is pegged. At the regional level, the observed appreciation of the average REER reflects in part relatively high inflation in countries such as the Central African Republic.

Text Figure 4. Chad: Nominal and Real Effective Exchange Rates, 2010-2015

(2010=100)



Source: Country authorities, BEAC, and staff estimates

5. Reserve adequacy and debt sustainability indicators tend to confirm the perceived weaknesses of Chad's external position. Given the severe data limitations concerning Chad's balance of payments, it is important to evaluate additional information to assess the external position.[2] A recent analysis of reserve adequacy in the CEMAC (IMF Country Report No. 15/222, July 2015) concluded that although reserves were expected to decline in 2015, they remained broadly adequate according to relevant metrics. In 2015 the level of pooled reserves imputed to Chad fell to US$ 390 million, down from US$ 1.19 billion at end-2014. In the face of the persistent oil price shock, a further decline of reserves in 2016 is a risk that could materialize. The debt sustainability analysis (DSA) also suggests a weak external sector, as it concludes that Chad faces a high risk of debt distress, based on an assessment of public external debt.

6. On average, the current account deficit is expected to reduce to 7 percent in 2016-2021. The goods and services balance is expected to contribute to this result, by improving from a

[2] Chad's official balance of payments data starting from 2011 are still provisional

deficit of almost 17 percent of GDP in 2016 to a deficit of 7 percent of GDP in 2021. The current account deficit would be primarily financed by FDI.

B. Model-Based Real Exchange Rate Assessment

7. Two standard approaches were used to assess the potential misalignment of the current account and the REER. The Bems and Carvalho (2009) and the Araujo et al. (2013) methodologies rely on the application of the permanent income hypothesis and are well suited to estimate current account norms for resource-rich countries. The misalignment of the REER is then calculated by comparing the projected medium-term current account with the model-based norms, and by assuming a value for the elasticity of the current account with respect to the REER (Text Table 1).[3] Both methodologies assume that Chad's oil reserves will be depleted in 25 years.

Text Table 1. Chad: Current-Account Norms and Implied REER Adjustment[1/]

	Year: 2020 (Percent of GDP)	Implied Real Exchange Rate adjustment (%) CA Elasticity: -0.6
Underlying current account	-6.4	
CA norm (Araujo et al., 2013)	3.4	16
CA norm (Constant real annuity - Bems and Carvalho Filho, 2009)	5.6	20

Source: IMF staff estimates.

1/ The current account elasticity is based on the import and export elasticities reported in Tokarick (2010) (-1.4 and 0.25, respectively) and staff's projections for Chad's import and export values in 2020.

8. The Araujo et al. (2013) approach suggests a current account norm of 3.4 percent of GDP in 2020, corresponding to a REER overvaluation of 16 percent. This model takes into account external borrowing constraints as well as inefficiencies and absorptive capacity constraints in investment, which are realistic features of developing countries. In simulating the model for Chad, the values of the key parameters were the same as those reported in Araujo et al. (2013), who calibrated the model parameters to the CEMAC region.

9. The Bems and Carvalho's (2009) constant real annuity approach suggests a current account norm of 5.6 percent of GDP in 2020, corresponding to a REER overvaluation of 20 percent. The finding of a higher current account norm than in the Araujo et al. (2013) approach is reasonable because the Bems and Carvalho (2009) model ignores the features of developing countries mentioned in ¶ 8 above. In particular, by ignoring external borrowing constraints, the optimal response to a natural resource windfall implies a larger current account surplus than otherwise.

[3] The external stability assessment of CEMAC (IMF Country Report No. 15/222, July 2015) found that CEMAC's REER was broadly consistent with equilibrium under current policies, although model-based approaches indicated some evidence of overvaluation.

C. Structural Competitiveness

11. Several indicators show that Chad faces difficult structural competitiveness issues. In recent years the authorities developed public investment plans in infrastructure and, with the help of technical assistance, focused on improving public financial management. However, as illustrated below, various business environment and competitiveness indicators rank Chad among the worst performers in the world. The limited progress in improving the business climate represents a key constraint to export diversification and to attracting foreign investment. Given Chad's membership in a currency union, bold structural reform measures are necessary to strengthening the country's competitiveness and external position.

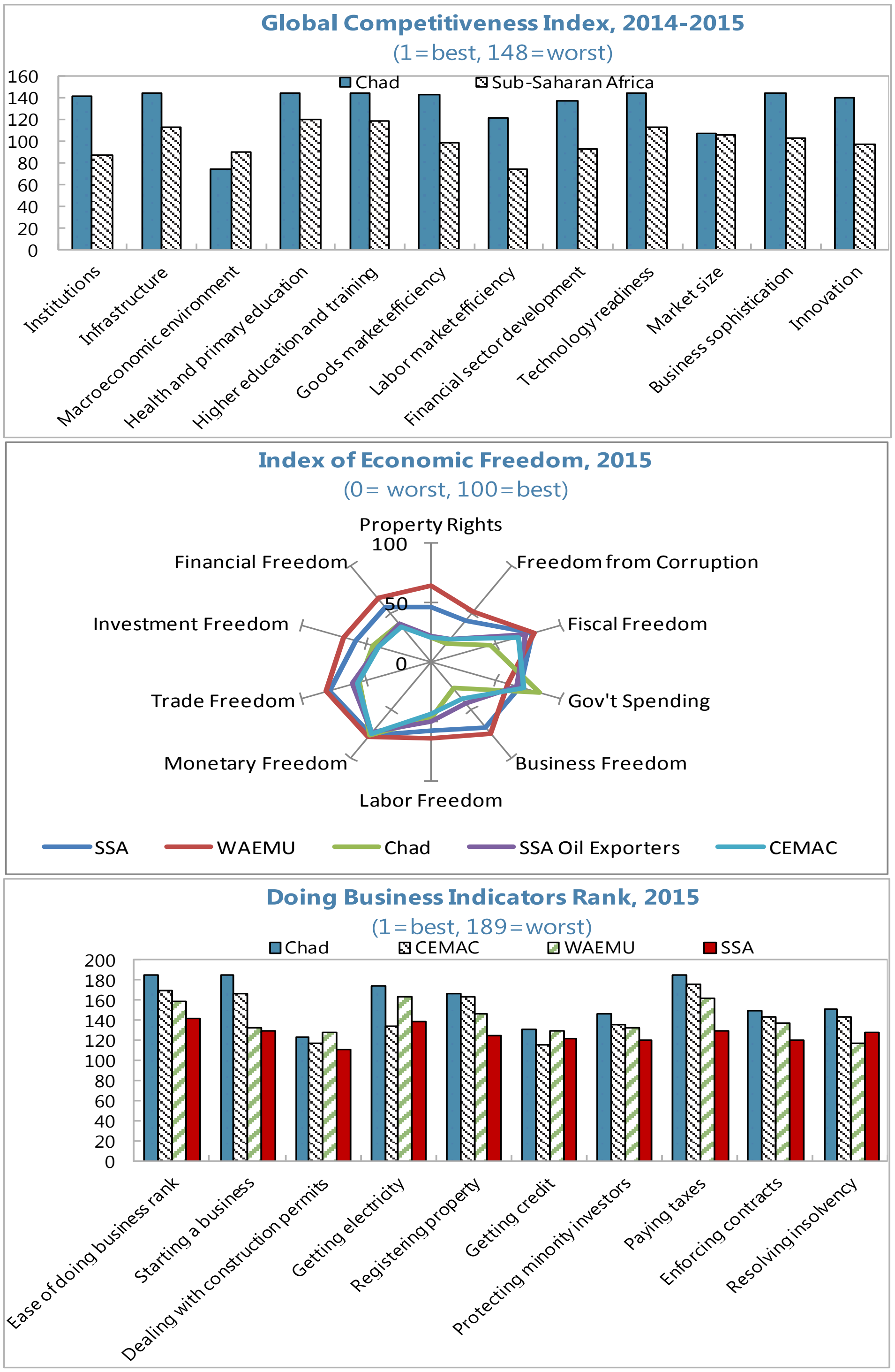
12. In the 2014-15 World Economic Forum's Global Competitiveness Index (GCI) report, Chad ranks 143th of 144 countries. In comparison to sub-Saharan Africa, Chad remains well behind in terms of institutions, that is, the legal and administrative framework within which individuals, firms, and governments interact to generate wealth (Figure 5, top panel). Despite the gradual improvement in its macroeconomic environment, the GCI report also shows that Chad significantly lags the SSA average in implementing structural reforms in the goods, labor, and financial markets.

13. In the Heritage Foundation's 2015 Index of Economic Freedom ranking, Chad ranks 165th of 178 countries. With an overall score of 45.9, Chad is below the average of the West African Economic and Monetary Union (WAEMU, 117th rank), the SSA (120th rank), and the CEMAC (154th rank). Chad scores lower than the CEMAC average in four of the ten indicators of economic freedom (Text Figure 5, middle panel), including 'freedom from corruption' and 'business freedom' (which measures the efficiency of government regulation of business). Moreover, the poor performance in 'trade freedom' underscores the need for reducing the tariff- and non-tariff barriers to trade, which are bound by regional CEMAC agreements, and simplifying customs procedures.

14. In the World Bank's Doing Business database, Chad scores lower than the SSA, the WAEMU, and the CEMAC averages in all of the available indicators. The Doing Business indicators show that Chad trails its peers in almost all dimensions, particularly in starting a business, enforcing contracts, paying taxes, and getting electricity (Text Figure 5, bottom panel).[4] As it was also emphasized in the 2013 Article IV report (IMF Country Report No. 14/100, February 2014), the business climate and the coverage of basic infrastructure remain weak in Chad.

[4] These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

Text Figure 5. Chad: Structural Competitiveness Indicators, 2015



Sources: World Economic Forum, The Global Competitiveness Report, 2015; Doing Business Indicators, World Bank, 2015; The Heritage Foundation, 2015; and IMF staff calculations.

References

Araujo, J., B. Li, M. Poplawski-Ribeiro, and L.F. Zanna, 2013, "Current Account Norms in Natural Resource Rich and Capital Scarce Economies," IMF Working Paper 13/80 (Washington, DC: International Monetary Fund).

Bems, R. and I. Carvalho, 2009, "Exchange Rate Assessments: Methodologies for Oil Exporting Countries," IMF Working Paper 09/281 (Washington, DC: International Monetary Fund).

Tokarick, S., 2010, "A Method for Calculating Export Supply and Import Demand Elasticities," IMF Working Paper 10/180 (Washington, DC: International Monetary Fund).

INTERNATIONAL MONETARY FUND

CHAD

July 7, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION–INFORMATIONAL ANNEX

Prepared By

African Department
(In collaboration with other departments)

CONTENTS

RELATIONS WITH THE IMF

(As of May 31, 2016)

Membership Status:		July 10, 1963
General Resources Account:	**SDR Million**	**% Quota**
Quota	140.20	100.00
Fund holdings of currency (Exchange Rate)	137.17	97.84
Reserve Tranche Position	3.05	2.17
SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	53.62	100.00
Holdings	0.07	0.14
Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ECF Arrangements	45.44	32.41

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Aug 01, 2014	Jul 31, 2017	106.56	53.93
ECF[1]	Feb 16, 2005	May 31, 2008	25.20	4.20
ECF[1]	Jan 07, 2000	Dec 06, 2003	47.60	42.40

Overdue Obligations and Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2016	2017	2018	2019	2020
Principal Charges					2.00
Interest	0.02	0.03	0.03	0.14	0.14
Total	**0.02**	**0.03**	**0.03**	**0.14**	**2.14**

[1/] Formerly PRGF

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	May 2001
Assistance committed by all creditors (US$ Millions) [1/]	170.12
Of which: IMF assistance (US$ million)	18.02
(SDR equivalent in millions)	14.26
Completion point date	Apr 2015
Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	14.26
Interim assistance	8.55
Completion point balance	5.71
Additional disbursement of interest income [2/]	2.77
Total Disbursement	17.03

Implementation of Multilateral Debt Relief Initiative (MDRI) Not Applicable

Implementation of Catastrophe Containment and Relief (CCR) Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of the Central African Economic and Monetary Community (CEMAC). Regional central banks are normally subject to a safeguards assessment every four years. For the BEAC, governance challenges and control failures that emerged in 2009 led to close engagement subsequently through annual IMF monitoring of safeguards "rolling measures." A safeguards staff visit to the BEAC conducted in April 2016 found that although the BEAC's own Reform and Modernization Plan was nearing completion, the Fund's two priority recommendations on governance-focused law reform and the transition to an internationally recognized financial reporting framework (IFRS) were outstanding. However, following the April visit, the BEAC Board mandated that the institution take steps to initiate work on the priority recommendations. Staff has now revised the road map for implementation with an envisaged conclusion of the law reform in early 2017 and adoption of IFRS beginning with the financial statements for 2018. Staff will maintain close engagement with the BEAC to monitor the implementation of the remaining safeguards measures going forward, and progress on the latter will remain a condition for new program requests and reviews for CEMAC member countries.

Exchange Rate Arrangement

Chad maintains an exchange system that is free from restrictions and multiple currency practices on payments and transfers for current international transactions. The BEAC common currency is the CFA franc which, since January 1, 1999, has been pegged to the euro at the rate of EUR 1 = CFAF 655.957.

Article IV Consultations

Chad is on a 24-month consultation cycle.

Technical Assistance

The Fund technical assistance strategy for Chad is focused on revenue administration, public financial management (PFM), debt management, and the quality of macroeconomic data. As the turnover of senior officials (responsible for economic management) is very high, posting long-term experts in the field and providing training would enhance absorption capacity, notably in revenue administration, PFM, and debt management.

Department	Purpose	Time of Delivery
FAD (AFRITAC)	Public financial management	April 2016
STA (AFRITAC)	National accounts	March 2016
FAD (AFRITAC)	Customs administration	February – March 2016
FAD (AFRITAC)	Tax administration	January-February 2016
STA (AFRITAC)	National accounts	January 2016
FAD	Public financial management	November – December 2015
STA (AFRITAC)	National accounts	August – September 2015
STA (AFRITAC)	National accounts	March 2015
FAD (AFRITAC)	Revenue administration	January 2015
STA (AFRITAC)	Balance of payment	December 2014
STA (AFRITAC)	National accounts	December 2014
FAD (AFRITAC)	Public financial management	September 2014
STA (AFRITAC)	National account	August 2014
STA (AFRITAC)	National account	March 2014
STA (AFRITAC)	National accounts	December 2013
FAD	Implementation of CEMAC directives	September 2013
STA (AFRITAC)	National accounts	July 2013
FAD (AFRITAC)	Public financial management	April - May 2013
FAD (AFRITAC)	Tax administration	April 2013
FAD (AFRITAC)	Customs administration	March 2013
MCM (AFRITAC)	Debt management	March 2013
FAD (AFRITAC)	Public financial management	February 2013
STA (AFRITAC)	National accounts	February 2013
STA (AFRITAC)	National accounts	November 2012
FAD (AFRITAC)	Public financial management	October 2012
FAD	Customs administration	October 2012
FAD (AFRITAC)	Tax administration	September 2012
FAD (AFRITAC)	Public financial management	September 2012
FAD	Customs follow-up mission	July 2012

Department	Purpose	Time of Delivery
FAD (AFRITAC)	Public financial management	June 2012
STA (AFRITAC)	National accounts	June 2012
FAD (AFRITAC)	Tax administration	May-June 2012
STA (AFRITAC)	National accounts	May 2012
FAD	Resource revenue management	April-May 2012
FAD (AFRITAC)	Public financial management	March-April 2012
FAD (AFRITAC)	Tax administration	February 2012
STA (AFRITAC)	National accounts	November-December 2011
FAD (AFRITAC)	Public financial management	November 2011
FAD (AFRITAC)	Public financial management	September 2011
FAD (AFRITAC)	Customs	September 2011
STA (AFRITAC)	National accounts	August 2011
MCM	Banking system vulnerabilities	January 2011
FAD (AFRITAC)	Tax administration	February 2011
FAD (AFRITAC)	Tax administration	September-October 2010
FAD (AFRITAC)	Tax administration	June-July 2010
FAD (AFRITAC)	Public financial management	September 2010
STA	Balance of payments	September 2010
MCM (AFRITAC)	Public debt	May 2010
FAD	Tax policy review	April-May 2010
FAD (AFRITAC)	Tax and custom administration	March-April 2010
FAD(AFRITAC)	Customs administration	March 2010
STA (AFRITAC)	National accounts	March 2010
FAD (AFRITAC)	Public financial management	January 2010

Financial Sector Assessment Program (FSAP) Participation, Report on the Observances of Standards and Codes (ROSCs), and Offshore Finance Center (OFC) Assessments

A joint IMF-World Bank mission conducted an FSAP for Chad during May 25–June 10, 2011. An FSAP mission for CEMAC was concluded in July 2015. A ROSC Data Module mission visited Chad May 26–June 8, 2005.

Resident Representative

Mr. Jean-Claude Nachega is the IMF's Resident Representative in N'Djamena since January 2015.

JOINT WORLD BANK AND IMF WORK PROGRAM

The IMF and World Bank staff communicates and collaborates closely in their work on Chad. Bank staff participates in IMF missions, while the Bank's analysis and advice to the government in key structural reform areas informs Fund surveillance. Bank and IMF staffs collaborated on assistance related to FSAP update and financial sector deepening, and public financial management reform. In 2015, staffs of the IMF and World Bank jointly determined that Chad had made satisfactory progress in meeting the requirements to reach the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative. The Boards of Directors of both institutions then decided to support a US$1.1 billion in total debt relief for Chad.

The IMF and the World Bank Group are active members of the Financial and Technical Partners Committee (Comité des Partenaires Techniques et Financiers CPTF), which includes all United Nations' agencies represented in Chad as well as the African Development Bank (AfDB), the European Union, the Swiss Agency for Development and Cooperation, and the ambassadors of France, Germany, and the United States. This committee holds monthly meetings and has established thematic groups that conduct studies on specific development issues relevant for Chad. Members of the committee share information about upcoming missions and convene in order to hold briefing sessions with visiting heads of the institutions it represents.

Exchange of information and collaboration:

- World Bank requests to the Fund include periodic updates on the macroeconomic framework, on the status of the current Fund supported economic program under the ECF, and on planned technical assistance missions.

- Fund requests include periodic updates on World Bank program in Chad.

- Joint products include joint Bank-Fund Debt Sustainability Assessments (DSA).

- Other exchange of information is related to the authorities' structural reform agenda, and to the upcoming 2016-2020 National Development Plan. Under the new Poverty Reduction Strategy (PRS) policy, the new National Development Plan should be issued to the Board along with an assessment letter from the World Bank. A PRS implementation review (PIR) should be prepared by Fund staff within the 4th review of the ECF.

AML/CFT FRAMEWORK

As a member of CEMAC, Chad is subject to the regional legal framework on AML/CFT and the implementing regulations issued for banks by the *Commission bancaire de l'Afrique centrale (*COBAC). The supervision of banks' action to combat money laundering and the financing of terrorism falls within the competence of the COBAC, assisted by the BEAC. As indicated in the April 2016 FSSA on the CEMAC, the AML/CFT framework needs to be rapidly strengthened both at the national and regional levels. In that respect, the FSSA called for the allocation of appropriate financial, technical and human resources to regional and national supervisors of the financial and nonfinancial sectors, for gradual and effective implementation of AML/CFT risk-based supervision. The FSSA identified as a key recommended action the need to better implement and enforce the existing AML/CFT regulations. In 2014, the Groupe d'Action Contre le Blanchiment d'Argent en Afrique Centrale (GABAC) has assessed Chad's AML/CFT framework against the 2003 Standard set by the Financial Action Task Force. A number of strategic deficiencies were identified and an action plan to address the gaps was laid out.

STATISTICAL ISSUES

I. **Assessment of Data Adequacy for Surveillance**
General: Data provision has capacity-related shortcomings, but is broadly adequate for surveillance. There is scope for improvement in quality, coverage, and timeliness in most macroeconomic datasets. The authorities continued to dedicate resource to improve the macroeconomic database, particularly the national accounts. The 2007 Report on the Observance of Standards and Codes (ROSC) found that the statistical system was weak and suffers from a shortage of both financial and human resources.
National accounts: The authorities are reviing national accounts estimates, moving from the 1968 System of National Accounts (SNA) to the 1993 SNA and rebasing the data to 2005 as the base year. Final Annual National Accounts are available until 2013. The new series should be disseminated by mid-2017. However, compilation remains weak owing to inadequate funding for the Institut National de la Statistique, des Etudes Economiques et Démographiques (INSEED) and high staff turnover. In addition, dissemination of data and metadata to the public could be improved by more timely releases, provision of more detailed information, and enhanced dissemination through the internet.
Price statistics: The Harmonized Consumer Price Index (HCPI) is of rather good quality. However, it covers only the capital city and is sometimes released with some delays. The regional authorities are working underway to improve the quality of the HCPI in each of the Central African Economic and Monetary Community (CEMAC) countries.
Government finance statistics: Data weaknesses create uncertainty about the central government's actual fiscal position and hamper debt sustainability analysis. Staff is compelled to prepare estimates of central government financial operations from disparate administrative sources that may or may not fully reconcile with domestic bank financing or changes in net indebtedness.
Monetary statistics: The Banque des Etats de L'Afrique Centrale (BEAC) reports monetary and financial statistics for the central bank and other depository corporations on a monthly basis using the standardized report forms (SRFs). A key shortcoming of monetary and financial statistics is the lack of clear reconciliation between the domestic banking sector's net credit to the government and the implicit financing in the weak government financial accounts. Meanwhile, the data for interest rates offered by financial institutions to non-financial entities on deposits and loans is not available. In addition, the depository corporations' survey omits the large number of microfinance operations in the country.

<table>
<tr><td colspan="2">Balance of payments: Weaknesses in Chad’s balance of payments data create uncertainty about its actual external position, creating challenges for the debt sustainability analysis. Customs-based data are unreliable and suffer from coverage problems, to the extent that they are not relied upon for balance of payments or national income estimation. BEAC prepares balance of payments data and submit to BEAC headquarters for validation with the long time lag. Staff must estimate current and capital flows from disparate administrative sources, to supplement the official balance of payments. Using recently updated figures from BEAC, staff revised some BOP historical data but there was neither a change in methodology nor a significant revision of previous values. The IMF Statistics Department has recommended tighter coordination among the CEMAC, INSEED, and other agencies in order to improve data coverage. BEAC headquarters is coordinating technical reforms to improve data quality and timeliness.</td></tr>
<tr><td colspan="2" align="center">II. Data Standards and Quality</td></tr>
<tr><td>Chad participates in the IMF’s Enhanced General Data Dissemination Standard (e-GDDS).
Metadata and plans for improvement are posted on the IMF’s Dissemination Standards Bulletin Board (DSBB) and were last updated in July 2002</td><td>A Data ROSC was published in August 2007.</td></tr>
<tr><td colspan="2" align="center">III. Reporting to STA (Optional)</td></tr>
<tr><td colspan="2">Only international liquidity, monetary statistics, GDP, and prices are currently reported to STA for publication in the International Financial Statistics (IFS). Chad has not yet been able to resume reporting of detailed data for publication in the Government Finance Statistics Yearbook. Annual fiscal data through 2001 have been reported and are included in the IFS database. The BEAC has yet to submit test monetary and financial statistics using the standardized report forms. Chad has yet to submit BOP and IIP data to STA.</td></tr>
</table>

Chad: Table of Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
						Data Quality: Methodological Soundness[8]	Data Quality – Accuracy and Reliability[9]
Exchange rates	Daily	Daily	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities[1]	01/2016	06/2016	M	M	M		
Reserve/base money	01/2016	06/2016	M	M	M	LO, LNO, LNO, LO	LO, O, O, LO, NA
Broad money	01/2016	06/2016	M	QM	M		
Central bank balance sheet	01/2016	06/2016	M	M	M		
Consolidated balance sheet of the banking system	01/2016	06/2016	M	M	M		
Interest rates[2]	02/2016	06/2016	MI	QM	M		
Consumer price index	02/2016	06/2016	M	M	M		
Revenue, expenditure, balance and composition of financing[3] – general government[4]	11/2013	12/2013	Q	Q	Q	LO, LNO, LO, LO	O, LO, LO, LO, NO
Revenue, expenditure, balance and composition of financing[3]–central government	08/2013	12/2013	Q	Q	Q		
Stocks of central government and central government-guaranteed debt[5]	08/2013	12/2013	Q	Q	Q		

Chad: Table of Common Indicators Required for Surveillance (concluded)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
Exports and imports of goods and services	2011	09/2012	A	A	A		
GDP/GNP	2012	09/2013	A	A	A	LNO, LO, LNO, LO	LNO, LNO, LNO, LNO, LNO
Gross external debt	12/ 2011	09/ 2012	Bi-M	Bi-M	Bi-M		
International investment position[6, 10]	NA	NA	NA	NA	NA		

[1] Any reserve assets pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discount rates; money market rates; and rates on treasury bills, notes and bonds.

[3]Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] Reflects the assessment provided in the data ROSC (published on August 31, 2007), and based on the findings of the mission of May 28 to June 8, 2005 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

[9] Same as footnote 8, except referring to international standards concerning (respectively) source data; assessment of source data; statistical techniques; assessment and validation of intermediate data and statistical outputs, and revision studies.

[10] Data on the international investment position (IIP) is not reported due to the lack of capacity. The authorities should request technical assistance to overcome it.

CHAD

July 7, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the Staffs of the International Monetary Fund and the International Development Association.

The debt sustainability analysis (LIC-DSA) shows that Chad remains at high risk of debt distress, based on an assessment of public external debt, reflecting vulnerabilities that concentrate in the short term. The assessment of high risk is reinforced by vulnerabilities related to domestic debt and by the recent accumulation of a small amount of external arrears to multilateral creditors. A number of debt indicators exhibit temporary and small breaches of their indicative thresholds, while the external debt service-to-revenue ratio exhibits a relatively protracted and moderate breach. These breaches reflect low government oil revenue and high debt service payments on external debt falling due in the short term. Although the debt indicators remain well below their indicative thresholds in the medium to long run, the DSA confirms that Chad is susceptible to external macroeconomic shocks such as the ongoing oil price shock. Preserving solvency in the current environment requires a deep fiscal adjustment supported by prudent debt management policies and advancing structural reforms that lead to economic diversification and sustained growth.[1]

[1] Chad's average CPIA over 2012-14 is estimated at 2.6. This corresponds to a weak policy performance under the Debt Sustainability Framework for Low-Income Countries (LIC-DSA).

BACKGROUND

Public External Debt

1. Chad's external public debt hovered around 20 percent of GDP over the decade after the start of oil production in 2003. Debt owed to multilateral institutions and traditional bilateral donors has been basically constant in nominal terms over the last few years. Chad has instead relied more on non-traditional creditors (e.g., China, Libya) and commercial credits to address its financing needs, including to tackle its infrastructure deficit. There is no recorded external private debt in Chad.

2. The external public debt-to-GDP ratio increased in 2013-14 following two non-concessional oil sales' advance operations with Glencore Energy. In 2013, the authorities signed two agreements for a total of US$ 600 million with Glencore Energy, in the form of oil sales' advances to cover budget shortfalls as revenues collapsed as oil volumes fell sharply. In 2014, a new commercial borrowing operation for US$ 1.4 billion was contracted by SHT (a state-owned oil company) to finance the purchase of Chevron's shares in Chad's largest oil consortium in June of that year. After these operations, the external public debt-to-GDP ratio rose above 27 percent of GDP in 2014.

3. As of end-2014, nearly half of Chad's debt was commercial debt (Text Table 1). In addition, around 40 percent was owed to multilateral creditors, and less than 20 percent to bilateral creditors (the bulk of which was owed to non-Paris Club creditors).

4. In late 2015, a rescheduling agreement with Glencore consolidated the two oil sales' advance operations, extending their maturities. The agreement consolidated the remaining balance of the two loans and extended its maturity from 4 to 6-7 years. The rescheduling agreement implied an increase in the original debt's net present value, but improved Chad's debt service profile over the medium term by better matching debt service to the anticipated path of oil receipts.

5. Following the achievement of the HIPC completion point in April 2015, Chad was able to secure at least US$756 million in debt relief. This amount includes MDRI relief from International Development Association (IDA) and African Development Bank (AfDB), forgiveness from the IMF, and a hundred percent cancellation from the Paris Club. Regarding non-Paris Club members, the authorities have signed a new agreement with the Saudi authorities which reschedules their remaining amount on IDA comparable terms.

Text Table 1. Chad: External Debt Stock at Year-End, 2001–2014
(Billions of CFA francs)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total	794.3	786.3	736.6	797.2	898.9	896.2	776.9	839.4	786.2	1,016.7	1,226.3	1,299.6	1,410.7	2,010.2
(Percent of GDP)	55.8	54.1	44.5	32.6	24.4	24.3	20.0	16.8	18.9	19.2	20.2	21.0	22.8	27.1
Multilateral	678.1	687.7	652.5	715.3	810.2	805.5	693.6	725.7	683.6	758.6	767.3	771.4	719.9	734.8
IMF	65.3	67.3	57.0	47.7	47.5	37.4	24.3	20.1	12.6	8.3	4.6	2.4	0.9	11.1
World Bank/IDA	380.6	398.3	394.0	444.5	507.8	486.1	435.6	435.7	402.7	429.1	420.7	414.8	387.8	397.4
African Development Fund/Bank	182.8	169.8	159.9	168.5	179.8	205.8	174.1	195.4	185.5	207.7	209.4	200.4	181.4	180.7
EIB	3.9	7.9	7.3	13.0	13.0	12.4	9.0	9.0	8.7	10.2	9.9	10.1	10.1	8.9
Others	45.5	44.4	34.2	41.6	62.0	63.8	50.6	65.5	74.2	103.3	122.7	143.7	139.7	136.7
Bilateral	116.2	98.6	84.1	81.9	88.8	90.7	83.3	113.6	102.6	258.1	296.1	311.1	283.2	334.0
Paris Club official debt	30.2	25.8	24.0	25.2	24.3	23.2	20.1	19.1	17.1	16.5	17.0	15.8	13.8	11.5
Non-Paris Club official debt	86.1	72.7	60.1	56.7	64.4	67.5	63.3	94.5	85.5	241.6	279.1	295.3	269.4	322.5
of which: China, People's Republic	28.6	25.4	22.0	13.6	15.4	13.9	-	21.9	20.4	23.3	66.1	85.9	83.3	129.0
Libya	-	-	-	-	-	-	-	-	-	148.9	149.3	150.0	133.9	139.6
India	-	-	-	-	-	11.3	14.8	22.7	21.4	23.7	22.4	20.8	18.3	21.1
Commercial 1/											162.9	217.1	407.6	941.5

1/ Commercial debt includes debt signed with CNPC and Glencore.

Source: World Bank, Chadian authorities, selected creditors, and staff estimates. The concept of debt used here includes both contracted and guaranteed debt. Figures are based on historical data as of end-2014. The official external debt stock data underestimate the actual level of external debt. For example, some project loan disbursements are recognized only after a lag. This table has discrepancies with corresponding fiscal or balance of payments flow estimates, giving rise to residuals in the sustainability analysis.

Public Domestic Debt

6. **The stock of public domestic debt has increased in recent years, reaching 9 percent of GDP at end-2014 (Text Table 2).** This growth is the result of drawing down the statutory advances provided by BEAC (the regional central bank), the sale of five-year savings bonds (CFAF 108 billion in 2011, and CFAF 90 billion in 2013), a CFAF 50 billion loan from Republic of Congo (in 2012), a CFAF 15 billion loan from Equatorial Guinea (in 2013), and the use of commercial bank loans (which increased from CFAF 9 billion in 2013 to CFAF 127 billion in 2014). The stock of public domestic debt includes a balance of CFAF 52 billion in treasury arrears at end-December 2014. Additionally, short-term domestic obligations include the issuance of 3-month Treasury bills before the end of 2014 (CFAF 27.5 billion, at a weighted average annual interest rate of 2.8 percent).

7. **The stock of domestic debt rose to 16 percent of GDP in 2015; in part a result of the authorities stepping up their domestic debt issuance program in the CEMAC market.** Chad issued its first ever Treasury bills in the last quarter of 2014. Treasury bills have been regularly issued throughout 2015, with a gradual extension of maturities (up to one year) and interest rates below 3.4 percent. During 2015, the Treasury issued CFAF 156 billion (gross) in Treasury bills. The issuance of Treasury bonds amounted to CFAF 139 billion between July and December 2015, with maturities

of two, three and five years, and an effective interest rate on average of 4.3 percent.[2] Some of these Treasury bonds were used in swap operations involving the exchange of commercial bank loans, which explains the reduction in the stock of those loans from CFAF 127 billion in 2014 to CFAF 56 billion in 2015.

Text Table 2. Chad: Stock of Domestic Debt at Year-End, 2011-2015
(Billions of CFA francs)

	2011	2012	2013	2014	2015
Total	**501.3**	**548.0**	**584.8**	**658.9**	**1050.8**
(Percent of GDP)	**8.7**	**8.7**	**9.1**	**9.6**	**16.3**
Central Bank financing	241.9	241.9	222.5	222.5	454.6
Statutory advances	*208.6*	*208.6*	*187.8*	*187.8*	*280.0*
Exceptional advance					*140.0*
Consolidated debt	*33.3*	*33.3*	*34.7*	*34.7*	*34.7*
Commercial banks' loans	8.5	8.5	8.5	127.3	56.4
2011 Bond[1]	107.6	107.6	80.7	53.8	26.9
2013 Bond[1]			90.3	72.2	54.2
Treasury Bonds[2]					139.3
Republic of Congo		50.3	40.3	30.3	20.3
Equatorial Guinea			15.0	13.3	11.7
Domestic arrears	56.4	50.3	39.9	51.8	199.8
Others[3]	86.9	89.4	87.7	87.7	87.7
Memo items:					
Treasury Bills				*27.5*	*79.0*

Source: Chadian authorities.

1/ Issued through banks' syndication.
2/ Auctioned in the regional securities' market.
3/ Legal commitments, standing payment orders, and accounting arrears.

8. **Domestic financing in 2015 included additional advances from BEAC.** The 2015 statutory and extraordinary advances (CFAF 92.6 billion and CFAF 140 billion, respectively) have a maturity of 10 years, a grace period of 3 years, and an interest rate equivalent to BEAC's rediscount rate.

9. **As of end-2015, the government accrued a sizable amount of domestic payment arrears.** The balance of treasury arrears increased from CFAF 52 billion at end-December 2014 to around CFAF 200 billion (3.1 percent of GDP) in 2015.

[2] For a detailed analysis, see Selected Issues Paper (SIP) on Chad's first steps in the regional public securities market.

DSA ASSUMPTIONS

10. The DSA incorporates an updated debt database. The historical information on external debt has been updated, as of December 2014, according to the latest World Bank-DRS database. Preliminary estimates on external debt are used for 2015.

11. The assumptions underpinning the DSA reflect the persistent oil price shock and security challenges, and the analysis is conducted under a baseline (current policies) scenario. The financing gap in 2015 was covered through central bank advances, spending cuts, increased net domestic financing, and Fund disbursements under the ECF arrangement. The projected financing gap in 2016 is assumed to be financed through a combination of further fiscal adjustment and the mobilization of additional domestic financing and external concessional loans. As in the previous DSA update, the analysis incorporates the rescheduling consolidating the various non-concessional oil sales' advance operations, and exceptional receipts from divestments in the oil sector.

12. Oil production and revenue: Chad's medium- and long-term macroeconomic outlook is characterized by a small decline in oil production in 2016-17 followed by gradual increases when new fields come on line, but a steady decline of oil production over the longer term.[3] The baseline projection for oil production in 2016 is fairly conservative, as prospects could somewhat improve in the context of the recent recovery in oil prices.

- Oil production is expected to rise from 144,000 bpd in 2015 to about 173,000 bpd in 2018-19. This oil production boom will likely be temporary; proven reserves in the new fields are much smaller than that in the original Doba basin and will also likely be nearly exhausted around 2030. Hence, oil production and exports are projected to decline steadily to negligible levels beyond 2030. Obviously, these prospects might change with new oil exploration activities or with the development of new oil extraction techniques.

- Chad's oil trades below the WEO reference price, reflecting a quality discount and transport cost of US$ 6-9 per barrel. For the medium term (five-year horizon) the price of Chadian oil is assumed to increase from US$ 34 per barrel (all discounts included) in 2016 to US$ 53 per barrel in 2020, in line with the trend projected in the IMF's World Economic Outlook (WEO). From 2021 onward, the price is assumed to increase, on average, by around 3 percent per year in U.S. dollar terms (Box 1).

- At the time of the Second Review under the ECF arrangement in December 2015, staffs worked with a Chadian oil price assumption of US$ 47 per barrel for 2016.

[3] Oil production at the Doba oilfield (exploited by the Esso-led consortium) started in 2003, reached its peak of 63 million barrels in 2005 and, absent other oil developments, will decline with annual output projected to become negligible beyond 2030. In 2011, oil production began at a second oil field, Bongor, operated by CNPC (about one-third the size of the Doba field). Exports of crude oil from Bongor started in 2014. Oil from another smaller operator (Caracal, formerly Griffiths) started to be produced in late 2013.

13. Fiscal policy: The analysis assumes a sustained fiscal adjustment throughout the entire projection in response to the current adverse macroeconomic conditions and in transition to the post-oil era, with the non-oil primary deficit (NOPD) reduced to about 6 percent of non-oil GDP by 2020. The gradual recovery in oil prices is expected to help oil revenues increase from 3 percent of non-oil GDP in 2016 to 7 percent of non-oil GDP in 2020. Over the longer term, it is assumed that dwindling oil revenues will be partly offset by a stabilization of total government primary spending at around 21 percent of GDP, while the primary balance will be adjusted gradually to reach a small deficit of less than 3 percent of non-oil GDP by 2036. The latter is projected to be achieved mainly by: (i) gradually increasing non-oil revenues (from about 9 percent of non-oil GDP at present to about 18 percent of non-oil GDP by 2036);[4] (ii) maintaining total investment outlays around 10 percent of non-oil GDP in the long term; and (iii) cutting recurrent spending, notably, by streamlining transfers and subsidies to public enterprises (at present, jointly accounting for about 5 percent of non-oil GDP). The analysis also assumes a strategy for clearing domestic arrears and avoiding further accumulation going forward.

[4] This assumes that Chad improves its tax effort in line with the CEMAC average. A recent FAD mission estimated a non-oil tax revenue gap above 5 percent of non-oil GDP, while the 2013 Article IV staff report estimated even a larger gap.

Box 1. Chad: Macroeconomic Assumptions, 2016–2036

Real GDP growth is driven by a sharp slowdown of non-oil production in the short term and a secular decline in oil production since 2019, with upside risk over the long run given oil exploration activities. Non-oil GDP growth is projected at 4 percent per year over the medium to long term, driven by agriculture, commerce, and transportation.

Inflation is assumed to stabilize at 3 percent, consistent with the CEMAC convergence criterion. The disruptions to cross–border trade flows with Cameroon and Nigeria might continue to lead to increased volatility on domestic prices in the short run.

As mentioned above, the **fiscal outlook** features a modest increase in oil revenues in the medium term but a decline in the long term. The NOPD is projected at 6 percent of non-oil GDP in 2020. The medium-term outlook for non-oil revenue is relatively low as a result of the regional security shock and a slowdown in demand from Nigeria, but a recovery is assumed in the long run. The long-run fiscal adjustment would maintain an appropriate level of investment and social spending to ensure steady growth and poverty reduction.

The evolution of the **external current account** deficit will be largely driven by oil price path. The current account deficit is projected to fall from 9 percent of GDP in 2016 to 6 percent of GDP in 2020, thanks to an increase in oil export values. After 2020, barring new oil discoveries, the external current account is projected to remain in deficit due to lower crude oil exports, stabilizing at around 4 percent of GDP beyond 2030. Non-oil sector imports are assumed to evolve in line with non-oil GDP over the projection horizon, while oil sector imports would decrease over the medium to long term as foreign direct investment declines too.

Although investments from oil companies are envisaged to decline in the short run, **foreign direct investment (FDI)** is expected to be above 5 percent of GDP in 2016 due to exceptional receipts (estimated at CFAF 100 billion) linked to divestments in the oil sector. FDI is assumed to stabilize in 2017-20 at around 4 percent of GDP before it declines to an average of 2 percent of GDP in 2021-35 in line with the assumption of maturing oil fields and amortized investments.

External financing: The analysis incorporates the rescheduling agreement with Glencore that consolidates the remaining balance of the loans and extended its maturity from 4 to 6-7 years. Under the ECF-supported program, external financing is assumed to be on concessional terms over the medium to long term.

Domestic financing: Domestic financing assumptions consider a continued placement of domestic debt instruments and exclude further utilization of BEAC advances.

Text Table 3. Chad: Medium-Term Projections

	2015	2016	2017	2018	2019	2020	2021	2016-21 Avg.	2022-36 Avg.
Real GDP growth (percent per year)	1.8	-1.1	1.7	5.2	8.2	3.4	3.5	3.5	3.1
Oil	32.2	-4.8	-3.2	12.5	27.6	-0.2	-0.3	5.3	-5.6
Non-oil	-2.9	-0.3	2.7	3.8	4.3	4.4	4.4	3.2	4.2
Consumer price inflation (percent per year)	3.7	0.0	5.2	3.0	3.0	3.0	3.0	2.9	...
External current account balance (percent of GDP)	-12.4	-8.7	-7.8	-7.3	-5.7	-6.2	-5.9	-6.9	-4.3
Exports of goods and services (percent of GDP)	15.4	14.8	14.2	15.2	15.5	14.3	13.7	14.6	6.6
					(In percent of non-oil GDP)				
Government revenue and grants	15.2	16.7	17.3	18.2	20.8	20.9	24.5	19.7	21.5
Of which: oil revenue	2.6	3.4	4.3	4.9	7.4	7.2	11.3	6.4	5.3
Of which: grants	4.3	4.9	4.3	4.2	4.1	4.0	3.3	4.1	3.1
Government expenditure (commitment basis)	21.4	20.1	18.9	19.7	20.6	20.8	22.4	20.4	21.8
Overall fiscal balance (incl. grants; cash basis)	-5.1	-4.2	-2.5	-2.2	-1.0	-0.7	-0.3	-1.8	-0.6
Non-oil primary fiscal bal. (excl. grants; commitment basis)	-9.8	-7.0	-5.0	-5.0	-5.8	-5.9	-7.5	-6.0	-4.6
Memorandum items:									
Chadian crude oil price (US$/barrel)	43.4	33.8	45.2	48.5	50.8	52.7	54.3	47.6	68.1

Sources: Chadian authorities; and IMF staff estimates and projections

EXTERNAL DSA

14. The evolution of external debt is driven by the government's borrowing strategy which envisages a reasonable volume of project and budget support loans from both traditional and non-traditional sources and no further usage of commercial loans. Under Chad's supported ECF program, external financing is assumed to be on concessional terms over the medium to long term mostly financed by disbursements from multilaterals (47 percent) such as the IMF, WB, AfDB, Islamic Development Bank, and the European Union and other non-traditional partners (48 percent) such as Saudi Arabia or Kuwait. This leads to a grant element of an average of 37.3 percent over the projection period (Figure 1a).

15. Under the baseline scenario, two of the external debt indicators are above their critical thresholds, indicating a high risk of debt distress (Table 1, Figure 1).[5] The debt-service-to exports ratio shows a temporary and small breach of its indicative threshold. The debt service-to-revenue ratio exhibits a more protracted and moderate breach in the 2016-2018 period. These breaches reflect the substantial reduction in government oil revenue and the spike in debt service payments falling due in the next few years for the non-concessional loan contracted with Glencore. Conditional to the assumptions of the baseline scenario (including a sustained fiscal adjustment), the external debt indicators remain well below their indicative thresholds in the medium to long run.[6]

Stress tests

16. Under alternative scenarios, Chad's external debt risk outlook remains high.[7] In particular, bounds tests highlight the susceptibility of external debt to shocks, especially in the short term (Table 2, Figure 1). If main economic variables remain at their historical averages, all debt indicators but two remain below their indicative thresholds. Under the historical scenario, a breach of the debt service-to-revenue ratio occurs in 2016-20. Bounds tests reveal that Chad is most vulnerable to an adverse shock to exports and a scenario that combines different types of macroeconomic shocks. A one-time depreciation shock (30 percent nominal depreciation in 2017) also generates vulnerability in some external debt indicators. These shocks have the potential to

[5] Arrears vis-à-vis the WB and the AfDB, were incurred during the first half of 2016, respectively at €869,000 and €80,000. These were cleared in early July.

[6] The residuals in Table 1 are associated with the government's purchase of shares in the country's largest oil consortium in 2014, which was financed with a foreign commercial loan (around CFA 690 billion); the significant debt relief in 2015; and a substantial loss in international reserves in 2015 and 2016. The existence of historical and projected residuals can also be explained by shortcomings in quality affecting the balance of payments' data.

[7] A comparison of the current bounds tests with those in the previous DSA reveals a better long-term performance of some external debt indicators. This is, however, due to technical reasons: the last DSA calibrated shocks during the 10-year period beginning in 2003 as Chad's oil production was just beginning, and therefore gave an unusually high estimated standard deviation for exports.

raise all debt indicators above their indicative thresholds, especially over the short term. The PV of debt-to-exports ratio is particularly sensitive to a poor export performance, showing a moderate and protracted breach under this stress test.

PUBLIC DSA

17. The assessment of Chad's overall risk of debt sustainability does not substantially change when domestic debt is included in the analysis (Tables 2 and 3, Figure 2). The public debt indicators are mostly driven by the external debt component. But as a result of the accumulation of domestic arrears and the increased issuances of debt securities in the regional market, the PV of debt-to-GDP ratio shows a breach in 2016 under the baseline scenario. The domestic debt component would fall from 21 percent of GDP in 2016 to 13 percent of GDP in 2020 and will continue a steady decline until it reaches about 8 percent of GDP in 2036. Altogether, the public debt stock decreases from 45 percent of GDP in 2016 to 26 percent of GDP in 2020 until it stabilizes around an average of 18 percent of GDP in 2022-36.[8]

18. Standard stress tests indicate sustainability risks in the short run. In particular, a real depreciation shock in 2016 could impair public debt sustainability in the period 2016-18 (Most Extreme Shock in Figure 2 and Bound Tests in Table 4).

CONCLUSION

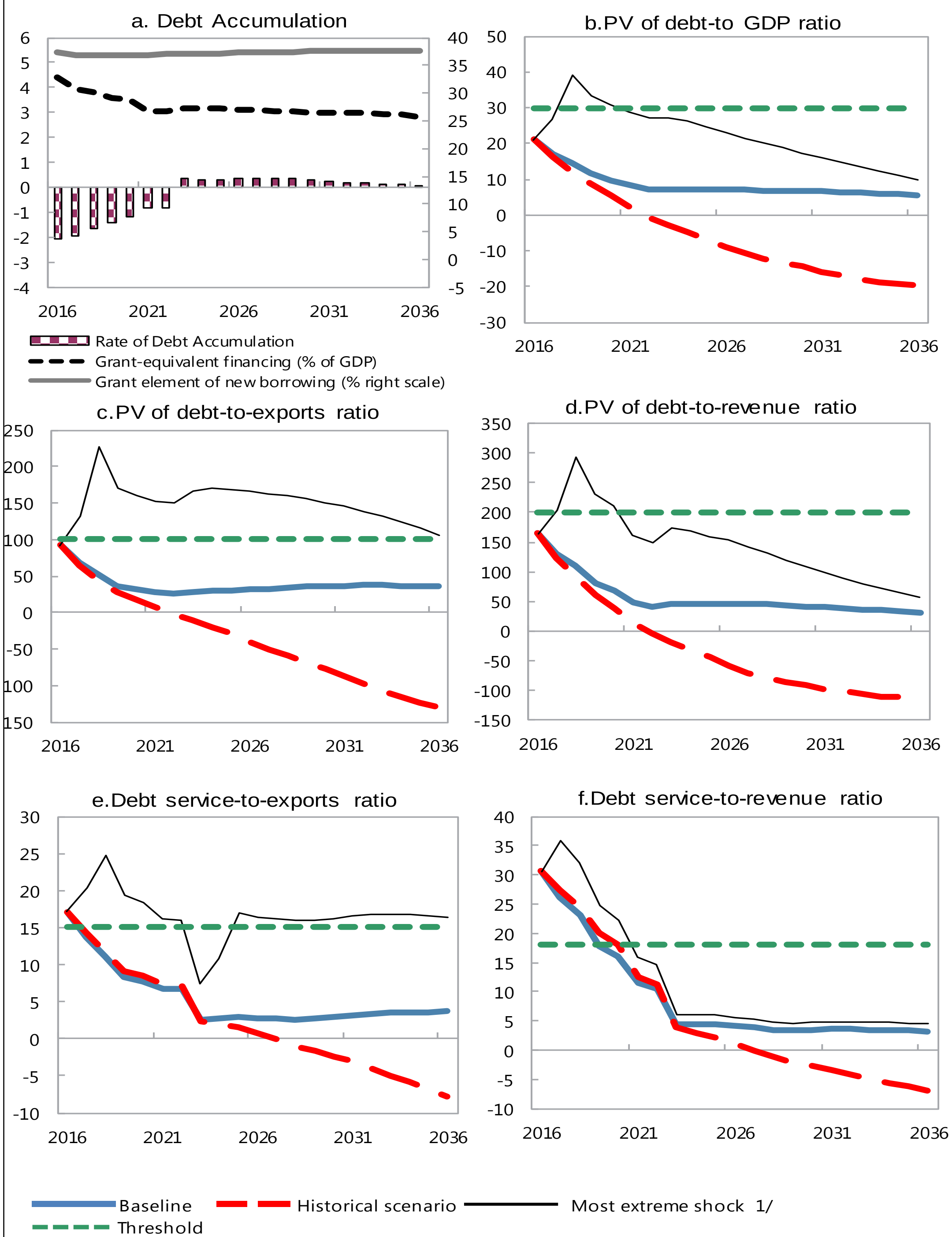
19. Chad remains at high risk of debt distress, based on an assessment of public external debt, with vulnerabilities concentrated in the short term. The inclusion of Chad's domestic debt in the analysis reinforces the conclusions of the external DSA. On account of the persistent decline in oil prices, the baseline scenario shows breaches of some indicators at the beginning of the projection period, while over the long term all indicators are markedly below their thresholds. Preserving debt solvency, however, is conditional on the substantial fiscal adjustment assumed under the baseline projection. In the event of a sustained rebound in the oil price and with improvements in the policy environment, the assessment of the debt sustainability could improve to moderate risk, as suggested under alternative scenarios. Furthermore, arrears on debt to the WB and the AfDB that have been recently accumulated have been resolved shortly. In the presence of the exhaustibility and volatility of oil revenues, it is necessary to strengthen fiscal and debt management, maintain a prudent external and domestic borrowing policy, and make further progress in diversifying the economy. The effective functioning of the recently revamped inter-ministerial debt coordination units will be important for strengthening the capacity to record and monitor public debt. In addition, the government will start issuing annual debt management reports since 2016 (with support from two Fund TA missions), and will undertake institutional improvements in the management of spending arrears in line with Fund TA recommendations.

20. The assumptions and conclusions of the DSA were discussed with the authorities, who broadly concurred with the staff assessment. The authorities acknowledged potential concerns

[8] In Table 3, the residuals for 2016 partially reflect some still unidentified sources of (domestic) financing.

on debt sustainability and highlighted the Glencore loans as a key factor behind the external risk rating. They raised questions about the criteria behind the CPIA score, and expect that progress with ongoing reforms will result in an improvement of this score and a related increase in external debt burden thresholds. They also acknowledged the importance of technical assistance in their current efforts to improve debt management. As for diversifying the economy, they discussed the government's focus on agro-pastoral activities and agreed with the need to improve the business climate for the private sector.

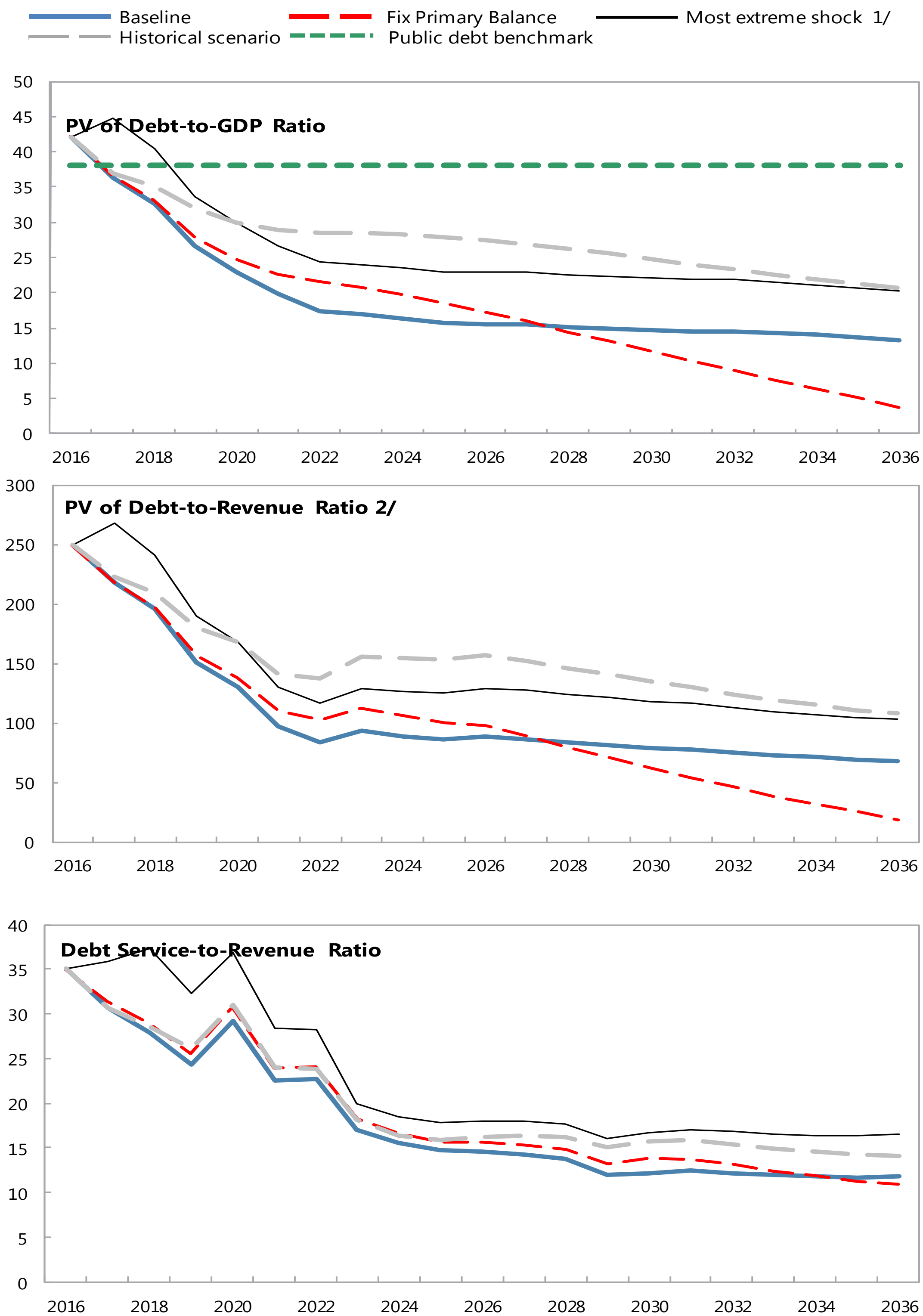
Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2016-2036 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Chad: Indicators of Public Debt Under Alternative Scenarios, 2016-2036 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Table 1 .Chad: External Debt Sustainability Framework, Baseline Scenario, 2013-2036 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	**21.2**	**29.2**	**25.1**			**23.9**	**20.2**	**17.6**	**14.5**	**12.8**	**11.7**		**10.2**	**7.7**	
of which: public and publicly guaranteed (PPG)	21.2	29.2	25.1			23.9	20.2	17.6	14.5	12.8	11.7		10.2	7.7	
Change in external debt	1.1	8.0	-4.2			-1.1	-3.8	-2.5	-3.1	-1.7	-1.2		-0.1	-0.5	
Identified net debt-creating flows	4.3	2.3	15.5			3.6	2.8	1.3	0.4	2.0	1.9		2.9	2.1	
Non-interest current account deficit	**8.6**	**8.3**	**11.3**	**4.2**	**7.1**	**7.5**	**6.9**	**6.6**	**5.2**	**5.8**	**5.6**		**4.7**	**3.1**	4.2
Deficit in balance of goods and services	9.7	12.6	16.5			16.5	12.9	10.7	6.4	6.6	6.2		6.9	5.7	
Exports	33.5	31.5	26.6			22.9	25.0	27.7	31.7	30.4	30.2		22.2	15.2	
Imports	43.2	44.1	43.1			39.5	37.9	38.4	38.1	37.0	36.4		29.1	20.9	
Net current transfers (negative = inflow)	-5.1	-7.9	-7.1	-5.6	1.6	-7.8	-6.6	-6.5	-5.8	-5.6	-5.2		-4.8	-3.5	-4.4
of which: official	-1.5	-4.4	-3.0			-3.2	-2.3	-2.3	-2.0	-1.8	-1.6		-1.8	-1.6	
Other current account flows (negative = net inflow)	3.9	3.6	1.9			-1.2	0.5	2.4	4.6	4.8	4.7		2.6	0.9	
Net FDI (negative = inflow)	**-4.0**	**-5.2**	**-5.1**	**-4.9**	**2.0**	**-5.4**	**-4.6**	**-5.0**	**-3.9**	**-3.7**	**-3.6**		**-1.6**	**-0.8**	-1.5
Endogenous debt dynamics 2/	**-0.3**	**-0.8**	**9.4**			**1.5**	**0.5**	**-0.3**	**-0.8**	**-0.1**	**-0.2**		**-0.2**	**-0.2**	
Contribution from nominal interest rate	0.6	0.7	1.2			1.2	0.9	0.7	0.5	0.4	0.3		0.1	0.1	
Contribution from real GDP growth	-1.1	-1.4	-0.7			0.3	-0.4	-1.0	-1.3	-0.5	-0.4		-0.3	-0.3	
Contribution from price and exchange rate changes	0.2	-0.2	8.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-3.2**	**5.7**	**-19.7**			**-4.8**	**-6.5**	**-3.8**	**-3.5**	**-3.7**	**-3.0**		**-3.0**	**-2.6**	
of which: exceptional financing	0.0	0.0	-7.8			-0.9	-0.7	-0.4	-0.3	-0.3	-0.3		-0.2	-0.1	
PV of external debt 4/	...	...	22.6			21.0	17.2	14.5	11.5	9.7	8.4		7.0	5.4	
In percent of exports	...	...	85.0			91.8	68.9	52.5	36.3	31.9	27.9		31.4	35.5	
PV of PPG external debt	**...**	**...**	**22.6**			**21.0**	**17.2**	**14.5**	**11.5**	**9.7**	**8.4**		**7.0**	**5.4**	
In percent of exports	**...**	**...**	**85.0**			**91.8**	**68.9**	**52.5**	**36.3**	**31.9**	**27.9**		**31.4**	**35.5**	
In percent of government revenues	**...**	**...**	**238.4**			**164.0**	**131.1**	**109.1**	**79.1**	**66.7**	**47.3**		**46.7**	**31.5**	
Debt service-to-exports ratio (in percent)	**4.0**	**15.6**	**9.5**			**17.1**	**13.7**	**11.1**	**8.2**	**7.7**	**6.8**		**2.7**	**3.6**	
PPG debt service-to-exports ratio (in percent)	**4.0**	**15.6**	**9.5**			**17.1**	**13.7**	**11.1**	**8.2**	**7.7**	**6.8**		**2.7**	**3.6**	
PPG debt service-to-revenue ratio (in percent)	**7.1**	**29.8**	**26.8**			**30.6**	**26.0**	**23.2**	**17.9**	**16.1**	**11.4**		**4.1**	**3.2**	
Total gross financing need (Billions of U.S. dollars)	0.8	1.1	0.9			0.6	0.7	0.6	0.5	0.7	0.6		0.8	1.1	
Non-interest current account deficit that stabilizes debt ratio	7.5	0.3	15.4			8.7	10.6	9.1	8.2	7.5	6.8		4.8	3.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.7	6.9	1.8	4.8	4.1	-1.1	1.7	5.2	8.2	3.4	3.5	3.5	3.1	3.3	3.1
GDP deflator in US dollar terms (change in percent)	-1.0	0.7	-23.2	1.1	13.0	-3.1	9.1	1.9	5.1	3.5	1.6	3.0	2.9	2.8	2.7
Effective interest rate (percent) 5/	3.3	3.6	3.3	2.1	1.2	4.5	4.2	3.8	3.3	2.8	2.2	3.5	1.2	1.2	1.2
Growth of exports of G&S (US dollar terms, in percent)	-8.6	1.4	-34.1	0.9	19.4	-17.4	20.7	18.7	30.3	3.0	4.2	9.9	0.9	3.1	1.2
Growth of imports of G&S (US dollar terms, in percent)	-7.7	9.9	-23.7	7.8	17.9	-12.3	6.5	8.5	12.9	4.2	3.3	3.8	2.2	3.3	2.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	37.4	36.9	36.7	36.8	36.9	36.9	37.0	37.3	37.7	37.4
Government revenues (excluding grants, in percent of GDP)	18.5	16.5	9.5			12.8	13.1	13.3	14.5	14.6	17.8		15.0	17.1	16.2
Aid flows (in Billions of US dollars) 7/	0.4	0.4	0.4			0.5	0.5	0.5	0.5	0.5	0.5		0.7	1.1	
of which: Grants	0.3	0.3	0.4			0.4	0.4	0.4	0.4	0.5	0.4		0.6	1.0	
of which: Concessional loans	0.1	0.1	0.1			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.4	4.0	3.8	3.6	3.5	3.1		3.1	2.8	3.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			87.8	84.2	83.2	83.0	82.9	79.1		83.5	90.3	85.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	13.0	13.9	10.9			10.4	11.6	12.4	14.1	15.1	15.9		20.7	37.5	
Nominal dollar GDP growth	4.7	7.7	-21.8			-4.2	10.9	7.2	13.8	7.1	5.2	6.6	6.1	6.2	5.9
PV of PPG external debt (in Billions of US dollars)			2.4			2.2	2.0	1.8	1.6	1.5	1.3		1.5	2.0	
(PVt-PVt-1)/GDPt-1 (in percent)						**-2.1**	-1.9	-1.6	-1.4	-1.2	-0.8	-1.5	0.4	0.0	0.2
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	22.6			21.0	17.2	14.5	11.5	9.7	8.4		7.0	5.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	85.0			91.8	68.9	52.5	36.3	31.9	27.9		31.4	35.5	
Debt service of PPG external debt (in percent of exports + remittance	...	...	9.5			17.1	13.7	11.1	8.2	7.7	6.8		2.7	3.6	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief), changes in gross foreign assets, and valuation adjustments. Projections also include contribution from price and exchange rate changes

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2a. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-2036
(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	21	17	15	11	10	8	**7**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	21	16	12	9	5	2	**-9**	-20
A2. New public sector loans on less favorable terms in 2016-2036 2/	21	17	15	12	11	10	**9**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	21	17	15	12	10	9	**7**	6
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	21	22	29	25	23	21	**17**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	21	21	21	17	14	12	**10**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	21	20	20	17	15	14	**11**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	21	27	39	33	31	29	**23**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	21	24	20	16	13	12	**10**	7
PV of debt-to-exports ratio								
Baseline	92	69	52	36	32	28	**31**	35
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	92	65	44	28	18	8	**-40**	-130
A2. New public sector loans on less favorable terms in 2016-2036 2/	92	70	54	39	35	32	**41**	56
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	92	69	53	36	32	28	**31**	36
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	92	133	227	169	160	152	**165**	105
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	92	69	53	36	32	28	**31**	36
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	92	80	73	53	49	45	**49**	41
B5. Combination of B1-B4 using one-half standard deviation shocks	92	124	193	145	138	131	**142**	87
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	92	69	53	36	32	28	**31**	36
PV of debt-to-revenue ratio								
Baseline	164	131	109	79	67	47	**47**	31
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	164	124	92	62	37	13	**-60**	-116
A2. New public sector loans on less favorable terms in 2016-2036 2/	164	133	113	84	73	54	**61**	50
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	164	132	115	84	70	50	**49**	33
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	164	171	218	171	156	119	**114**	43
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	164	162	157	114	96	68	**67**	45
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	164	153	152	115	102	76	**73**	36
B5. Combination of B1-B4 using one-half standard deviation shocks	164	204	293	230	210	162	**154**	56
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	164	181	151	110	92	65	**65**	44

Table 2a. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-2036 (continued)

(In percent)

				Debt service-to-exports ratio				
Baseline	17	14	11	8	8	7	**3**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	17	14	12	9	9	7	**1**	-8
A2. New public sector loans on less favorable terms in 2016-2036 2/	17	14	11	8	8	7	**3**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	17	14	11	8	8	7	**3**	4
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	17	20	25	19	18	16	**16**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	17	14	11	8	8	7	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	17	14	11	9	8	7	**5**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	17	18	20	16	15	13	**14**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	17	14	11	8	8	7	**3**	4
				Debt service-to-revenue ratio				
Baseline	31	26	23	18	16	11	**4**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	31	27	24	20	18	12	**1**	-7
A2. New public sector loans on less favorable terms in 2016-2036 2/	31	26	23	18	16	12	**5**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	31	26	24	19	17	12	**4**	3
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	31	26	24	20	18	13	**11**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	31	32	33	26	23	16	**6**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	31	26	24	19	17	12	**7**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	31	30	30	25	23	16	**15**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	31	36	32	25	22	16	**6**	4
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	36	36	36	36	36	36	**36**	36

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that interest rate on new borrowing is by 2 percentage points higher than in the baseline. Grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Chad: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016-2036

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2013	2014	2015	Average 5/	Standard Deviation 5/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	30.3	39.2	42.6			45.0	39.3	35.6	29.6	26.1	23.0	33.1	18.8	15.7	17.9
of which: foreign-currency denominated	21.2	29.2	25.1			23.9	20.2	17.6	14.5	12.8	11.7		10.2	7.7	
Change in public sector debt	1.6	8.9	3.4			2.4	-5.7	-3.7	-6.0	-3.5	-3.1		-0.2	-0.5	
Identified debt-creating flows	-0.3	-1.5	5.3			-2.4	-4.7	-3.5	-6.4	-3.8	-4.9		-0.9	-0.5	
Primary deficit 6/	1.3	2.6	2.8	0.6	4.0	-1.7	-2.5	-2.1	-2.9	-2.4	-3.8	-2.6	0.0	0.2	-0.3
Revenue and grants	20.8	18.5	12.9			16.9	16.6	16.7	17.7	17.6	20.4		17.7	19.7	
of which: grants	2.3	2.0	3.4			4.1	3.5	3.4	3.1	3.1	2.6		2.8	2.6	
Primary (noninterest) expenditure	22.1	21.1	15.7			15.2	14.1	14.5	14.8	15.2	16.7		17.8	19.9	
Automatic debt dynamics	-1.1	0.3	3.2			1.4	-1.7	-1.0	-3.1	-1.1	-0.8		-0.7	-0.6	
Contribution from interest rate/growth differential	0.9	-1.4	-2.5			3.0	-2.4	-1.1	-3.0	-0.9	-1.2		-0.7	-0.6	
of which: contribution from average real interest rate	2.5	0.6	-1.9			2.5	-1.7	0.8	-0.3	0.1	-0.3		-0.1	0.0	
of which: contribution from real GDP growth	-1.6	-2.0	-0.7			0.5	-0.7	-1.9	-2.7	-1.0	-0.9		-0.6	-0.5	
Contribution from real exchange rate depreciation	-2.0	1.7	5.7			-1.5	0.7	0.1	-0.1	-0.2	0.3		...	...	
Other identified debt-creating flows	-0.5	-4.4	-0.7			-2.1	-0.5	-0.4	-0.3	-0.3	-0.3		-0.2	-0.1	
Privatization receipts (negative)	0.0	-4.0	-0.4			-1.6	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.5	-0.4	-0.3			-0.5	-0.5	-0.4	-0.3	-0.3	-0.3		-0.2	-0.1	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.9	10.4	-1.9			4.8	-1.0	-0.1	0.4	0.3	1.8		0.7	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	40.2			42.1	36.3	32.5	26.6	23.0	19.8		15.6	13.4	
of which: foreign-currency denominated	...	...	22.6			21.0	17.2	14.5	11.5	9.7	8.4		7.0	5.4	
of which: external	...	...	22.6			21.0	17.2	14.5	11.5	9.7	8.4		7.0	5.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.8	8.4	8.5			5.5	4.1	4.3	3.2	4.5	2.7		4.5	4.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	310.5			249.1	218.3	195.2	150.6	130.5	96.8		87.9	67.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	423.2			328.0	276.9	244.5	183.1	158.1	110.8		104.2	78.2	
of which: external 3/	...	...	238.4			164.0	131.1	109.1	79.1	66.7	47.3		46.7	31.5	
Debt service-to-revenue and grants ratio (in percent) 4/	12.3	31.7	40.7			35.0	30.6	27.9	24.4	29.2	22.5		14.6	11.8	
Debt service-to-revenue ratio (in percent) 4/	13.8	35.5	55.5			46.1	38.8	34.9	29.6	35.4	25.8		17.3	13.6	
Primary deficit that stabilizes the debt-to-GDP ratio	-0.3	-6.3	-0.6			-4.1	3.2	1.5	3.1	1.1	-0.6		0.2	0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.7	6.9	1.8	4.8	4.1	-1.1	1.7	5.2	8.2	3.4	3.5	3.5	3.1	3.3	3.1
Average nominal interest rate on forex debt (in percent)	3.3	3.6	3.3	2.1	1.2	4.5	4.2	3.8	3.3	2.8	2.2	3.5	1.2	1.2	1.2
Average real interest rate on domestic debt (in percent)	3.8	-0.1	-0.7	2.6	3.8	2.0	-3.0	1.9	-1.3	-0.3	-0.1	-0.1	0.7	1.2	0.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.4	8.4	21.2	3.3	14.8	-5.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-1.9	3.2	3.0	1.2	3.7	0.2	5.3	0.3	3.8	2.9	2.9	2.6	2.9	3.0	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.8	-0.4	-32.3	-3.2	10.2	-7.6	-2.4	9.7	10.7	6.2	13.8	5.1	4.3	2.6	4.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	37.4	36.9	36.7	36.8	36.9	36.9	37.0	37.3	37.7	...

Sources: Country authorities; and staff estimates and projections.

1/ The coverage of public sector debt comprises the obligations of the central government, including commercial debt. The definition of debt corresponds to gross debt.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

6/ The primary deficit in the DSA grosses up oil revenue and debt service on the oil sales advances (in contrast to the fiscal tables in the Staff Report)

Table 4. Chad: Sensitivity Analysis for Key Indicators of Public Debt 2016-2036

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	42	36	33	27	23	20	16	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	42	37	35	32	30	29	27	21
A2. Primary balance is unchanged from 2016	42	37	33	28	25	23	17	4
A3. Permanently lower GDP growth 1/	42	37	34	28	26	24	26	39
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	42	37	35	30	27	25	25	27
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	42	41	41	35	31	28	25	22
B3. Combination of B1-B2 using one half standard deviation shocks	42	39	39	33	30	27	25	23
B4. One-time 30 percent real depreciation in 2017	42	45	40	34	30	27	23	20
B5. 10 percent of GDP increase in other debt-creating flows in 2017	42	43	39	33	30	27	24	21
PV of Debt-to-Revenue Ratio 2/								
Baseline	249	218	195	151	130	97	88	68
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	249	222	209	180	168	141	157	108
A2. Primary balance is unchanged from 2016	249	219	196	156	138	110	97	19
A3. Permanently lower GDP growth 1/	249	219	199	158	143	114	141	194
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	249	219	207	165	149	118	137	137
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	249	242	243	194	176	138	143	112
B3. Combination of B1-B2 using one half standard deviation shocks	249	233	231	184	166	131	139	116
B4. One-time 30 percent real depreciation in 2017	249	268	241	189	168	129	129	103
B5. 10 percent of GDP increase in other debt-creating flows in 2017	249	254	232	184	166	130	134	107
Debt Service-to-Revenue Ratio 2/								
Baseline	35	31	28	24	29	23	15	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	35	31	29	26	31	24	16	14
A2. Primary balance is unchanged from 2016	35	31	29	26	31	24	16	11
A3. Permanently lower GDP growth 1/	35	32	29	26	32	25	17	19
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	35	32	30	27	32	25	17	17
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	35	31	29	27	32	24	19	16
B3. Combination of B1-B2 using one half standard deviation shocks	35	31	30	27	32	25	18	16
B4. One-time 30 percent real depreciation in 2017	35	36	37	32	37	28	18	16
B5. 10 percent of GDP increase in other debt-creating flows in 2017	35	31	30	27	31	24	18	15

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Statement by Mr. Yambaye, Executive Director for Chad
July 22, 2016

On behalf of my Chadian authorities, I would like to thank Management and Staff for the continuous support provided to Chad in the face of an adverse environment brought about by the large decline in oil price, and the security and humanitarian shocks. The support of management was in evidence by the visit of Mr. Furusawa to Chad in February 2016, and for which my authorities are very appreciative. This visit enabled the Deputy Managing Director to appreciate directly the economic and social impact of the exogenous shocks in Chad as well as the efforts of my authorities to address them. My authorities are also thankful to bilateral partners and multilateral institutions for their financial and technical assistance.

Indeed, the massive oil price decline since 2014, and the deterioration of the security situation in the second half of 2015 further complicated an already difficult economic and financial situation. The country has also seen an inflow of refugees from neighboring countries due to the security situation, as Chad is seen as an island of stability in an unstable region. Public finances have therefore been under extreme pressure which increased the vulnerabilities of private and financial sectors. The authorities' policy responses to the worsening environment have been mainly through large additional fiscal adjustment, absent the full realization of financial support pledges by the international community. Nevertheless, despite these unfavorable developments, the authorities' Fund-supported program remained on track in 2015. Maintaining this performance in 2016, however, has proven particularly challenging.

The period ahead will be critical for Chad, as the absence of sufficient financial resources might force my authorities to resort to second-best financing options to finance the budget at the risk of jeopardizing debt sustainability and derailing the Fund-supported program. Therefore, my authorities are asking the international community to follow through on the financial support pledges as soon as possible.

I. Recent Developments

Economic activity slowed down significantly in 2015, due to a number of factors. These include the oil price shock, lower agricultural production due to bad weather conditions and contraction of other sectors, notably the construction sector, as a result of drastic reduction in public demand, the difficult economic situation in Nigeria and the weakened security situation. As a result, non-oil real growth turned negative at -2.9 percent. Nevertheless, total real growth remained positive at 1.9 percent in 2015 against 6.9 percent in 2014, as new oil fields came on stream.

Inflationary pressures emerged in 2015 due to supply shocks. Lower agricultural production and the security disruptions to the cross-border trade flows with Cameroon and Nigeria led to a surge in food prices and inflation reached 7.6 percent year-on-year in April 2015 before turning negative to -0.3 percent at end-December 2015. The disinflation continued in 2016 as consumer price index declined by 3.7 percent in March 2016.

The fiscal situation deteriorated significantly as economic activity slowed down. As indicated during the last meeting on Chad in December 2015, the 2015 budget was revised to take into account the changing economic conditions. However, despite this revision, only 60 percent of the projected total fiscal revenue has been realized owing to the lower than expected oil price toward the end of the year and to continued disruption of trade flows at the border with Nigeria and Cameroon. The authorities responded to the situation with a combination of lower public spending and additional borrowing. Capital spending, for example, has been reduced by more than 40 percent between 2014 and 2015 and no new projects has been started. However, social spending was preserved. There was also an accumulation of domestic arrears due to Treasury difficulties arising from the lower revenues. As a result, the fiscal deficit remained in line with the objective under the ECF-supported program. The deficit was financed through exceptional financing from the central bank in the form of higher ceiling for statutory advances, support from some external partners and placement of Treasury bills and bonds in the regional market.

As the DSA indicates, public debt ratios have increased with respect to GDP, revenues and exports figures, thereby further raising debt vulnerabilities in the short to medium-term.

Monetary sector developments have been characterized by a contraction in broad money and a deceleration of credit to the economy together with a significant drawdown in government deposits at the central bank. As already discussed in the Board meeting on the regional consultations with CEMAC, the regional monetary policy has been accommodative since late 2015 with the relaxation of the ceiling for statutory advances, and the halving of the required reserves at the central bank. In addition, the ceiling for refinancing at the central bank for the Chadian banks has been raised by 50 percent. This monetary easing has enabled the provision of needed liquidity to the government and the banking system.

Liquidity pressures in the public sector have increased vulnerabilities in the financial sector, as the recent accumulation of arrears in the second part of 2015 and in 2016, in a context of slow economic activity, translated in higher NPLs, thereby reflecting the strong macro-financial linkages in Chad, as well described in the first chapter of the Selected Issues Paper. Although the financial sector is overall healthy, the recent stress tests conducted by the regional banking commission indicate increasing risks to financial stability stemming from a bleaker economic outlook.

Progress has been made in the implementation of reforms since January 2015, notably in the context of the Fund-supported program. Particularly noteworthy are the adoption of a new regulatory framework to implement the PFM law compliant with CEMAC directives, the adoption of a new procurement code, the publication of quarterly budget execution reports, and the establishment of an audit court.

II. Policies for 2016 and beyond

Near-term economic prospects are bleak as economic activity is expected to contract further by 1.1 percent in 2016, essentially due to a decline in oil production as many planned investments in the oil sector have been shelved. Non-oil GDP growth will also remain negative. However, over the medium-term growth outlook is brighter as a gradual recovery in the non-oil sector is projected, driven by agriculture, commerce and transportation, together with an easing of budgetary pressures with a rebound in oil revenues. It is indeed assumed that investment in the oil sector would resume as oil prices recover, and both developments would positively impact Chad’s external position. The medium-term outlook is subject to significant downside risks, including a potential deterioration of regional security, a persistent low level of oil prices and delays in the resumption of petroleum investment.

In that difficult context, my authorities remain committed to pursue the adjustment to the new oil price environment. To this end, they will pursue fiscal adjustment efforts to preserve fiscal and debt sustainability, while addressing the emerging vulnerabilities in the financial sector and advancing the structural reforms needed to diversify the economy and improve the business environment, consistent with the national development plan for 2016-2020 which is being finalized. The five-year plan will focus on strategic axes including economic diversification with an emphasis on agriculture and cattle, human capital, governance, and social protection.

Fiscal policy

Fiscal adjustment will continue in 2016, as reflected in the recently adopted revised budget for 2016, which is based on very prudent assumptions and includes pre-defined spending prioritization criteria. The revised budget envisages a further reduction in public expenditures but will preserve social spending. A contingency plan has been prepared in case the envisaged receipts from oil assets sale in the budget do not materialize in 2016.

The Chadian authorities will pursue actively the discussions with potential buyers, including through an international tender if the ongoing discussions are unsuccessful. The repayment of domestic arrears will be consistent with resource availability. The authorities will also tap the regional market to finance budget. They are optimistic that their domestic financing could be realized, considering the relatively low volume of debt maturing in 2016 and the comfortable level of liquidity in the region's banks following the recent reduction in reserve requirements by the BEAC. A quarterly cash flow has been prepared to calibrate spending and domestic financing in line with available liquidity. Over the medium-term, my authorities will intensify domestic revenue mobilization with reforms drawn from the recent technical assistance recommendations.

My authorities intend to press ahead with the fiscal reforms initiated over the past year. In particular, they will continue to improve the flow of oil sector information within the administration through a revitalization of the inter-ministerial committee established in that regard. They will also pursue the publication of reports on oil revenues in the context of the EITI. They will start producing debt management reports and medium-term borrowing plans during this year.

Financial Sector

My authorities are determined to preserve financial stability and pursue the development of the financial sector. They recognize the central place of the government in the economy and the significant macro-financial implications of the successive fiscal policy responses to the oil price changes as well as the increasing risks to financial stability stemming from a bleaker economic outlook, as evidenced by the recent stressed tests conducted by the regional banking commission. Going forward, the Chadian authorities, in coordination with the regional banking commission, will monitor banks closely. Recognizing the importance of microfinance in increasing financial access and support individual empowerment, the national development plan for 2016–2020 gives a particular importance to the development of the microfinance sector through a dedicated strategy.

Fostering inclusive growth

My authorities will pursue reforms to improve the business climate to foster economic diversification and promote a more inclusive growth. Specifically, policies will focus on removing impediments to private sector development in order to increase the competitiveness and attractiveness of the country, in coordination with the private sector which has already identified possible actions in that regard. As already indicated, a special emphasis will be placed on the agriculture sector which my authorities believe presents enormous potential for the development of agribusinesses. In the same vein, the government will proceed with the reform of the judicial system over the next five years.

External Assistance

Chad is going through a very difficult period brought about by the massive oil price decline and security shocks. Policy responses to these shocks have been exceptional with notably a strong fiscal adjustment. Going forward, given the significant downside risks to an already bleak economic outlook and the need to pursue efforts to preserve security in the region, there remains very limited space for additional fiscal adjustment. The country is in desperate need of external support from all its partners to meet the additional obligations at a time of declining revenue. In this regard the Fund's enhanced support will be crucial, given its catalytic role. The country also needs support in its efforts to strengthen stability in the region, which in their view is a top priority. Regional security is a public good that Chad cannot afford bearing alone. The authorities strongly believe that Chad deserves more assistance than it has received so far. Absent this assistance, the country will certainly not have the means to continue its efforts to fight terrorism and keep its economic and financial program on track. In this regard, the authorities expect further external assistance, including an increase in access to Fund resources as well as more flexibility as regards program design.