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CHAD

April 2018

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHAD

In the context of the First Review Under the Extended Credit Facility Arrangement, and Request for a Waiver of Nonobservance of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 13, 2018, following discussions that ended on November 2, 2017, with the officials of Chad on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on March 30, 2018.
- 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:

Letter of Intent sent to the IMF by the authorities of Chad*
Memorandum of Economic and Financial Policies by the authorities of Chad*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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April 13, 2018

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IMF Executive Board Completes First ECF Review for Chad and Approves US$ 51 Million Disbursement

On April 13, 2018, the Executive Board of the International Monetary Fund (IMF) completed the first review of Chad's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement. Completion of this review enables the immediate disbursement of SDR 35.05 million (about US$51 million). This brings total disbursements under the arrangement to SDR 70.1 million (about US$ 99.8 million). The Board also approved the authorities' request to waive the non-observance of the continuous performance criterion on the non-accumulation of new external payments arrears, and to rephase the planned disbursements.

Chad's ECF arrangement was originally approved by the Executive Board on June 30, 2017 (see Press Release No. 17/257) for SDR 224.32 million (about US$ 312.1 million or 160 percent of Chad's quota). The ECF-supported program aims to help Chad restore macroeconomic stability and lay the foundation for robust and inclusive growth. It will also contribute to the regional effort to restore and preserve external stability for the Central African Economic and Monetary Union (CEMAC).

Following the Executive Board's discussion on Chad, Mr. Mitsuhiro Furusawa, Acting Chair and Deputy Managing Director, made the following statement:

"Performance under the ECF-supported program has been satisfactory, reflecting strong commitment by the authorities. All end-June performance criteria and most end-September indicative targets were met, although small external arrears accumulated. Progress is underway on the structural reform agenda. Most structural benchmarks have been implemented (notably the submission of the National Development Plan) but the authorities should accelerate the pace of implementation.

"In February 2018 an agreement in principle was reached to restructure debt to a private external creditor, a key element of the authorities' strategy. It is expected to yield the necessary financing for the program and firmly restore external debt sustainability.

“Moving forward, the authorities are determined to implement a comprehensive fiscal strategy to stabilize the fiscal position, foster non-oil growth, and reduce banking sector vulnerabilities. The main pillars of the strategy include (i) better managing the wage bill, (ii) paying down domestic debt and clearing domestic arrears, (iii) increasing domestic revenue mobilization, (iv) improving public financial management and (v) addressing structural weaknesses in some of the domestic banks.

“Chad’s program is supported by the implementation of policies and reforms by the regional institutions which are critical to the success of the program. These include tighter monetary policy, elimination of statutory advances, and sound bank regulation and supervision, and firm controls over the extension of credit to banks.”

Table 1. Chad: Selected Economic and Financial Indicators, 2015–2021

	2015	2016	2017		2018		2019		2020		2021	
	Prel.	Prel.	Prog.[1]	Proj.[2]	Prog.[1]	Proj.[2]	Prog.[1]	Proj.[2]	Prog.[1]	Proj.[2]	Prog.[1]	Proj.[2]
	(Annual percentage change, unless otherwise indicated)											
Real economy												
GDP at constant prices	1.8	-6.4	0.6	-3.1	2.4	3.5	3.1	2.8	3.9	6.8	3.6	4.8
Oil GDP	32.1	-8.4	3.0	-16.2	6.1	15.7	5.8	4.4	5.4	22.6	1.7	8.4
Non-oil GDP	-2.9	-6.0	0.1	-0.5	1.6	1.4	2.6	2.5	3.6	3.7	4.0	4.0
GDP deflator	-8.0	-1.2	0.1	-0.9	1.7	2.2	2.3	2.5	3.1	3.0	3.0	3.0
Consumer price index (annual average)	6.8	-1.1	0.2	-0.9	1.9	2.1	2.4	2.6	3.0	3.0	3.0	3.0
Oil prices												
WEO (US$/barrel)[3]	50.8	42.8	55.2	52.8	55.1	62.3	54.1	58.2	54.0	55.6	54.4	54.1
Chadian price (US$/barrel)[4]	39.9	36.2	50.4	49.4	49.9	60.7	49.0	56.7	48.9	54.0	49.5	52.6
Oil production for exportation (millions of barrels)	47.5	44.4	46.0	35.9	49.0	39.1	52.0	41.1	55.0	52.1	56.0	57.1
Exchange rate CFAF per US$ (period average)	591.2	592.7	...	...	...	...	...	...	...	...	...	...
Money and credit												
Net foreign assets	-40.3	-38.2	8.9	0.5	1.9	8.5	6.2	5.2	9.4	9.3	...	9.8
Net domestic assets	35.6	30.5	-3.2	-1.4	5.5	-0.9	1.6	2.6	-0.6	-2.2	...	-2.8
Of which: net claims on central government	32.2	26.5	-3.9	-4.4	3.3	2.2	-0.1	0.4	-1.5	-4.5	...	-4.6
Of which: credit to private sector	1.1	-2.7	0.7	-1.7	2.2	1.7	1.7	2.2	0.9	2.3	...	1.8
Broad money	-4.7	-7.7	5.8	-0.9	7.4	7.6	7.8	7.8	8.7	7.1	...	7.0
Velocity (non-oil GDP/broad money)[5]	5.0	5.1	4.8	5.1	4.6	5.0	4.5	4.8	4.4	4.8	...	4.8
External sector (valued in US dollar)												
Exports of goods and services, f.o.b.	-34.0	-15.4	29.4	10.5	5.7	26.5	4.6	0.9	5.7	16.0	4.0	6.5
Imports of goods and services, f.o.b.	-23.7	-15.3	3.8	2.9	3.8	20.7	4.8	3.2	5.0	9.8	3.1	4.9
Export volume	29.2	-3.9	1.0	-15.0	5.8	7.3	5.6	5.1	5.1	20.3	1.9	7.9
Import volume	-21.8	-10.4	1.0	1.6	2.0	18.7	3.1	1.7	3.6	8.3	1.4	3.1
Overall balance of payments (percent of GDP)	-6.4	-8.6	-0.5	-0.8	-2.0	1.5	-1.2	0.5	-0.7	1.0	0.4	1.1
Current account balance, including official transfers (percent of GDP)	-12.3	-9.2	-2.2	-5.2	-3.2	-4.3	-3.5	-5.5	-3.3	-4.9	-3.5	-4.9
Terms of trade	-47.7	-6.9	24.7	28.3	-1.8	16.0	-2.6	-5.4	-0.8	-4.9	0.4	-3.0

External debt (percent of GDP)[6]	25.0	27.1	28.6	27.2	27.8	26.0	26.3	25.4	24.2	23.0	22.1	20.7
NPV of external debt (percent of exports of goods and services)	98.5	97.2	73.0	88.7	69.0	76.4	65.0	78.4	60.0	67.4	55.7	62.0
	(Percent of non-oil GDP, unless otherwise indicated)											
Government finance												
Revenue and grants	17.1	14.9	19.9	16.1	19.2	18.5	19.2	17.5	19.5	18.6	19.0	18.3
Of which: oil revenue	4.9	3.5	6.4	4.1	6.5	5.4	6.3	5.0	6.2	5.8	6.1	5.7
Of which: non-oil revenue	8.3	8.4	8.1	8.1	8.4	8.2	8.8	8.7	9.4	9.2	9.8	9.6
Expenditure	22.9	18.0	18.8	17.8	18.5	17.9	18.7	18.1	18.2	18.2	17.5	17.9
Current	15.6	14.2	14.0	13.3	13.3	12.4	12.7	12.2	12.1	12.2	11.3	11.7
Capital	7.3	3.7	4.7	4.5	5.3	5.5	6.0	5.9	6.1	6.0	6.2	6.2
Non-oil primary balance (commitment basis, excl. grants)[7]	-9.7	-4.4	-4.6	-4.2	-4.3	-4.5	-4.2	-4.2	-3.6	-3.8	-2.8	-3.0
Overall fiscal balance (incl. grants, commitments basis)	-5.9	-3.0	1.1	-1.7	0.7	0.6	0.5	-0.6	1.3	0.4	1.5	0.3
CEMAC reference fiscal balance (in percent of GDP)[8]				-0.2		-0.8		-1.3		-0.7		-0.4
Total debt (in percent of GDP)[6]	43.3	51.2	50.5	52.5	47.7	48.1	44.8	45.4	41.1	41.7	38.2	38.6
Of which: domestic debt	18.3	24.0	21.9	25.4	19.9	22.1	18.5	20.0	16.9	18.8	16.1	17.9
Memorandum items:												
Nominal GDP (billions of CFA francs)	6,474	5,984	6,023	5,747	6,271	6,077	6,618	6,403	7,094	7,041	7,569	7,602
Of which: non-oil GDP	5,184	4,838	4,843	4,829	5,006	5,005	5,257	5,264	5,616	5,604	6,021	5,996

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

[1] Program numbers reflect a no-restructuing scenario.

[2]Projections reflect the agreement in principal to restructure the Glencore debt.

[3]WEO simple average of crude oil price.

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

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

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

CHAD

March 30, 2018

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, REPHASING OF DISBURSEMENTS, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context: The current ECF arrangement (access of 160 percent of quota or SDR 224.32 million) was approved on June 30, 2017 in the context of a very difficult and deteriorating social, economic, and financial situation reflected in large accumulation of domestic and external arrears, and significant contraction in spending. The crisis was precipitated by the oil price and security shocks that began in 2014, and the heavy burden of external commercial debt. Chad's stability is key for the regional security situation given its peace-keeping efforts in the area.

Program: Most program performance criteria (PCs), indicative targets (ITs) and structural benchmarks (SBs) for the first review have been met. All end-June PCs were met, and five out of eight SBs were implemented, although one with a delay. Most end-September ITs were also met. The continuous PC on the non-accumulation of external arrears was missed. The authorities are requesting a waiver for this missed PC, and a modification to an end-June 2018 structural benchmark. Preliminary information suggests that the program is likely to have remained broadly on track at end-December 2017. An agreement in principle to restructure the Glencore debt was reached in February. The agreement is in line with the program and with reestablishing debt sustainability.

Staff views. Staff supports the completion of the first review under the ECF arrangement, and the waiver of nonobservance of a PC. Completion of the first review will result in the disbursement of an amount equivalent to SDR 35.05 million. The Fund arrangement remains instrumental to catalyze donor support to address Chad's protracted balance of payment needs. Downside risks to the program include overshooting in the wage bill, large increase in nonconcessional financing, further deterioration in the liquidity position of banks, a significant drop-in oil price, and a worsening of the security situation.

Approved By
David Owen and Yan Sun

Discussions took place in Washington DC (October 10-13, 2017) and in N'Djamena (October 25 – November 2, 2017) and through video conferences afterward. The staff team comprised Mr. Bakhache (head), Messrs. Ben Hassine, Delepierre, and Ms. Ibrahim (all AFR), Mr. Nachega (Resident Representative) and Mr. Topeur (local economist). Mr. Bangrim Kibassim (Advisor to the Executive Director) participated in the discussions. Meetings were held with the previous and current Ministers of Finance and Budget, previous Minister of Economy and Development, Minister of Petroleum, previous Minister of Justice, National Director of the BEAC, Director General of the oil public enterprise (SHT), staff of the BEAC headquarters, representatives of the banking sector, and representatives of international development partners.

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BACKGROUND

1. **Chad is a low-income fragile country with significant development challenges, which have recently intensified due the oil price and security shocks.** While the onset of oil production in 2003 helped to improve Chad's human development indicators, they remain among the lowest in the region (Figure 1). Estimated GDP per capita, which peaked at $1,239 in 2014, fell to $851 in 2016.

2. **The oil price shock has had a severe and lasting impact on the Chadian economy and has led to serious social pressures**. The considerable contraction in oil revenue between 2014 and 2016, as well as the heavy debt service burden of external commercial debt, primarily debt to Glencore, necessitated dramatic spending cuts, leading to an adjustment in the non-oil primary deficit of almost 12 percentage points of non-oil GDP in 2015-16. While social pressures eased somewhat in 2017, they remain high as spending continues to be very constrained in the face of considerable needs. The country saw an outbreak of demonstrations in early 2018 following the implementation of measures included in the 2018 budget notably cuts in civil service benefits and bonuses and an income tax increase. In addition, Chadian security forces remain heavily involved in maintaining regional security, which has elevated the status of Chad in the region and within the international community, but also placed a significant burden on public finances (notably through the wage bill of security personnel). President Deby recently announced that parliamentary elections that had been delayed since 2015 due to the difficult economic and security situation, will be held in 2018, although the availability of financing (not included in the 2018 budget) will likely be a key factor in determining the exact timing.

3. **In June 2017, the Board approved an ECF arrangement with access of 160 percent of quota (SDR 224.32 million) to support the authorities' reform program.** The main elements of the program are to (i) reestablish debt sustainability through external commercial debt restructuring, (ii) achieve further gradual fiscal adjustment and create space for domestic arrears payment by maintaining a tight spending envelope while directing resources towards social sectors and investment, and better mobilizing non-oil revenue, and (iii) limit reliance on domestic financing to help alleviate pressure on domestic banks.

RECENT ECONOMIC DEVELOPMENTS

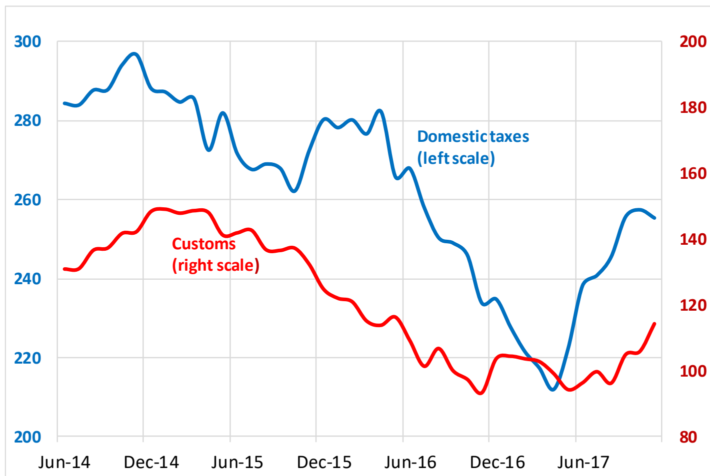
4. **Non-oil economic activity is estimated to have declined by about 0.5 percent, while oil production declined substantially in 2017 (Figure 2).** GDP is estimated to have declined by about 3 percent last year. Oil production was significantly lower than expected following technical problems faced by the second largest oil producer. While non-oil activity was also weak and negatively affected by the accumulation of domestic arrears, spillovers from the oil sector on non-oil activity are estimated to have been limited given that government spending (the engine of the non-oil sector) was only moderately affected by lower oil revenue. Deflationary pressures continued in 2017, as demand remained relatively weak, including because cross border trade continued to be affected by security concerns, but began to ease towards the end of the year.

5. While there were signs of fiscal stabilization in the second half of 2017 following the approval of the ECF arrangement, delays in completing the first review led to continued liquidity pressures. The approval of the arrangement in June, together with the disbursement by the World Bank of emergency budget support in early July and the settlement of an old tax dispute (about $100 million), helped ease the government liquidity crunch in the second half of 2017. In addition, debt service to Glencore has been lower than projected because of lower oil exports as well as measures taken by the authorities since April 2017 to use part of government oil for local consumption. This resulted in reducing the resources that otherwise would have been used to service the debt, and increasing revenues to the treasury. This helped the authorities pay the wage bill broadly on time. In addition, while domestic and external arrears continued to accumulate up to the approval of the new arrangement, since then most external debt service has been paid, except to a few creditors in the context of ongoing discussions to reschedule outstanding arrears. Nonetheless, delays in disbursements of donors' budget support originally planned in late 2017 complicated the ability of the government to pay down domestic arrears in the second half of the year.

6. While oil revenue was significantly lower than expected in 2017, total non-oil revenue performed relatively well (Text Figure 1). Lower oil production and prices led to lower government oil revenue by about 35 percent in 2017 compared to initial projections. Non-oil tax revenues however improved markedly, reflecting strong collection efforts. While this was not sufficient to achieve the end-year target for non-oil tax revenue, non-tax revenue overperformed.

Text Figure 1. Chad: Non-oil Tax Revenue, 2014-17

(12 months cumulative, CFAF billion)



Sources: Chadian authorities and IMF staff calculations.

7. Except for the wage bill, domestically financed primary spending is estimated to have been lower than projected. Preliminary information suggests that spending on goods and services was slightly lower than budgeted, while spending on transfers and subsidies and public investment was significantly below the budgeted amount. In the first half of 2017, the wage bill increased sharply and peaked at CFAF 32.9 billion in May. Despite a reduction in July and August following measures taken in the revised 2017 budget (which were subsequently partially reversed), the average monthly wage bill remained high in 2017. This led to a significant overshooting for the year relative to the budgeted amount, and the wage bill again exceeded non-oil tax revenue in 2017.

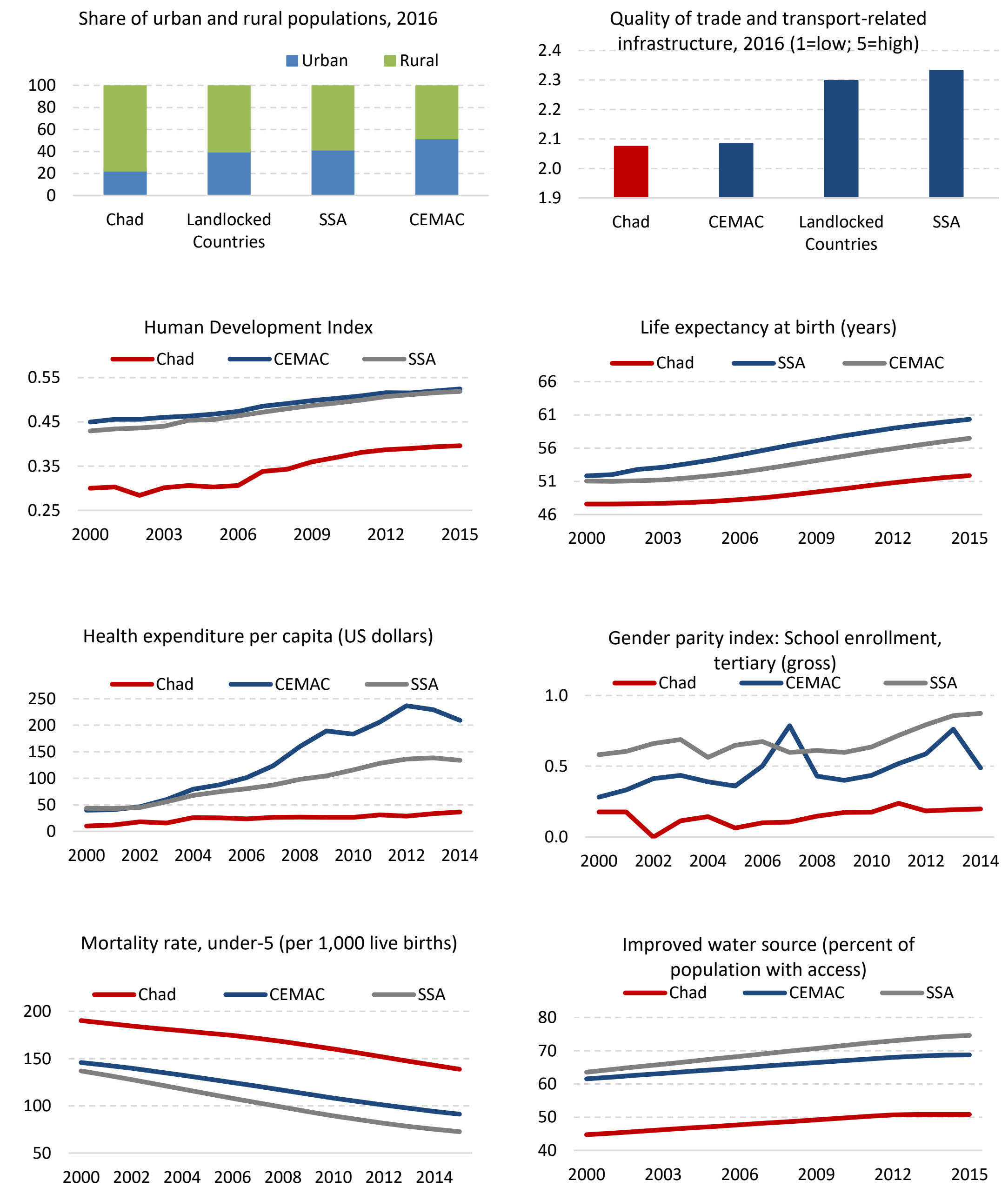
8. Banking sector vulnerabilities have increased because of the Treasury liquidity crunch and the severe economic downturn. Banks' portfolio quality deteriorated in 2017: (i) non-performing loans increased to 28 percent of gross loans; (ii) deposits and credit fell by 9 and 1 percent, respectively; and (iii) the deposit-to-loan ratio fell to 94 percent from over 100 percent at end-2016. The interim emergency liquidity facility introduced by the BEAC has helped prevent further deterioration of the liquidity position for banks that rolled over government securities. However, banks continue to rely on BEAC refinancing, which now accounts for about 17 percent of bank liquidity on average, and is much larger for some banks.

9. An agreement in principle (AIP) was reached in February to restructure the Glencore debt. The agreement covers about US$1.3 billion of external debt and includes a significant extension of maturity, a lower interest rate and a large reduction in restructuring fees. The AIP includes features to accelerate and decelerate debt service depending on the availability of oil receipts (see below for details). A few steps remain to be finalized before signing the final agreement, namely the finalization of the legal documents to reflect the new terms, including the operational modalities for the payment and contingency mechanisms.

10. The authorities made progress in clearing external arrears that accumulated in early 2017, but new arrears accumulated. The authorities repaid about $3.6 million in arrears accumulated prior to the approval of the ECF arrangement to the Arab Bank for Economic Development in Africa, the OPEC Fund for International Development, Kuwait, and Saudi Arabia. They also rescheduled debt (including arrears that had accumulated) with Exim Bank of China. The authorities indicated that given the continued liquidity constraints in the second half of 2017 and the ongoing efforts to reschedule outstanding arrears to India, Libya, Republic of Congo, and Equatorial Guinea, new arrears (amounting to about $14.3 million) to these creditors continued to accumulate. Small arrears to an external private creditor (Mega Bank) accumulated because of technical problems in processing the payment.

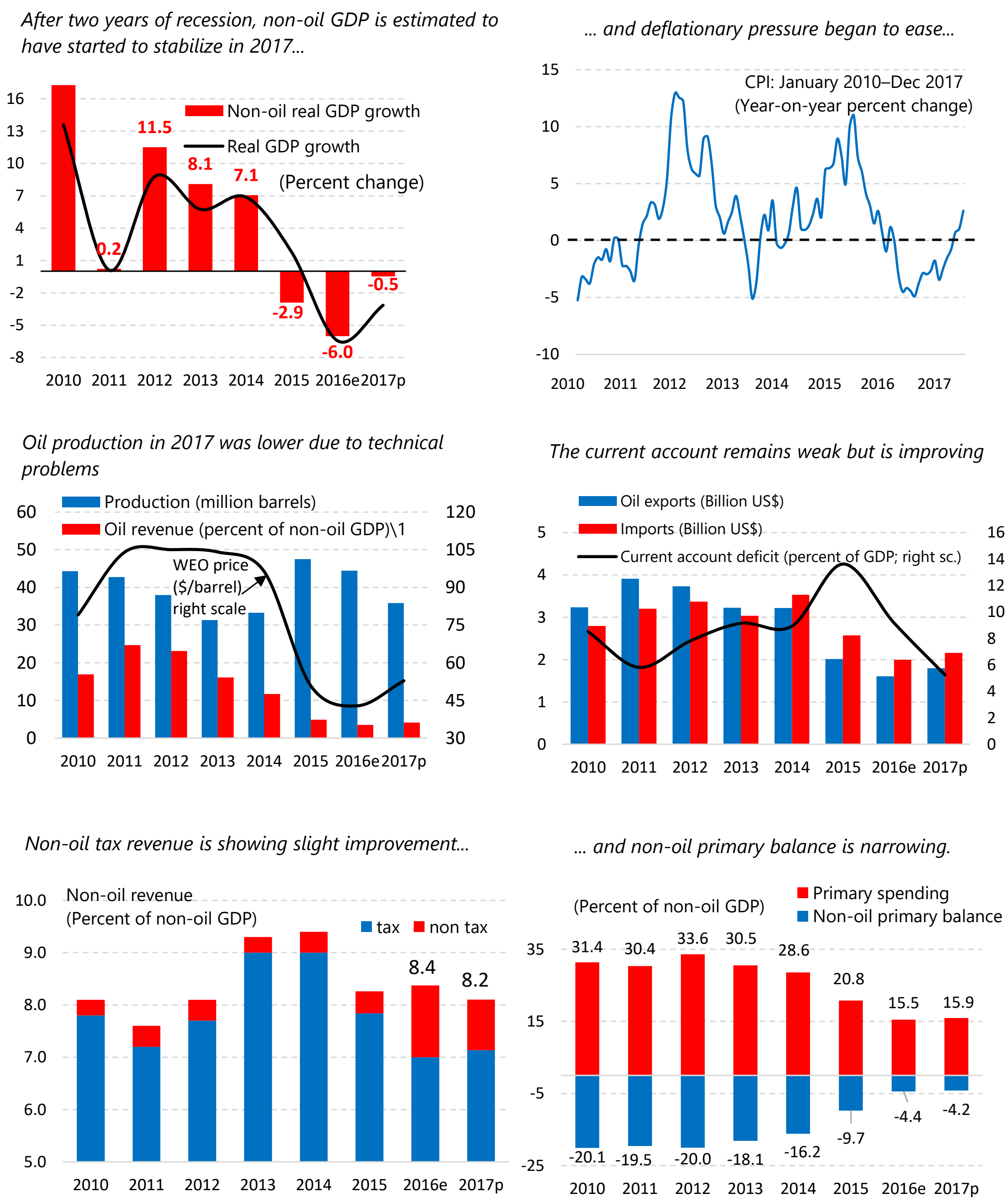
11. The balance of payments, weighed down by lower oil exports and exchange rate appreciation, remained weak. The current account deficit is estimated to be around 5 percent of GDP for 2017 compared to 2.2 percent at program approval. Reflecting the peg to the euro, exchange rate appreciation against the U.S. dollar further weakened export earnings in local currency. However, lower debt service associated with the Glencore debt and financing of higher capital expenditure by oil companies has improved the financial account balance and helped financed the current account deficit.

Figure 1. Chad: Development Indicators – Regional Comparison



Source: World Bank Development Indicators (WDI) database.
CEMAC: Average for Cameroon, Central African Republic, Congo, Chad, Gabon, and Equatorial Guinea.
SSA: Average for Sub-Saharan African countries.

Figure 2. Chad: Recent Economic Developments, 2010–17p



Sources: Chadian authorities, and IMF staff calculations.
1/ Oil revenue is net of operational costs linked to government participation in oil companies, and transportation cost.

PROGRAM PERFORMANCE

12. All end-June performance criteria (PC) were met (MEFP ¶12 and Table 7). The ceiling on the non-oil primary balance (NOPD) –the fiscal anchor for the program– was met with a large margin, mainly because of the authorities' efforts to contain expenditure. While domestic demand remained subdued and import were low, the floor on customs revenue was met as customs collection efforts improved. The criteria on net domestic bank government financing and net financing from BEAC were met. The continuous zero ceiling on new external (foreign currency) arrears was missed, as payments to Libya ($13 million) in September and India ($1.3 million) in December, and to a private creditor ($0.6 million) in November were not made, and some payments (about $6.5 million) were made with delays. While the indicative target (IT) on poverty reducing social spending was met, the IT on the regularization of emergency spending procedures (DAO) was missed because the authorities did not have the capacity to regularize the large stock of DAO that had accumulated since the beginning of 2017.

13. Progress is underway on the structural reform agenda. Out of eight SBs, four were met on time (submission of the National Development Plan, establishment of a tax policy unit, and publication of the quarterly oil sector note in September and December), one was implemented with a delay (adoption of an action plan to improve management of the wage bill), one (the launch of the audit of subsidies and transfers) is expected to be implemented with a delay, and two (the audit of domestic arrears and the single customs window in Ngueli) are still pending.(MEFP ¶15 and Table 8). The audit of domestic arrears is expected to be launched shortly.

14. Most end-September ITs were met, and preliminary information suggests that the end-December NOPD target is likely to have been met, although this will need to be confirmed. For end-September, the target on poverty reducing social spending was met, but the one on the regularization of DAO was missed. While staff will assess the final fiscal outcome for 2017 in the context of the second review of the ECF arrangement when final end-December data become available, spending is likely to have stayed within the budget envelop in the last quarter of 2017. On the revenue side, customs continued to show improvement, reflecting strong collection efforts, although it is not clear yet how close the outcome, which is affected by the continued weak activity, is to the target. Domestic financing PCs are also likely to have been met.[1]

15. The authorities request a waiver of nonobservance of the PC on the non-accumulation of external arrears (Letter of Intent, and MEFP ¶13). The size of the non-observance is relatively small (less than 0.2 percent of GDP), and the request is based on the authorities' actions to resolve the arrears and prevent the accumulation of further arrears. The authorities expect to have an agreement with India in the next few months following a visit by the prime minister to India planned for this month. They are also seeking to establish contact with the Libyan authorities to address the

[1] The TMU is amended to take into account that end-year data does not become available until 1.5 months following the complementary period (typically 2 months) during which spending can take place on the previous year budget.

arrears as soon as possible. Regarding the arrears to the private creditor, work is under way to resolve the technical difficulties which prevented the payment.

POLICY DISCUSSION

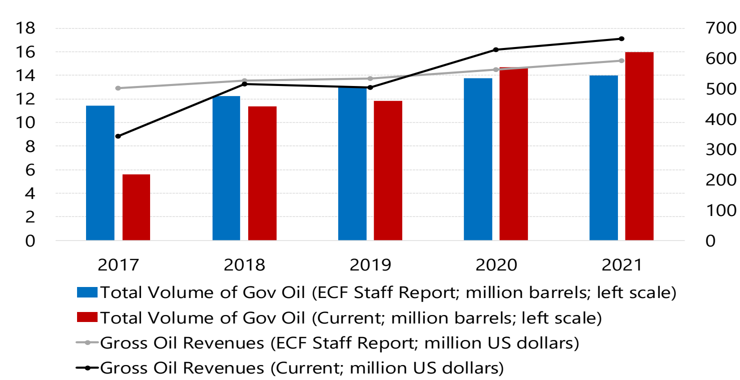
16. The authorities' economic stabilization and reform program is anchored on a medium term macroeconomic framework that reflects steady improvement in non-oil revenue, continued spending control, and a gradual rise in oil production. This will support a gradual improvement in the non-oil fiscal position and reductions in the stock of domestic arrears and domestic debt over the medium term. This, along with the efforts to diversify the economy, will help strengthen activity in the non-oil sector and support regional stabilization.

17. While policies at the national level are aimed at addressing Chad specific issues, achieving the program objectives also requires adequate regional policies. The ongoing efforts to maintain a tighter monetary policy stance and modernize the regional monetary and financial sector policy frameworks are supporting the regional recovery and strengthening the regional external sustainability including that of Chad. In addition, these reforms, particularly those aimed at instilling discipline in the conduct of fiscal policy (by eliminating direct BEAC financing and loosening the bank-sovereign nexus), and strengthening the banking sector are particularly important to support Chad's stabilization and reform efforts. In this regard, the December 2017 Report on the Common Policies of CEMAC Member Countries noted the appropriateness of the regional policy response to the crisis and the progress made in achieving the regional reserves objectives.

A. Medium Term Macroeconomic Outlook

18. The macroeconomic outlook continues to be shaped by a gradual recovery in oil production and the projected improvement in the fiscal position (Text Figure 2). Relative to the projections at the time of the June 2017 program request, oil production and exports for 2017 have been revised significantly down (see paragraph 4). Oil production is expected to increase in 2018 and 2019 but will reach levels lower than initially projected, due to delays in implementing new extraction technologies by the second largest producer. However, higher oil prices (relative to those assumed in June) together with the reduction in the quality discount applied to Chadian oil will help increase oil revenues. The impact of lower production on government oil revenues in 2018 and 2019 is expected to only be partially offset by higher oil prices but it is not likely

Text Figure 2. Chad: Oil Production and Gross Oil Revenues, 2017-2021



Sources: Chadian authorities and IMF staff calculations.

to spillover to the non-oil sector (Text Table 1), as government spending is projected to remain broadly unchanged. On this basis, non-oil GDP is expected to start to recover in 2018.

Text Table 1. Chad: Medium-Term Projections
(In percentage of non-oil GDP, unless otherwise indicated)

	2015	2016	2017		2018		2019		2020		2021	
	Prel.	Prel.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
Real GDP growth (percent per year)	1.8	-6.4	0.6	-3.1	2.4	3.5	3.1	2.8	3.9	6.8	3.6	4.8
Oil	32.1	-8.4	3.0	-16.2	6.1	15.7	5.8	4.4	5.4	22.6	1.7	8.4
Non-oil	-2.9	-6.0	0.1	-0.5	1.6	1.4	2.6	2.5	3.6	3.7	4.0	4.0
Current account balance, including official transfers (percent of GDP)	-12.3	-9.2	-2.2	-5.2	-3.2	-4.3	-3.5	-5.5	-3.3	-4.9	-3.5	-4.9
Government revenue and grants	17.1	14.9	19.9	16.1	19.2	18.5	19.2	17.5	19.5	18.6	19.0	18.3
Oil revenue[1]	4.9	3.5	6.4	4.1	6.5	5.4	6.3	5.0	6.2	5.8	6.1	5.7
Non-oil revenue	8.3	8.4	8.1	8.1	8.4	8.2	8.8	8.7	9.4	9.2	9.8	9.6
Grants	3.9	3.0	5.4	3.9	4.3	4.8	4.1	3.8	3.8	3.6	3.1	2.9
Total expenditure (commitments basis)	22.9	18.0	18.8	17.8	18.5	17.9	18.7	18.1	18.2	18.2	17.5	17.9
Current expenditure (except. interests)	13.5	11.7	11.2	11.4	11.1	11.0	11.0	11.0	10.9	10.9	10.5	10.5
Investment	7.3	3.7	4.7	4.5	5.3	5.5	6.0	5.9	6.1	6.0	6.2	6.2
of which: Domestically financed investment	*4.4*	*1.1*	*1.4*	*0.9*	*1.7*	*1.7*	*2.1*	*2.0*	*2.2*	*2.1*	*2.2*	*2.2*
Overall fiscal balance (commitment basis)	-5.8	-3.0	1.1	-1.7	0.7	0.6	0.5	-0.6	1.3	0.4	1.5	0.3
Non-oil primary balance (commitment basis, excl. grants)	-9.7	-4.4	-4.6	-4.2	-4.3	-4.5	-4.2	-4.2	-3.6	-3.8	-2.8	-3.0
Memorandum item:												
Chadian crude oil price (US$/barrel)	39.9	36.2	50.4	49.4	49.9	60.7	49.0	56.7	48.9	54.0	49.5	52.6

[1] Oil revenue net of cash calls and transportation costs, before Glencore debt service

19. The September 2017 restructuring of all BEAC debt is expected to lead to significant flow relief. Existing balances were converted into long-term securities (with grace period of 4 years and maturity of 14 years). This represent a significant flow relief, particularly during 2019-21 (CFAF 48 billion a year or about 0.75 percent of GDP).

20. The AIP to restructure the Glencore debt is expected to generate the necessary financing for the program and bring all debt burden indicators below their respective thresholds starting in 2018 including under downside oil price scenarios. The debt sustainability analysis, which reflects the AIP, shows that external debt is expected to remain sustainable with all external debt burden indicators below the relevant LIC DSF thresholds throughout the projection horizon. However, given that the final agreement has not been signed and external arrears remain outstanding, staff considers that debt remains in distress at this time. Once the final agreement with Glencore is reached and progress is made on clearing the outstanding external arrears, other things equal, staff would expect to set the risk rating at 'moderate' under the current LIC DSF methodology. Staff's simulations suggest that debt would remain sustainable even if oil prices or production were up to 30 percent lower than assumed under the program (Box 1).

Box 1. The Restructuring of the Glencore Debt [/1]

The restructuring of the Glencore debt has been a key element of the authorities' strategy to (i) reestablish external debt sustainability, by reducing the debt service to revenue to below the LIC DSF threshold, and (ii) ensure that the Fund-supported program is fully financed. An agreement in principle to restructure the debt was reached on February 23, 2018. This box provides staff's analysis of the effect of the restructuring on debt sustainability and on government revenues.

The Glencore debt consists of loans contracted in 2013 and 2014, which were consolidated and rescheduled in December 2015 for a total value of $1.488 billion. The rescheduling provided temporary relief, but added to the burden of debt including because of high restructuring fees. The debt has been serviced from the proceed of Government exported oil sold by Glencore. In 2016 and 2017, debt service represented about 90 percent of the value of exported oil. Without restructuring, it would have reached 95 percent in 2018 and 2019.

Relative to the December 2015 debt contract, the agreement in principle to restructure the debt provide significant relief to Chad. It

- Includes a large extension of maturity, a reduction in interest rate, and a significant reduction in restructuring fees.
- Requires that only part of government oil be used for debt service.
- Includes mechanisms to accelerate/decelerate debt service depending on the availability of oil receipts. This feature provides protection to debt sustainability under downside scenarios.

Staff's analysis shows that under the ECF program arrangement baseline assumptions, the debt dynamics improves considerably. In particular, the debt service to revenue declines from 23.7 percent in 2017 to 13.2 percent in 2018. Over the medium term, the debt service to revenue increases but remains firmly below the LIC DSF threshold of 18 percent. The PV of debt also declines by about 4 percent.

Reflecting the contingencies included in the new debt contract, debt sustainability is preserved under downside scenarios. The debt service to revenue ratio consistently remains under the threshold under reasonable lower oil price, lower oil production, or higher interest rate scenarios (holding other variables constant in all cases). A single breach happens under an extreme oil price shock (30 percent below the baseline). The PV of the debt is also lower than the no restructuring scenario under various oil price assumptions.

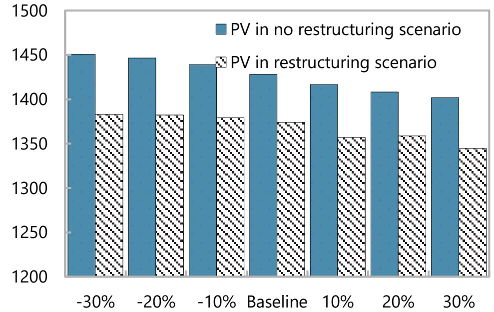
The flow of oil resources to the government is also significantly larger under the AIP. For the next three years, average oil proceeds (net of operation and transportation costs) after Glencore debt service is estimated around $350 million ($60 million without restructuring). Even with prices 30 percent lower than the baseline, these proceeds would be about $200 million ($-112 million without restructuring).

[1/] Prepared by Moez Ben Hassine and Samuel Delepierre.

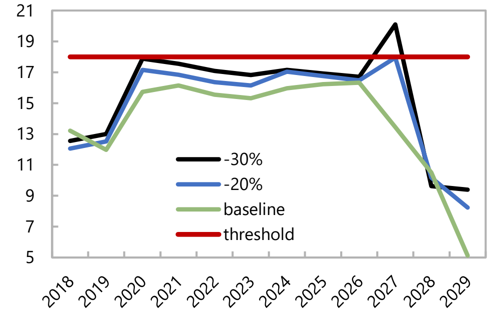
Box 1. The Restructuring of the Glencore Debt (concluded)

Chad: Impact of Debt Restructuring

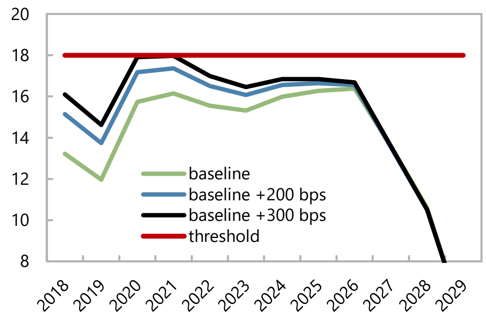
Present Value of Debt under various Price Scenarios (Million US$)



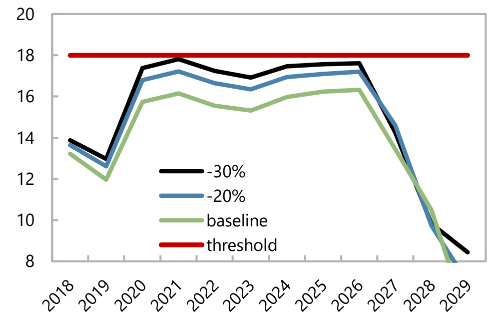
Debt Service to Revenue Ratios under downside Price Scenarios (Percent)



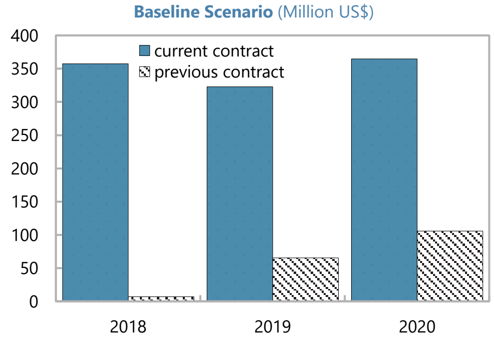
Debt Service to Revenue Ratios under higher LIBOR Scenarios (Percent)



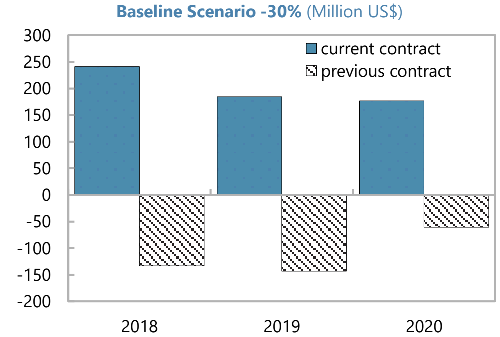
Debt Service to Revenue Ratios under downside Production Scenarios (Percent)



Net Oil Proceeds after Glencore Debt Service in the Baseline Scenario (Million US$)



Net Oil Proceeds after Glencore Debt Service in the Baseline Scenario -30% (Million US$)



Sources: Chadian authorities and IMF staff calculations.

21. The current account deficit is expected to widen significantly in the near term before gradually improving over the medium term as oil exports pick up. Oil export receipts have been revised down each year during 2017-21. In addition, import projections have been revised up particularly to reflect planned increases in oil capital expenditure. The higher trade deficit is partially offset by improvement in the financial account balance, mainly due to higher foreign direct investment and lower external debt amortization, and an improvement in the income balance. While the delay in concluding the first review affected Chad's ability to contribute to the regional reserves position. It is expected that Chad would contribute positively to it starting in 2018.

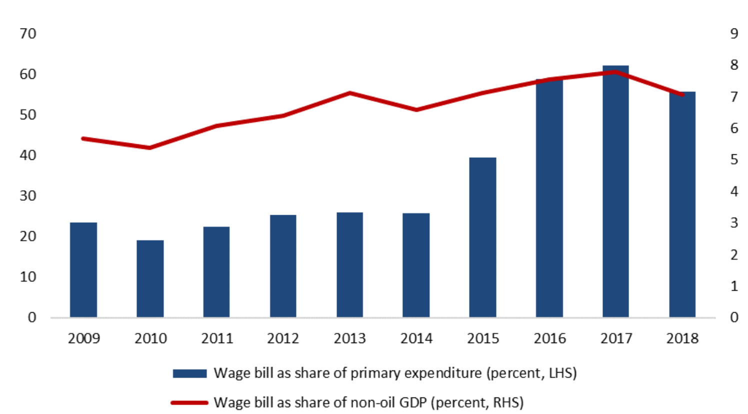
22. The delay in the Glencore debt restructuring, originally expected in September 2017, is not likely to have a significant impact on the outlook. For 2017, while debt service continued until the end of year (three months more than assumed), total debt service to Glencore in 2017 remained close to the level projected at the time of the program approval because of lower oil revenue and efforts by the authorities to limit payments since May 2017. However, the delay led to a postponement of the first ECF arrangement review as well as delays in the disbursement by some donors, which resulted in about CFAF 40 billion accumulation of recognized domestic arrears broadly equal to about 0.8 percent of non-oil GDP. This is estimated to have had only a temporary impact on growth in 2017, with little expected spillover into 2018. For early 2018, no payment was made to Glencore during the negotiation period.

B. Fiscal Policy for 2018 and the Medium Term

23. The 2018 budget and medium term fiscal plan remain focused on stabilizing the fiscal position and supporting non-oil activity. The authorities are committed to continue the tight spending control and focus on redirecting resources to social sectors and public investment. They also aim to pay down arrears to suppliers and debt owed to domestic banks. At the same time, efforts to raise non-oil revenue will need to be sustained to ensure a steady and reliable source of income.

24. Controlling the wage bill will be key to preserve the fiscal position (MEFP ¶21 and Text Figure 3). The tense social situation and the delicate state of security in Chad and the region have complicated the authorities' efforts to control the wage bill. While all categories of spending have been dramatically reduced over the past few years, the wage bill continued to increase (by about 3.5 percent on average in nominal terms between 2014 and 2017), resulting in a much larger weight, both in non-oil GDP and primary expenditure. Recognizing

Text Figure 3. Chad: Annual Wage Bill, 2009-18



Sources: Chadian authorities, BEAC and IMF staff calculations.

the need to control it, following demonstrations and strikes by civil servants the authorities reached an agreement with labor unions to help ensure the necessary reduction in the overall wage bill in 2018.[2] In addition, they plan to build on these measures to keep the wage within the budgeted envelop for the year. This includes measures to (i) further eliminate ghost workers, civil servants that reached retirement age, and those that are under age; (ii) update the payroll file with comprehensive information for each civil servant to ensure benefits and bonuses are only paid to eligible recipients; (iii) improve the budgeting and monitoring of the wage bill; and (iv) implement the recommendations of the planned audit of diplomas of the civil service in 2018. These measures are detailed in the action plan to improve the management of the wage bill. The wage bill in January saw a sharp decline after significant cuts in bonuses and benefits which triggered a spike in social unrest.

25. The 2018 budget incorporates new measures to improve non-oil revenue mobilization. It includes plans not to renew some exemptions expiring in 2018 (notably in the construction, energy and hotel sectors), and to reform the personal income tax system to improve its progressivity. In addition, customs revenues are expected to increase following the opening of a security corridor with Niger and Nigeria. While the establishment of the single window in Ngueli has been delayed, the authorities are making an effort to improve the efficiency of collection.

26. Reliance on domestic financing will be further reduced in 2018 (Text Figure 4 and 5). In addition to paying maturities related to non-securitized debt, the authorities plan to repay at least 10 percent of maturing treasuries amounting to about CFAF 300 billion. This amount is larger than projected at the time of the program request because a significant share of securities maturing in 2017 were rolled over into short term securities that mature in 2018. Given the importance of reducing the liquidity pressures on domestic banks, the authorities will aim to use a share of any additional budgetary resources to further reduce its debt toward domestic banks. At the same time, the arrears of publics enterprises, particularly in the cotton sector, are undermining economic recovery and adding to banking vulnerabilities. Given the critical economic and social benefits of the sector, the authorities are considering ways to clear these arrears while ensuring that the objectives of the program are met.

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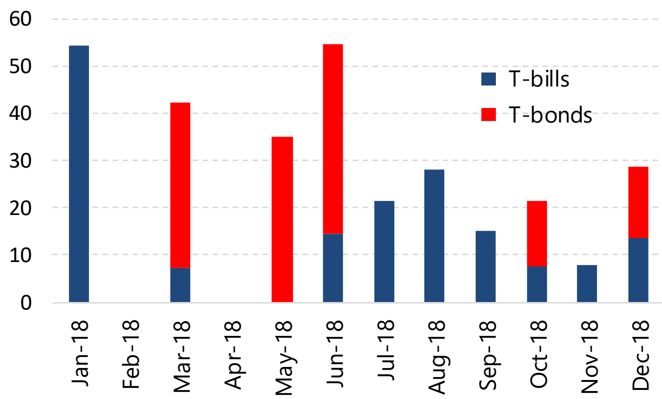
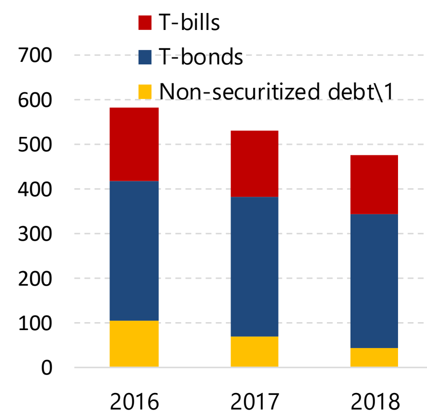
[2] The agreement includes reversing a decision not to pay the salaries of civil servants who have been on strike longer than permitted by law and providing relief to civil servants through a three months moratorium on paying their debt service to commercial banks. While this last measure is likely to impact banks, the impact is expected to be limited given that payment of salaries to striking civil servants will help with the liquidity position of banks, and the measure to delay debt service to banks does not apply to overdraft facilities which are used extensively by civil servants.

Text Figure 4. Chad: T-bills and T-bonds Maturities, 2018
(CFAF billion)



Text Figure 5. Chad: Domestic Debt
(Excluding BEAC, CFAF billion)



1/ Excludes non-bank external debt denominated in CFAF.

Sources: Chadian authorities, BEAC and IMF staff calculations.

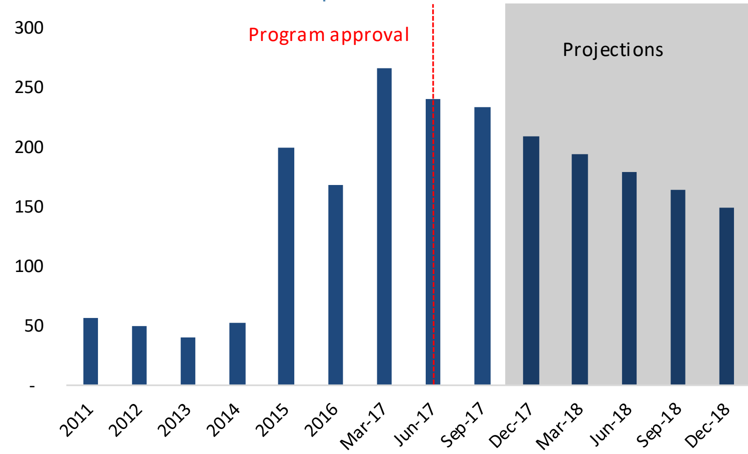
27. Domestic arrears repayment will be gradual and in line with resource availability (Text Figure 6). Given that recognized domestic arrears increased in 2017 (rather than declined as programed) partly due to delays in external budget support, for 2018, the authorities will aim to pay a larger amount than initially agreed. The payments will be prioritized based on their economic and social impact, and the effect they are expected to have on the banking sector. A comprehensive repayment strategy based on the results of the audit of domestic arrears is expected to be adopted by the end of October 2018 (new SB), which will pave the way for the clearance of yet unrecognized arrears in line with resource availability.

C. Tax and Customs Reforms

28. Improvement in non-oil tax revenue requires strong tax and customs reforms on several fronts (MEFP ¶26-27). Despite some early signs of improvement in non-oil tax performance, the yield of the tax system remains weak and potential for improvement is high. The authorities will therefore continue to pursue measures to improve the control of transit operations and the value of imports. Regarding other non-oil tax revenues, efforts are underway to (i) strengthen core tax administrations functions such as tax registration and identification of new taxpayers, (ii) modernize and simplify the tax filling payment procedures, and (iii) increase and better secure excise revenues.

Text Figure 6. Chad: Stock and Planned Payment of Recognized Domestic Arrears[1]

(End of period, CFAF billion)



Sources: Chadian authorities, and IMF staff projections.

1/ These amounts only include recognized arrears from the "*Reste à Payer*" and not unrecognized arrears which are to be audited.

29. A key priority for the medium term is to widen the tax base. In this regard, the authorities plan to publish a list of all tax exemptions (new SB) and identify ones that could be removed. Reducing exemptions, starting with VAT and PIT that are in violation of CEMAC directives is a priority and is likely to generate important gains. Technical assistance will be necessary to support all these efforts.

D. Financial Sector Policies

30. Efforts are underway to address the liquidity problems faced by some Chadian banks. While the tightening of monetary policy at the regional level in 2017 is expected to have a limited impact on banks (due to limited monetary transmission), those holding large government securities are under liquidity pressures as the limit on BEAC refinancing has been reached. In addition to the authorities' efforts to pay down its domestic debt to banks and arrears (to suppliers whose loans at banks are nonperforming), the ongoing modernization of the BEAC monetary policy framework, including the introduction of the new emergency liquidity mechanism, is expected to help ease liquidity pressures on qualifying banks.

31. Nonetheless, public banks continue to face vulnerabilities, and strengthening their financial position is key to preserve stability and support a sound economic recovery (MEFP ¶34-35). The two main public banks are solvent and operational, but it is important to identify and remedy underlying weaknesses that have recently increased their vulnerabilities (including in the areas of risk assessment and reporting, risk concentration, governance, and strategic planning). The authorities plan to build on the assessment of one of the banks recently done by the COBAC by reviewing the banks' strategies and preparing a reorganization plan. They will appoint an external consultant to identify specific actions in this regard and aim to have the consultant's report ready by end-January 2019 (new SBs). The authorities plan to finalize (with support from IMF staff) the terms of reference for the consultants by end-May 2018 (new SB) and hire the consultants by end-July 2018 (new SB).

E. Public Financial Management and Other Structural Reforms

32. Public financial management reforms remain a priority for the authorities, and aim at further improving the spending chain, strengthening the cash management system and public debt management (MEFP ¶28-33). Improving the expenditure chain will help prevent new domestic arrears accumulation. Efforts will need to be redoubled to ensure that spending through emergency procedures (DAO) are regularized in a timely manner, and to enhance the use of computerized systems. The cash plan committee is focusing on developing a more accurate cash management framework, which will support the efforts to develop a feasible arrears clearance plan.

33. The authorities launched the 2017-21 National Development Plan (NDP) in September 2017 (Box 2). Its main objective is to diversify the economy and achieve sustainable inclusive growth by improving the business environment and developing value chains in the non-oil sectors. It includes plans to develop the agriculture and livestock sectors through better infrastructure, improved business environment, and greater financial inclusion. In addition, the plan aims to improve access to health, education, clean water, and sanitation, while strengthening social security. The NDP, developed within an inclusive domestic consultative process, was discussed at the financing roundtable in Paris in September 2017. The authorities consider the fight against corruption an important element to support economic activity. As such, they are committed to ratify the United Nations Convention Against Corruption (UNCAC) by end-June 2018 (new SB). Moving forward, staff will consider steps to help effectively implement the Convention to support the program's objectives.

34. An NDP monitoring committee was established and plans to prepare and publish annual and mid-term follow-up reports. While the Paris roundtable generated significant interest from external partners and private sector investors, implementation will likely be challenging given the difficult economic and governance environment. It is therefore very important that implementation be accompanied by transparent monitoring to help maintain the engagement of external partners and investors. The authorities should also limit all external borrowing and provision of guarantees to concessional terms given the remaining fiscal and debt vulnerabilities.

Box 2. Economic Development Document (EDD), 2017–21

Chad published its EDD (the National Development Plan) in June 2017. The EDD is the fourth poverty reduction strategy (PRS) for Chad, following the ones for 2003-06, 2008-11, and 2013-15. It builds on the government's long-term economic and social programs (Vision 2030), on the Millennium Development Goals, and the Agenda 2063 of the African Union, and on the achievements and implementation challenges of Chad's previous PRS documents. While good progress was achieved under several fronts under the PRS 2013-15, much remains to be done to reduce poverty and foster inclusive growth, including in the areas of infrastructure (e.g., in the transportation and the energy sectors), the business environment, education, social protection, and environment protection (e.g., land and water management).

To address these challenges, the EDD details four strategic objectives: (i) strengthening national unity, (ii) promoting good governance, (iii) implement policies to diversify the economy, and (iv) improving the quality of life of the population. The EDD recognizes that promoting good governance will involve the use of incentives to improve public administration, strengthening the budget process, increasing the efficiency of public spending and improving the business and investment environment. On the issue on economic diversification, the EDD acknowledges that the average growth rate over the last 5 years was insufficient to contribute to durable reductions in poverty and unemployment. It stresses the role of private and public investment and revenue mobilization in achieving higher economic growth. To achieve this, the EDD targets an increase in tax revenue through broadening the tax base, improving tax collection and encouraging compliance. On improving the quality of life, the EDD proposes to address risks stemming from climate change and improve social protection, including by improving the resilience of agriculture and other livelihoods to climatic adversity.

The principles and strategies underlying the EDD are broadly in line with the current ECF arrangement, which aims to stabilize the fiscal position and help achieve a durable economic recovery.

PROGRAM MODALITIES, SAFEGUARDS AND RISKS

35. Firm financing assurances are in place for the next 12 months, with good prospects for the rest of the program. Budget support from the WB and EU initially planned in 2017 is expected to be disbursed shortly in 2018. Firm commitments are in place from these and other donors (France and African Development Bank) covering the next 12 months. This along with the exceptional financing expected from the AIP to restructure the Glencore debt, would ensure that the program is fully financed. The authorities are making good faith efforts to reach a collaborative agreement with their private creditors to whom they have accumulated external arrears.

Text Table 2. Chad: Donor Financing
(Million US$)

	2017	2018	2019	2020	2021
Budget support	**208**	**275**	**163**	**153**	**80**
World Bank	65	…	…	…	…
European Union	21	…	…	…	…
African Development Bank /1	65	…	…	…	…
France	56	…	…	…	…
IMF financing	**49**	**153**	**82**	**41**	**0**
percent of quota	*25*	*75*	*40*	*20*	*0*

Sources: Chadian authorities and IMF staff.
1/ Disbursement from the AfDB for 2017 was made in January 2018.

36. Staff and the authorities reached understandings on new PCs for end-June and end-December 2018, indicative targets, and 6 new SBs (MEFP). Variation in external flows (budget support, exceptional receipts, and oil revenue) would be accommodated through adjustments to domestic financing, the non-oil primary balance, and the payment of domestic arrears. New SBs aim to strengthen banking sector resilience, improve revenue mobilization, and accelerate arrears clearance. The authorities request to replace the structural benchmark on the establishment of a new special anti-corruption court with a benchmark on the ratification of the UNCAC. Staff considers this to be an adequate step to subsequently build on in the fight against corruption.

37. The AIP to restructure the Glencore debt restructuring has removed a major source of vulnerability, but the program and outlook remain subject to risks. While the authorities remain strongly committed to stabilize the fiscal position, overruns in the wage bill could undermine these efforts. In addition, a further deterioration in the liquidity position of banks presents a risk given that it could undermine the rollover of domestic public debt. Pressure to borrow nonconcessionally after the Glencore restructuring could grow particularly if grant and concessional financing is not forthcoming. The authorities' strong commitment to the program is an important mitigating factor to these risks. Developments in the international oil market continue to pose both upside and downside risks to the outlook, although the contingencies integrated in the AIP help alleviate the impact of lower oil prices. Finally, further security tensions in the region could lead to an escalation in military operations which could weigh on the budget.

38. Staff considers that the assessment of regional policies made in December remains valid. Since then, in line with policy assurances set in the Letter of Policy Support for the Recovery and Reform Program adopted by the CEMAC Member Countries (June 2017) and in its follow-up letter (December 2017): (i) BEAC's statutory advances were eliminated, ending monetary financing of CEMAC members' budgets (the BEAC charter was amended in March 2018), and existing balances were converted into long-term loans with only a minor delay from the end-2017 target; (ii) a new emergency liquidity assistance framework was adopted (end-2017); (iii) the reform of the monetary policy framework and implementation marked an important milestone with the replacement of national ceilings on government securities accepted as collateral for refinancing operations with a discount system reflecting sovereign credit risk (from April 1, 2018), paving the way for the calibration of monetary policy operations on the basis of forecasts of autonomous liquidity factors in the coming weeks; and (iv) the regional authorities have been continuously sharing weekly and monthly indicators with IMF staff. Moreover, based on preliminary data, the accumulation target for regional net foreign assets at end-2017 ("around €0.3 billion") was met, reflecting fiscal adjustment efforts by CEMAC countries supported by a tighter monetary policy stance of BEAC. Beyond these assurances, broader regional policies will be assessed in the next union-wide background paper, which is expected to be discussed by the Board in June.

39. Chad's capacity to repay the Fund remains adequate. Outstanding obligations to the IMF based on existing and prospective drawings would peak at 3.4 percent of GDP and 12.1 percent of exports of goods and services in 2019, while annual repayments will peak at 0.4 percent of GDP and 4.9 percent of tax revenue in 2025 (Table 11).

40. A full safeguards assessment under the four-year cycle for regional central banks was completed in August 2017. The assessment noted the positive steps taken by the BEAC to complete amendments to its' Charter to strengthen governance provisions and plans to strengthen financial reporting transparency.[3]

STAFF APPRAISAL

41. After two years of significant contraction, some signs of stabilization are emerging although the economic and financial situation remains fragile. While oil production declined significantly in 2017 due to technical problems for one of the main oil operators, non-oil economic activity is estimated to have stabilized in the second half of the year. Liquidity pressures continued, primarily because of delays in donor support linked to the delay in restructuring the Glencore debt, and affected the ability of the government to pay down arrears.

42. Performance under the ECF arrangement has been satisfactory, reflecting strong commitment by the authorities. All end-June performance criteria (PC), and most end-September ITs, notably the non-oil primary balance which is the fiscal anchor for the program, were met, although small external arrears accumulated. Progress is underway on the structural reform agenda, but the pace of implementation should be accelerated.

43. The AIP to restructure the Glencore debt is expected to generate the necessary financing for the program and firmly reestablish external debt sustainability. It includes significantly longer maturity, a lower interest rate, and mechanisms to adjust debt service when oil receipts vary around the baseline. This mechanism helps safeguard debt sustainability when oil receipts decline.

[3] See Staff Report on Common Policies of CEMAC Member Countries, November 2017.

44. For 2018 and beyond, the fiscal strategy remains focused on stabilizing the fiscal position and supporting non-oil activity. The authorities have shown strong commitment to better manage the wage bill and should stay on the course they have set to control it. This would allow them to design and more effectively implement fiscal policy to meet the needs of all Chadians, and to reduce the large stock of domestic arrears. The success of the fiscal strategy also hinges on improving non-oil revenue. Important reforms in this regard are included in the 2018 budget. The authorities should continue their efforts to reduce exemptions and reform the tax system, while modernizing customs and tax administrations. PFM reforms should also remain a priority for the authorities to further improve the spending chain, limit the use of emergency spending procedures, and strengthen the cash management system.

45. The vulnerabilities of the banking sector require close attention and action. The recession and the deterioration of fiscal situation have taken a toll on some domestic banks, notably on portfolio quality and the liquidity position. It is therefore critical for the authorities to build on the assessment recently done by the COBAC by reviewing the banks' strategies and preparing a reorganization plan to preserve their important role in the economy. Efforts to pay domestic arrears and a reduce domestic debt (as planned under the program) should help ease liquidity pressures on banks.

46. Based on Chad's performance under the program, the AIP to restructure the Glencore debt, and the adequate implementation of the regional policy assurances, staff recommends the completion of the first review under the ECF arrangement and the financing assurances review. Staff also support the authorities' request for a waiver of nonobservance of a PC, on the basis of the authorities' actions to clear those arrears and prevent the accumulation of further arrears, and for the rephasing. Staff proposes that completion of the second review be conditional on the implementation of critical policy measures at the union level, which will be established in the forthcoming union-wide background paper.

47. Risks to the program have declined significantly following the AIP to restructure the Glencore debt, but remain high. Policy risks are mainly related to overruns in the wage bill, delays in strengthening the position of banks which could affect the ability of the government to finance itself, and excessive resort to nonconcessional external financing. Exogenous factors, such as lower oil prices, worsening security, and social tension could also weigh down on the outlook. The authorities' strong commitment to the program, demonstrated repeatedly including under very difficult conditions, provide a good mitigating factor to these risks.

Table 1. Chad: Selected Economic and Financial Indicators, 2015–21

	2015	2016	2017		2018		2019		2020		2021	
	Prel.	Prel.	Prog. [1]	Proj. [2]	Prog. [1]	Proj. [2]	Prog. [1]	Proj. [2]	Prog. [1]	Proj. [2]	Prog. [1]	Proj. [2]
	(Annual percentage change, unless otherwise indicated)											
Real economy												
GDP at constant prices	1.8	-6.4	0.6	-3.1	2.4	3.5	3.1	2.8	3.9	6.8	3.6	4.8
Oil GDP	32.1	-8.4	3.0	-16.2	6.1	15.7	5.8	4.4	5.4	22.6	1.7	8.4
Non-oil GDP	-2.9	-6.0	0.1	-0.5	1.6	1.4	2.6	2.5	3.6	3.7	4.0	4.0
GDP deflator	-8.0	-1.2	0.1	-0.9	1.7	2.2	2.3	2.5	3.1	3.0	3.0	3.0
Consumer price index (annual average) [3]	6.8	-1.1	0.2	-0.9	1.9	2.1	2.4	2.6	3.0	3.0	3.0	3.0
Oil prices												
WEO (US$/barrel) [4]	50.8	42.8	55.2	52.8	55.1	62.3	54.1	58.2	54.0	55.6	54.4	54.1
Chadian price (US$/barrel) [5]	39.9	36.2	50.4	49.4	49.9	60.7	49.0	56.7	48.9	54.0	49.5	52.6
Oil production for exportation (millions of barrels)	47.5	44.4	46.0	35.9	49.0	39.1	52.0	41.1	55.0	52.1	56.0	57.1
Exchange rate CFAF per US$ (period average)	591.2	592.7	...	...	...	...	...	...	...	...	...	...
Money and credit												
Net foreign assets	-40.3	-38.2	8.9	0.5	1.9	8.5	6.2	5.2	9.4	9.3	...	9.8
Net domestic assets	35.6	30.5	-3.2	-1.4	5.5	-0.9	1.6	2.6	-0.6	-2.2	...	-2.8
Of which : net claims on central government	32.2	26.5	-3.9	-4.4	3.3	2.2	-0.1	0.4	-1.5	-4.5	...	-4.6
Of which : credit to private sector	1.1	-2.7	0.7	-1.7	2.2	1.7	1.7	2.2	0.9	2.3	...	1.8
Broad money	-4.7	-7.7	5.8	-0.9	7.4	7.6	7.8	7.8	8.7	7.1	...	7.0
Velocity (non-oil GDP/broad money) [6]	5.0	5.1	4.8	5.1	4.6	5.0	4.5	4.8	4.4	4.8	...	4.8
External sector (valued in US dollar)												
Exports of goods and services, f.o.b.	-34.0	-15.4	29.4	10.5	5.7	26.5	4.6	0.9	5.7	16.0	4.0	6.5
Imports of goods and services, f.o.b.	-23.7	-15.3	3.8	2.9	3.8	20.7	4.8	3.2	5.0	9.8	3.1	4.9
Export volume	29.2	-3.9	1.0	-15.0	5.8	7.3	5.6	5.1	5.1	20.3	1.9	7.9
Import volume	-21.8	-10.4	1.0	1.6	2.0	18.7	3.1	1.7	3.6	8.3	1.4	3.1
Overall balance of payments (percent of GDP)	-6.4	-8.6	-0.5	-0.8	-2.0	1.5	-1.2	0.5	-0.7	1.0	0.4	1.1
Current account balance, including official transfers (percent of GDP)	-12.3	-9.2	-2.2	-5.2	-3.2	-4.3	-3.5	-5.5	-3.3	-4.9	-3.5	-4.9
Terms of trade	-47.7	-6.9	24.7	28.3	-1.8	16.0	-2.6	-5.4	-0.8	-4.9	0.4	-3.0
External debt (percent of GDP) [7]	25.0	27.1	28.6	27.2	27.8	26.0	26.3	25.4	24.2	23.0	22.1	20.7
NPV of external debt (percent of exports of goods and services)	98.5	97.2	73.0	88.7	69.0	76.4	65.0	78.4	60.0	67.4	55.7	62.0
	(Percent of non-oil GDP, unless otherwise indicated)											
Government finance												
Revenue and grants	17.1	14.9	19.9	16.1	19.2	18.5	19.2	17.5	19.5	18.6	19.0	18.3
Of which : oil revenue	4.9	3.5	6.4	4.1	6.5	5.4	6.3	5.0	6.2	5.8	6.1	5.7
Of which : non-oil revenue	8.3	8.4	8.1	8.1	8.4	8.2	8.8	8.7	9.4	9.2	9.8	9.6
Expenditure	22.9	18.0	18.8	17.8	18.5	17.9	18.7	18.1	18.2	18.2	17.5	17.9
Current	15.6	14.2	14.0	13.3	13.3	12.4	12.7	12.2	12.1	12.2	11.3	11.7
Capital	7.3	3.7	4.7	4.5	5.3	5.5	6.0	5.9	6.1	6.0	6.2	6.2
Non-oil primary balance (commitment basis, excl. grants) [8]	-9.7	-4.4	-4.6	-4.2	-4.3	-4.5	-4.2	-4.2	-3.6	-3.8	-2.8	-3.0
Overall fiscal balance (incl. grants, commitments basis)	-5.9	-3.0	1.1	-1.7	0.7	0.6	0.5	-0.6	1.3	0.4	1.5	0.3
CEMAC reference fiscal balance (in percent of GDP) [9]				-0.2		-0.8		-1.3		-0.7		-0.4
Total debt (in percent of GDP) [7]	43.3	51.2	50.5	52.5	47.7	48.1	44.8	45.4	41.1	41.7	38.2	38.6
Of which : domestic debt	18.3	24.0	21.9	25.4	19.9	22.1	18.5	20.0	16.9	18.8	16.1	17.9
Memorandum items:												
Nominal GDP (billions of CFA francs)	6,474	5,984	6,023	5,747	6,271	6,077	6,618	6,403	7,094	7,041	7,569	7,602
Of which: non-oil GDP	5,184	4,838	4,843	4,829	5,006	5,005	5,257	5,264	5,616	5,604	6,021	5,996

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

[1] Program numbers reflect a no-restructuing scenario.

[2] Projections reflect the agreement in principal to restructure the Glencore debt.

[3] 2017 inflation rate reflects the authorities' data using the year 2014 as a base year.

[4] WEO simple average of crude oil price.

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

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

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

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

[9] The CEMAC reference fiscal balance is calculated as the overall fiscal balance miuns the savings from oil revenue, which is the sum of 20 percent of oil revenue of the current year and 80 percent of the oil revenue in excess of the average oil revenues in the previous three years.

Table 2. Chad: Fiscal Operations of the Central Government, 2015–21

(In billions of CFAF, unless otherwise indicated)

	2015	2016	2017		2018		2019		2020		2021	
	Prel.	Prel.	Prog.	Proj.[1]	Prog.	Proj.[1]	Prog.	Proj.[1]	Prog.	Proj.[1]	Prog.	Proj.[1]
Total revenue and grants	884	722	962	778	964	927	1,008	922	1,094	1,043	1,145	1,095
Revenue	682	576	701	591	748	685	795	724	878	843	960	919
Oil[2]	254	171	311	200	327	273	330	264	348	325	367	342
Non-oil	428	405	390	391	421	412	465	460	530	518	592	578
Tax	407	339	354	345	396	387	438	434	502	490	562	548
Non-tax	22	66	37	47	25	25	26	26	28	28	30	30
Grants	202	145	261	187	216	242	214	198	216	200	185	176
Budget support	90	65	179	105	117	154	101	85	95	79	50	41
Project grants	112	81	82	82	99	88	113	113	121	121	135	135
Expenditure	1,187	869	909	861	927	895	982	953	1,022	1,020	1,055	1,075
Current	811	689	679	642	664	621	669	644	681	682	679	701
Wages and salaries	369	365	348	377	354	354	359	359	363	363	367	367
Goods and services	93	96	85	82	88	87	97	97	112	112	120	119
Transfers and subsidies	240	108	109	91	113	112	123	123	135	135	145	145
Subsidies and non-security transfers	199	68	…	…	…	…	…	…	…	…	…	…
Exceptional security	41	40	45	0	45	0	45	0	45	0	…	…
Interest	109	121	137	92	109	68	90	66	71	73	46	71
Domestic	13	12	42	33	36	26.5	33	18	33	25	32	28
External	96	109	96	59	73	41	58	47	38	48	14	43
Memo: Glencore loan (after restructuring)				*51*		*29*		*34*		*35*		*30*
Investment	377	180	230	218	263	274	313	310	341	339	376	375
Domestically financed	231	51	69	43	83	83	108	105	121	119	131	130
Foreign financed[3]	146	129	161	176	180	191	205	205	220	220	245	245
Overall balance (incl. grants, commitment)	-303	-147	53	-83	37	32	26	-32	72	22	90	20
Non-oil primary balance (excl. grants, commitment)[4]	-504	-214	-221	-202	-218	-224	-222	-223	-201	-210	-171	-182
Float from previous year[5]	-181	-103	-95	-80	-75	-10	-78	-48	-81	-75	-83	-84
Float at end of period[5]	103	80	75	10	78	48	81	75	83	84	89	96
Var. of Arrears[6]	148	-32	-30	41	-40	-60	-40	-50	-20	-20	-10	-20
Repayment of other arrears[7]		-51					-10	-10	-10	-10	-20	-20
Overall balance (incl. grants, cash)	-233	-253	4	-111	0	10	-21	-65	44	1	66	-8
Non-oil primary balance (excl. grants,cash)	-434	-270	-270	-230	-255	-246	-259	-246	-219	-221	-175	-190
Financing	233	252	-111	111	-155	-9	-100	65	-168	-1	-129	8
Domestic financing	265	299	-36	31	9	-31	52	42	-1	15	-3	37
Bank financing	289	50	15	17	43	33	-6	63	-32	-29	-61	-8
Central Bank (BEAC)	292	61	15	-3	43	33	-6	63	-32	-29	-61	-8
Deposits[8]	26	-6	-5	-16	-10	-48	-5	20	-5	-48	-5	0
Advances (net)	232	30	-39	-14	-6	0	-48	0	-48	0	-48	0
IMF	34	37	59	27	59	81	47	43	21	19	-8	-8
Commercial banks (deposits)	-3	-11	0	20	0	0	0	0	0	0	0	0
Other financing (net), of which:	-48	250	-50	-39	-34	-63	58	-21	31	44	58	45
Amortization	*-234*	*-53*	*-88*	*-71*	*-178*	*-192*	*-58*	*-79*	*-138*	*-184*	*-99*	*-103*
Commercial banks loans (net)	*-32*	*-10*	*0*	*11*	*0*	*0*	*0*	*0*	*10*	*10*	*10*	*10*
Non-bank loans (gross) [9]	*9*	*60*	*20*	*20*	*25*	*28*	*28*	*30*	*28*	*32*	*30*	*35*
Treasury bills (net)	*49*	*79*	*-24*	*-26*	*-6*	*-24*	*2*	*-22*	*0*	*3*	*10*	*3*
Treasury Bonds (gross)	*139*	*174*	*41*	*27*	*125*	*125*	*86*	*49*	*132*	*183*	*107*	*101*
Privatization and other exceptional receipts	24	0	0	53	0	0	0	0	0	0	0	0
Foreign financing	-32	-47	-76	80	-164	21	-151	24	-168	-17	-126	-29
Loans (net)	-56	-104	-104	35	-187	28	-175	-1	-193	-40	-154	-52
Disbursements	34	18	145	161	56	102	64	62	71	67	81	76
Budget borrowings	0	0	87	88	0	26	0	0	0	0	0	0
Project loans	34	18	58	73	56	76	64	62	71	67	81	76
Amortization	-91	-122	-249	-127	-243	-74	-239	-64	-265	-107	-235	-128
Memo: Glencore loan (after restructuring)				-59		-14.3		-3		-42		-55
Debt relief/rescheduling (HIPC)	20	30	32	30	30	25	29	25	28	23	28	23
External arrears[10]	0	27	-4	15	-7	-32	-6	0	-2	0	0	0
Financing Gap			108	0	155	0	120	0	125	0	64	0
Memorandum items:												
Non-oil GDP	5,184	4,838	4,843	4,829	5,006	5,005	5,257	5,264	5,616	5,604	6,021	5,996
Poverty-reducing social spending	260	196	205	205		214						
Exceptional financing from the Glencore restructuring						*176*		*148*		*104*		*92*
Bank deposits (including BEAC)	97	114	119	110	129	158	134	138	139	186	144	186
(In months of domestically-financed spending)	1.1	1.9	1.9	1.9	2.1	2.7	2.1	2.2	2.1	2.8	2.1	2.7
BEAC advances[11]	455	485	454	480	449	480	401	480	353	480	305	480

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

[1]Fiscal projections reflect the agreement in principal to restructure the Glencore debt.

[2]Net of cash calls and transportation costs linked to the oil public enterprise (SHT) participation in private oil companies.

[3]Includes projects financed by the BDEAC, but the corresponding loans (in CFAF) are counted as domestic financing.

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

[5]Difference between committed and cash expenditure.

[6]Recognized arrears, as registered by the Treasury in the "restes à payer" table.

[7]Other arrears include unrecognized arrears, the total of which will be specified after the audit of arrears.

[8]Starting in 2019, government deposits at the BEAC reflect the savings from the restructuring of the BEAC advances.

[9]Bilateral or multilateral loans in CFAF (e.g. BDEAC, loan from Cameroon in 2016).

[10]27 billion in 2016 include arrears to China, cleared through an agreement in April 2017.

[11]All debt to BEAC was consolidated and rescheduled in September 2017 into long term securities.

Table 3. Chad: Fiscal Operations of the Central Government, 2015–21

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

	2015	2016	2017		2018		2019		2020		2021	
	Prel.	Prel.	Prog.	Proj.[1]	Prog.	Proj.[1]	Prog.	Proj.[1]	Prog.	Proj.[1]	Prog.	Proj.[1]
Total revenue and grants	17.1	14.9	19.9	16.1	19.2	18.5	19.2	17.5	19.5	18.6	19.0	18.3
Revenue	13.2	11.9	14.5	12.2	14.9	13.7	15.1	13.7	15.6	15.0	15.9	15.3
Oil[2]	4.9	3.5	6.4	4.1	6.5	5.4	6.3	5.0	6.2	5.8	6.1	5.7
Non-oil	8.3	8.4	8.1	8.1	8.4	8.2	8.8	8.7	9.4	9.2	9.8	9.6
Tax	7.8	7.0	7.3	7.1	7.9	7.7	8.3	8.2	8.9	8.7	9.3	9.1
Non-tax	0.4	1.4	0.8	1.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Grants	3.9	3.0	5.4	3.9	4.3	4.8	4.1	3.8	3.8	3.6	3.1	2.9
Budget support	1.7	1.3	3.7	2.2	2.3	3.1	1.9	1.6	1.7	1.4	0.8	0.7
Project grants	2.2	1.7	1.7	1.7	2.0	1.8	2.1	2.1	2.2	2.2	2.2	2.2
Expenditure	22.9	18.0	18.8	17.8	18.5	17.9	18.7	18.1	18.2	18.2	17.5	17.9
Current	15.6	14.2	14.0	13.3	13.3	12.4	12.7	12.2	12.1	12.2	11.3	11.7
Wages and salaries	7.1	7.5	7.2	7.8	7.1	7.1	6.8	6.8	6.5	6.5	6.1	6.1
Goods and services	1.8	2.0	1.8	1.7	1.8	1.7	1.8	1.8	2.0	2.0	2.0	2.0
Transfers and subsidies	4.6	2.2	2.3	1.9	2.3	2.2	2.3	2.3	2.4	2.4	2.4	2.4
Interest	2.1	2.5	2.8	1.9	2.2	1.3	1.7	1.2	1.3	1.3	0.8	1.2
Domestic	0.2	0.2	0.9	0.7	0.7	0.5	0.6	0.3	0.6	0.4	0.5	0.5
External	1.9	2.3	2.0	1.2	1.5	0.8	1.1	0.9	0.7	0.9	0.2	0.7
Memo: Glencore loan (after restructuring)				*1.1*		*0.6*		*0.6*		*0.6*		*0.5*
Investment	7.3	3.7	4.7	4.5	5.3	5.5	6.0	5.9	6.1	6.0	6.2	6.2
Domestically financed	4.4	1.1	1.4	0.9	1.7	1.7	2.1	2.0	2.2	2.1	2.2	2.2
Foreign financed[3]	2.8	2.7	3.3	3.6	3.6	3.8	3.9	3.9	3.9	3.9	4.1	4.1
Overall balance (incl. grants, commitment)	-5.8	-3.0	1.1	-1.7	0.7	0.6	0.5	-0.6	1.3	0.4	1.5	0.3
Non-oil primary balance (excl. grants, commitment)[4]	-9.7	-4.4	-4.6	-4.2	-4.3	-4.5	-4.2	-4.2	-3.6	-3.8	-2.8	-3.0
Float from previous year[5]	-3.5	-2.1	-2.0	-1.6	-1.5	-0.2	-1.5	-0.9	-1.4	-1.3	-1.4	-1.4
Float at end of period[5]	2.0	1.6	1.5	0.2	1.6	1.0	1.5	1.4	1.5	1.5	1.5	1.6
Var. of Arrears[6]	2.9	-0.7	-0.6	0.9	-0.8	-1.2	-0.8	-0.9	-0.4	-0.4	-0.2	-0.3
Repayment of other arrears[7]		-1.0					-0.2	-0.2	-0.2	-0.2	-0.3	-0.3
Overall balance (incl. grants, cash)	-4.5	-5.2	0.1	-2.3	0.0	0.2	-0.4	-1.2	0.8	0.0	1.1	-0.1
Non-oil primary balance (excl. grants, cash)	-8.4	-5.6	-5.6	-4.8	-5.1	-4.9	-4.9	-4.7	-3.9	-3.9	-2.9	-3.2
Financing	4.5	5.2	-2.3	2.3	-3.1	-0.2	-1.9	1.2	-3.0	0.0	-2.1	0.1
Domestic financing	5.1	6.2	-0.7	0.6	0.2	-0.6	1.0	0.8	0.0	0.3	-0.1	0.6
Bank financing	5.6	1.0	0.3	0.4	0.9	0.7	-0.1	1.2	-0.6	-0.5	-1.0	-0.1
Central Bank (BEAC)	5.6	1.3	0.3	-0.1	0.9	0.7	-0.1	1.2	-0.6	-0.5	-1.0	-0.1
Deposits[8]	0.5	-0.1	-0.1	-0.3	-0.2	-1.0	-0.1	0.4	-0.1	-0.9	-0.1	0.0
Advances (net)	4.5	0.6	-0.8	-0.3	-0.1	0.0	-0.9	0.0	-0.9	0.0	-0.8	0.0
IMF	0.7	0.8	1.2	0.6	1.2	1.6	0.9	0.8	0.4	0.3	-0.1	-0.1
Commercial banks (deposits)	-0.1	-0.2	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing (net), of which:	-0.9	5.2	-1.0	-0.8	-0.7	-1.3	1.1	-0.4	0.6	0.8	1.0	0.8
Privatization and other exceptional receipts	0.5	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	-0.6	-1.0	-1.6	1.7	-3.3	0.4	-2.9	0.4	-3.0	-0.3	-2.1	-0.5
Loans (net)	-1.1	-2.2	-2.1	0.7	-3.7	0.6	-3.3	0.0	-3.4	-0.7	-2.6	-0.9
Disbursements	0.7	0.4	3.0	3.3	1.1	2.0	1.2	1.2	1.3	1.2	1.3	1.3
Amortization	-1.7	-2.5	-5.1	-2.6	-4.9	-1.5	-4.5	-1.2	-4.7	-1.9	-3.9	-2.1
Memo: Glencore loan (after restructuring)				*-1.2*		*-0.3*		*-0.1*		*-0.8*		*-0.9*
Debt relief/rescheduling (HIPC)	0.4	0.6	0.7	0.6	0.6	0.5	0.6	0.5	0.5	0.4	0.5	0.4
External arrears[9]	0.0	0.6	-0.1	0.3	-0.1	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0
Financing gap			2.2	0.0	3.1	0.0	2.3	0.0	2.2	0.0	1.1	0.0
Memorandum items:												
Non-oil GDP	5,184	4,838	4,843	4,829	5,006	5,005	5,257	5,264	5,616	5,604	6,021	5,996
Poverty-reducing social spending	5.0	4.1	4.2	4.2								
Exceptional financing from the Glencore restructuring						3.5		2.8		1.9		1.5
Bank deposits (including BEAC)	1.9	2.4	2.5	2.3	2.6	3.2	2.6	2.6	2.5	3.3	2.4	3.1
(In months of domestically-financed spending)	1.1	1.9	1.9	1.9	2.1	2.7	2.1	2.2	2.1	2.8	2.1	2.7
BEAC advances[10]	8.8	10.0	9.4	9.9	9.0	9.6	7.6	9.1	6.3	8.6	5.1	8.0

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

[1] Fiscal projections reflect the agreement in principal to restructure the Glencore debt.

[2] Net of cash calls and transportation costs linked to the oil public enterprise (SHT) participation in private oil companies.

[3] Includes projects financed by the BDEAC, but the corresponding loans (in CFAF) are counted as domestic financing.

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

[5] Difference between committed and cash expenditure.

[6] Recognized arrears, as registered by the Treasury in the "restes à payer" table.

[7] Other arrears include unrecognized arrears, the total of which will be specified after the audit of arrears.

[8] Starting in 2019, government deposits at the BEAC reflect the savings from the restructuring of the BEAC advances.

[9] 27 billion in 2016 include arrears to China, cleared through an agreement in April 2017.

[10] All debt to BEAC was consolidated and rescheduled in September 2017 into long term securities.

Table 4. Chad: Balance of Payments, 2015–21

(In billions of CFAF, unless otherwise indicated)

	2015	2016	2017		2018		2019		2020		2021	
	Prel.	Prel.	Prog.	Proj.[1]	Prog.	Proj.[1]	Prog.	Proj.[1]	Prog.	Proj.[1]	Prog.	Proj.[1]
Current account, incl. official transfers	-882	-549	-135	-301	-198	-263	-229	-352	-236	-346	-267	-371
Trade balance	34	135	531	177	594	351	624	322	651	502	677	556
Exports, f.o.b.	1,555	1,318	1,818	1,433	1,927	1,658	2,013	1,646	2,130	1,907	2,222	2,019
Of which : oil	1,191	955	1,430	1,045	1,516	1,253	1,577	1,219	1,665	1,454	1,722	1,541
Oil Export Volume (million barrel)	48	44	46	36	49	39	52	41	55	52	56	57
Doba Price (thousand CFAF)	23.7	21.5	31.1	29.1	30.9	32.1	30.3	29.6	30.3	27.9	30.7	27.0
Imports, f.o.b.	-1,521	-1,184	-1,288	-1,256	-1,333	-1,306	-1,389	-1,324	-1,479	-1,405	-1,545	-1,463
Services (net)	-1,092	-1,034	-1,115	-977	-1,163	-1,146	-1,225	-1,174	-1,266	-1,315	-1,292	-1,369
Income (net)	-282	-107	-138	-76	-176	-53	-171	-59	-166	-87	-167	-86
Transfers (net)	458	458	587	575	546	585	542	559	546	554	514	529
Official (net)	196	173	284	208	228	261	209	195	197	176	158	144
Private (net)	262	285	302	366	318	324	334	363	348	378	356	385
Financial and capital account	353	34	104	256	70	352	150	385	185	414	295	451
Capital transfers	108	77	78	78	95	84	109	109	117	117	131	131
Foreign direct investment	331	145	195	211	211	245	247	279	284	321	301	355
Other medium and long term investment	-33	-131	-117	22	-201	14	-190	-16	-208	-55	-169	-67
Public sector	-22	-119	-104	35	-187	28	-175	-1	-193	-40	-154	-52
Private sector	-11	-12	-13	-13	-14	-14	-15	-15	-15	-15	-15	-15
Short-term capital	-54	-57	-53	-55	-35	9	-16	13	-8	30	32	32
Errors and omissions	31	0	0	0	0	0	0	0	0	0	0	0
Overall balance	-498	-515	-31	-45	-128	90	-79	33	-50	68	28	80
Financing	359	421	-163	-81	-109	-163	-111	-101	-124	-110	-119	-96
Change in official reserves (decrease +)	359	421	-163	-81	-109	-163	-111	-101	-124	-110	-119	-96
IMF (net)												
Financing gap	-139	-94	-195	-126	-237	-74	-190	-68	-174	-42	-91	-16
Financing gap (percent of GDP)	-2.2	-1.6	-3.2	-2.2	-3.8	-1.2	-2.9	-1.1	-2.5	-0.6	-1.2	-0.2
Exceptional Financing	54	94	136	125	178	74	144	68	151	43	91	15
IMF ECF	34	37	0	27	0	81	0	43	0	19	0	-8
Debt relief (HIPC)	20	30	32	30	30	25	29	25	28	23	28	23
Other Exceptional Receipt			0	53	0	0	0	0	0	0	0	0
External arrears accumulation		27	-4	15	-7	-32	-6	0	-2	0	0	0
Financing Gap			108	0	155	0	120	0	125	0	63	0
Memorandum items:												
Current account (percent of GDP)	-13.6	-9.2	-2.2	-5.2	-3.2	-4.3	-3.5	-5.5	-3.3	-4.9	-3.5	-4.9
Overall Balance of Payment (percent of GDP)	-7.7	-8.6	-0.5	-0.8	-2.0	1.5	-1.2	0.5	-0.7	1.0	0.4	1.1
Exports (percent of GDP)	24.0	22.0	30.2	24.9	30.7	27.3	30.4	25.7	30.0	27.1	29.4	26.6
Of which : oil	18.4	16.0	23.7	18.2	24.2	20.6	23.8	19.0	23.5	20.7	22.7	20.3
Imports (percent of GDP)	-23.5	-19.8	-21.4	-21.9	-21.2	-21.5	-21.0	-20.7	-20.9	-20.0	-20.4	-19.2
FDI (percent of GDP)	5.1	2.4	3.2	3.7	3.4	4.0	3.7	4.4	4.0	4.6	4.0	4.7
Gross official reserves (billions of USD)	0.4	-0.3	0.0	-0.2	0.1	0.1	0.3	0.3	0.5	0.5	0.7	0.7

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

[1] Balance of payments and external debt reflect the agreement in principal to restructure the Glencore debt.

Table 5. Chad: Monetary Survey, 2015–21

(In billions of CFAF, unless otherwise indicated)

	2015	2016	2017	2018				2019	2020	2021
				Q1	Q2	Q3	Q4			
		Prel.	Prel.				Proj.			
Net foreign assets	88.6	-303.7	-299.4	-194.0	-185.0	-168.0	-219.3	-166.6	-65.5	48.4
Central bank	145.4	-302.2	-257.0	-170.0	-150.0	-130.0	-174.3	-116.6	-25.5	78.4
Foreign assets	229.4	13.0	12.5	65.0	105.0	115.0	75.7	158.4	269.5	363.4
Foreign liabilities	-84.0	-315.2	-269.6	-235.0	-255.0	-245.0	-250.0	-275.0	-295.0	-285.0
o/w. IMF financing	-37.9	-75.2	-97.3	-97.3	-124.2	-124.2	-178.0	-220.8	-240.1	-232.0
Commercial banks	-56.8	-1.5	-42.3	-24.0	-35.0	-38.0	-45.0	-50.0	-40.0	-30.0
Net domestic assets	938.5	1251.7	1238.8	1123.4	1126.0	1120.6	1230.5	1256.5	1233.0	1200.8
Domestic credit	1120.8	1365.6	1307.8	1237.4	1240.0	1234.6	1344.5	1370.5	1347.0	1314.8
Claims on the government (net)	580.0	852.3	810.9	790.0	805.0	820.0	831.4	835.2	786.5	733.4
Treasury (net)	520.2	796.6	757.2	735.0	750.0	765.0	776.4	800.2	751.5	703.4
Central bank	492.2	592.7	584.5	595.0	620.0	645.0	617.4	680.2	651.5	643.4
Claims on general government	530.0	603.9	609.5	650.0	665.0	680.0	690.3	733.0	752.3	744.2
o/w. Advances[1]	454.6	494.0	479.9	479.9	479.9	479.9	479.9	479.9	479.9	479.9
o/w. IMF financing	37.9	75.2	97.3	97.3	124.2	124.2	178.0	220.8	240.1	232.0
Liabilities to general government	-37.7	-11.2	-25.0	-55.0	-45.0	-35.0	-72.9	-52.9	-100.9	-100.9
Commercial banks	28.0	203.9	172.7	140.0	130.0	120.0	159.0	120.0	100.0	60.0
Claims on general government	177.1	331.1	263.7	250.0	240.0	230.0	250.0	250.0	230.0	190.0
Liabilities to general government	-149.1	-127.3	-91.0	-110.0	-110.0	-110.0	-91.0	-130.0	-130.0	-130.0
Other non-treasury	59.8	55.8	53.7	55.0	55.0	55.0	55.0	35.0	35.0	30.0
Credit to the economy	540.7	513.3	496.8	447.4	435.0	414.6	513.1	535.3	560.5	581.5
Other items (net)	-182.0	-114.0	-68.9	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0
Money and quasi money	1027.0	948.0	939.5	929.4	941.0	952.6	1011.2	1089.9	1167.5	1249.3
Currency outside banks	482.4	399.6	406.5	416.3	421.4	426.6	437.5	471.6	505.2	540.6
Demand deposits	453.9	438.2	404.0	413.6	418.8	424.0	434.8	468.6	502.0	537.2
Time and savings deposits	90.8	110.2	97.2	99.5	100.8	102.0	104.6	112.8	120.8	129.3
Memorandum items:										
Broad money (annual percentage change)	-4.7	-7.7	-0.9				7.6	7.8	7.1	7.0
Credit to the economy (annual percentage change)	2.3	-5.1	-3.2				3.3	4.3	4.7	3.7
Credit to the economy (percent of GDP)	8.4	8.6	8.6				8.4	8.4	8.0	7.6
Credit to the economy (percent of non-oil GDP)	10.4	10.6	10.3				10.3	10.2	10.0	9.7
Velocity (non-oil GDP)	5.0	5.1	5.1				5.0	4.8	4.8	4.8
Velocity (total GDP)	6.3	6.3	6.1				6.0	5.9	6.0	6.1

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

[1] Include statutory and exceptional advances

Table 6. Chad: Financial Soundness Indicators, 2011–17

	2011	2012	2013	2014	2015	2016	2017 June
Capital Adequacy							
Regulatory capital / Risk-weighted assets	20.0	18.1	22.0	13.4	14.7	13.2	14.4
Asset Quality							
Gross credits in arrears/Gross banking loans	7.6	7.4	9.8	11.7	17.0	20.9	…
Provisions / Credits in arrears	89.0	64.5	65.3	68.3	56.1	52.4	…
Net credits in arrears/Gross banking loans	0.8	2.6	3.4	3.7	7.3	…	…
Profitability							
Return on assets	2.6	2.2	2.8	2.1	1.6	1.4	1.9
Return on equity	19.2	15.5	21.1	19.4	15.2	14.6	17.2
Liquidity							
Liquid assets / Total assets	29.9	31.8	28.6	30.8	26.0	23.1	21.9
Liquid assets / Short term liabilities	149.3	146.6	139.3	152.9	142.1	155.0	144.9

Source: COBAC.

Table 7. Chad: Performance Criteria and Indicative Targets up to End-September 2017

(In billions of CFAF; cumulative from the beginning of the year, except where otherwise indicated)[1]

	End-June				End-September			
	Prog.	Prog. (with adjustor)	Actual	Status	Prog.	Prog. (with adjustor)	Actual	Status
Performance Criteria								
Floor on non-oil primary budget balance	(139)		(64)	met	(185)		(109)	met
Floor on customs revenue	35		38	met	70		70	met
Ceiling on net domestic government financing excluding BEAC	0	16	14	met	(15)		(14)	met
Ceiling on net government financing from the BEAC	(1)		(26)	met	(1)		(43)	met
Ceiling on the stock of domestic payment arrears by the government	240		240	.....	233	240	234	met
Ceiling on new external arrears of the government and non-financial public enterprises[2]	0		0	met	0		12	not met
Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprise	0		0	met	0		0	met
Indicative Targets								
Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO)	90		54	not met	90		49	not met
Floor for poverty-reducing social spending	80		93	met	140	132	135	met
Memo item:								
New domestic payment arrears by the government	*0*		[...]		0		[...]	
External concessional borrowing (US$ million)	*147*		106		215		108	
Oil Revenue	*135*		125		214		151	
Grants	*109*		111		186		167	

Sources: Chadian authorities; and IMF staff estimations

1. Quantitative indicators and adjustors are defined in the TMU.
2. To be respected continuously.

Table 8. Chad: Structural Benchmarks for the Program under the ECF Arrangement – Status as of End-March 2018

Measures	Due Dates	Status
Structural benchmarks		
1. Submission to the National Assembly of the new National Development Plan	End-July 2017	Met
2. Set up a unit in charge of tax policy	End-Aug 2017	Met
3. Publication of a quarterly note on the oil sector, in line with the template agreed with the authorities, including detailed information on debt service to Glencore.	Quarterly, starting end-September 2017	Met
4. Launch of audit of unrecognized expenditure payment arrears	End-October 2017	Not met (In progress)
5. Establishment of the single customs window at Ngueli	End-Dec 2017	Not met
6. Adoption of an action plan to improve management of the wage bill, drawing on the audit of payroll system to identify control weaknesses and/or ghost workers, financed by the EU	End-Dec 2017	Not met (Implemented with delay)
7. Launch of audit to identify potential sources of saving in transfers and subsidies	End-Mar 2018	Not met (In progress)
8. Create a special court for suppression of economic and financial crime	End-June 2018	To be replaced with new SB

Sources: Chadian authorities and IMF staff.

Table 9. Chad: Summary Table of Projected External Borrowing Program

PPG external debt	2018	
	USD million \1	Percent
By sources of debt financing	**193**	**100**
Concessional debt of which	**193**	**100**
Multilateral debt	104	54
Bilateral debt	89	46
Other	0	0
Non-concessional	0	0
Use of debt financing	**193**	**100**
Infrastructure	28	15
Social (education, health)	20	10
Agriculture and livestock	39	20
Energy	18	10
Budget Financing \2	47	24
Other	34	18

Sources: Chadian authorities and IMF Staff

1/ Nominal value of new debt disbursed. Excludes financing from IMF.

2/ Includes loans from France.

Table 10. Chad: Schedule of Disbursements Under the ECF Arrangement

	Amount (Percent of Quota)	Amount (Million SDR)	Available Date	Conditions for Disbursement
	25.0	35.05	Date of Board Approval	Executive Board approval of the three year ECF arrangement
	25.0	35.05	August 15, 2017	Observance of the performance criteria for June 30, 2017 and completion of the first review under the arrangement
	25.0	35.05	April 15, 2018	Observance of the performance criteria for December 31, 2017 and completion of the second review under the arrangement
	25.0	35.05	October 15, 2018	Observance of the performance criteria for June 30, 2018 and completion of the third review under the arrangement
	20.0	28.04	April 15, 2019	Observance of the performance criteria for December 31, 2018 and completion of the fourth review under the arrangement
	20.0	28.04	October 15, 2019	Observance of the performance criteria for June 30, 2019 and completion of the fifth review under the arrangement
	20.0	28.04	April 15, 2020	Observance of the performance criteria for December 31, 2019 and completion of the sixth review under the arrangement
Total	***160.0***	***224.32***		

Source: IMF Staff estimates and projections.

Table 11. Chad: Indicators of Capacity to Repay the IMF, 2018–32

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Fund obligations based on existing credit															
Principal	0.0	0.0	2.0	8.1	17.0	26.2	26.7	22.0	15.9	7.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Fund obligations based on existing and prospective credit															
Principal	0.0	0.0	2.0	8.1	17.0	33.2	50.5	57.1	53.8	44.9	30.8	14.0	2.8	0.0	0.0
Charges and interest	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total obligations based on existing and prospective credit															
SDR millions	0.3	0.4	2.4	8.6	17.5	33.6	51.0	57.5	54.2	45.3	31.3	14.5	3.2	0.4	0.4
CFAF billions	0.3	0.3	1.9	6.5	13.2	25.4	38.4	43.4	40.9	34.1	23.6	10.9	2.4	0.3	0.3
Percent of exports of goods and services	0.0	0.0	0.1	0.3	0.5	1.0	1.4	1.5	1.4	1.1	0.7	0.3	0.1	0.0	0.0
Percent of debt service[1]	0.3	0.4	1.4	4.4	8.3	15.1	20.3	20.9	18.4	17.1	12.4	10.7	3.1	0.4	0.4
Percent of GDP	0.0	0.0	0.0	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.2	0.1	0.0	0.0	0.0
Percent of tax revenue	0.1	0.1	0.4	1.1	2.0	3.5	4.8	4.9	4.2	3.2	2.0	0.9	0.2	0.0	0.0
Percent of quota	0.2	0.3	1.7	6.1	12.4	24.0	36.3	41.0	38.7	32.3	22.3	10.3	2.3	0.3	0.3
Outstanding IMF credit based on existing and prospective drawings															
SDR millions	230.1	286.1	312.2	304.1	287.0	253.9	203.4	146.3	92.5	47.7	16.8	2.8	0.0	0.0	0.0
CFAF billions	177.0	219.1	237.4	230.5	217.0	191.8	153.3	110.3	69.8	35.9	12.7	2.1	0.0	0.0	0.0
Percent of exports of goods and services	9.7	12.1	11.4	10.5	8.9	7.5	5.7	3.9	2.3	1.1	0.4	0.1	0.0	0.0	0.0
Percent of debt service[1]	196.1	255.0	180.5	156.6	136.2	114.3	80.9	53.3	31.3	18.0	6.7	2.1	0.0	0.0	0.0
Percent of GDP	2.9	3.4	3.4	3.0	2.7	2.2	1.7	1.1	0.7	0.3	0.1	0.0	0.0	0.0	0.0
Percent of tax revenue	42.5	46.4	44.9	39.3	33.0	26.7	19.3	12.5	7.2	3.3	1.1	0.2	0.0	0.0	0.0
Percent of quota	164.1	204.1	222.7	216.9	204.7	181.1	145.0	104.3	66.0	34.0	12.0	2.0	0.0	0.0	0.0
Net use of IMF credit (SDR millions)	105.2	56.1	26.0	-8.1	-17.0	-33.2	-50.5	-57.1	-53.8	-44.9	-30.8	-14.0	-2.8	0.0	0.0
Disbursements	105.2	56.1	28.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.0	0.0	2.0	8.1	17.0	33.2	50.5	57.1	53.8	44.9	30.8	14.0	2.8	0.0	0.0
Memorandum items:															
Exports of goods and services (CFAF billions)	1,819	1,813	2,080	2,199	2,436	2,569	2,702	2,846	2,998	3,158	3,330	3,512	3,608	3,611	3,623
External Debt service (CFAF billions)[1]	90	86	132	147	159	168	189	207	223	200	190	102	79	83	88
Nominal GDP (CFAF billions)	6,077	6,403	7,041	7,602	8,179	8,672	9,264	9,902	10,614	11,339	12,117	12,943	13,677	14,431	15,246
Tax revenue (CFAF billions)	416	472	529	587	657	719	796	880	974	1,073	1,173	1,282	1,400	1,515	1,640
Quota (SDR millions)	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2

Source: IMF staff estimates and projections.

[1]Total external debt service includes IMF repurchases and repayments.

Appendix I. Letter of Intent

March 30, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431
USA

Madame Managing Director:

On June 30, 2017, the Executive Board of the IMF approved a financial program under the Extended Credit Facility (ECF) covering the period June 30, 2017 until June 29, 2020, to support Chad's stabilization and recovery strategy. This Letter and the attached Memorandum of Economic and Financial Policies (MEFP) present recent economic trends and performance under the ECF arrangement, as well as the policies the Government intend to implement in 2018 and in the medium term.

The program is being implemented in a difficult economic, financial, and social context. Economic activity in 2017 has contracted for the second consecutive year, as Chad continued to suffer the impacts of both the oil and security shocks, as well as the heavy burden of servicing external commercial debt. Signs of stabilization in the fiscal area emerged since July 2017, supported by disbursements from donors and the rollover of public debt. The easing of liquidity pressures has allowed the payment of civil service wages on time and the clearance of some domestic and external arrears. Also, in line with its commitment under the ECF arrangement, the Government has concluded in February 2018 an agreement in principle to restructure the Glencore debt, which is set to generate the necessary financing for the program and restore debt sustainability. Nonetheless, social tensions have resurfaced in early 2018 as the Government began to implement measures to rationalize the wage bill, in accordance with the 2018 budget.

Despite the challenging environment, the Government has demonstrated a strong determination to implement the program. All performance criteria at end-June 2017 were met. However, the continuous zero ceiling on new external arrears has not been met. Indeed, a payment to Libya in the amount of $13 million was not made in September, a payment to India in the amount of $1.3 million was not made in December. These arrears accumulated as efforts were underway to reschedule existing arrears and the Government continued to face liquidity constraints. In addition, some payments during the third quarter in the total amount of about $6.5 million were made with delays. The delays stem from technical problems the Government encountered in making the payments. The problems have also prevented the payment of $0.6 million to one private creditor (Mega Bank in Taiwan Province of China) that was due in December 2017.

All but one end-September 2017 indicative targets were also met. The floor on the regularization of spending through emergency procedures (DAO) was missed, but since end-September efforts in this regard have escalated and by end-year, it is estimated that around 74 percent of DAO would have been regularized.

The Government has continued to make progress on structural reforms, with the implementation of 4 out of 8 structural benchmarks. The audit of domestic arrears will be launched shortly, following the selection of a reputable international firm. The benchmark for establishing a single customs window in N'gueli is delayed because of difficulties identifying a private operator to manage it. The audit of transfers and subsidies, which aims at taking stock of existing subsidies and transfers with a view to identifying sources of potential budgetary savings is expected to be launched shortly.

The 2018 budget law was designed with a view to address in a balanced way the multiple needs of the economy while maintaining fiscal sustainability. While the non-oil primary deficit is expected to increase slightly, efforts will be doubled to improve the mobilization of non-oil revenue, and to better control the wage bill.

Special emphasis will continue to be placed on reforming public financial management, notably through the continued improvement of the expenditure chain, the adoption of a comprehensive strategy to clear all potential existing domestic arrears, and the establishment of a more efficient cash management system. The Government is committed to only pay domestic arrears that have been verified, i.e., those contained in the "Reste à payer" table. Payment of yet to be recognized arrears will await the conclusion of the audit of domestic arrears, and the development of a repayment strategy as described in the attached MEFP.

The Government will launch a plan of reforms to strengthen the solidity of the banking sector, including by reducing its debt to domestic banks. It will consider its role in public banks and ways to improve their position, including a review of their financial position and strategy and the adoption of a reorganization plan. With support from IMF staff and in coordination with the regional banking supervisory authorities (COBAC), the government will develop the terms of reference for this work and will appoint an external consultant to undertake this work in line with the timeline described in the MEFP.

The government has updated its National Development Plan for the period 2017–21. With a view to improve Chad's structural competitiveness and welfare of the population, the NDP focuses mainly on infrastructure development (mainly in the transportation and energy sectors), the business environment, education, social protection, and environment protection (e.g., land and water management). To address these challenges, the NDP details four strategic objectives: (i) strengthening national unity, (ii) promoting good governance, (iii) implementing policies to diversify the economy, and (iv) improving the quality of life of the population.

The attached MEFP supplements the MEFP attached to the letter of intent of June 2017. It describes the economic and financial situation in 2017, sets out the economic and financial policies that the government intends to implement in 2018 and in the medium term, and establishes the benchmarks and reforms up to end-December 2018.

Based on program performance, the government requests that the Executive Board of the IMF approves the completion of the first review under the ECF-supported program. The Government also requests a waiver for missing the PC on zero ceiling on new external arrears, based on actions taken by the Government to resolve the remaining arrears and prevent the accumulation of additional arrears, and a rephasing of the disbursements.

The Government is convinced that the policies and measures defined in the MEFP are appropriate for meeting the objectives of the program and undertakes to implement any further measures to that end. The Chadian authorities will consult with the Fund on such possible complementary measures in advance of any revisions to the policies contained in the MEFP, in accordance with the Fund's policy on such consultations. To facilitate program monitoring and evaluation, the government undertakes to regularly report all required information to IMF staff in a timely manner and in accordance with the attached Technical Memorandum of Understanding.

Finally, the government confirms that it agrees to the publication of this Letter, the MEFP, the Technical Memorandum of Understanding (TMU), and the IMF Staff Report on this program review.

Sincerely yours,

/s/

Dr. Abdoulaye Sabre-Fadoul
Minister of Finance and Budget

Attachments: I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

OVERVIEW

1. Since 2014, Chad has been enduring the intensifying effect of the oil price and security shocks and the heavy burden of external commercial debt. The economic, financial, and social situation in the country has been undermined by these shocks

- While international oil prices recovered over the past year, the price of Chadian oil has been significantly lower than the price in 2014 for three years. This, along with the heavy burden of servicing the external commercial debt with Glencore, has drastically reduced oil revenues that enter the Treasury. The Government had to slash education, health, and investment spending and until early 2017 struggled to pay salaries, all of which led to increased social tension.

- The Chadian security forces continue to be heavily involved in regional peace-keeping efforts, especially in the Lake Chad basin. These efforts are crucial to maintain regional security, but the stationing of military personnel in neighboring countries, as well as on the border with Sudan and Libya, entails significant pressures on the budget and more generally on the economy. Indeed, the security situation continues to disrupt cross-border trade and crucial economic activities including in the livestock and agriculture sectors.

- The humanitarian crisis in the region is also an important source of pressure on Chad. Chad hosts about 700,000 refugees, displaced persons, and returnees. While the direct fiscal cost is difficult to measure, the Government is supporting refugees' access to land, basic community services and settlement in host communities.

2. In June 2017, the Government of Chad requested a new program under the ECF arrangement to support the Government's reforms and stabilization strategy to lift the country out of the crisis. A three-year ECF arrangement was approved on June 30, 2017 in support of the Government's medium-term economic program. The main elements of the program are (i) to reestablish debt sustainability through external commercial debt restructuring; an agreement in principle in this regard has been reached, (ii) achieve further gradual fiscal adjustment and create space for domestic arrears payment by maintaining a tight spending envelope and better mobilizing non-oil revenue, and (iii) limit reliance on domestic financing to help alleviate pressure on domestic banks.

3. The Government has launched its new National Development Plan (NDP) 2017-2021. The plan aims to diversify the economy and achieve strong inclusive growth. The diversification of the economy will be based on the comparative advantages of Chad including the development of value chains in agriculture, farming, fishing, and mining. The development of sectoral strategies and the creation of a business-friendly environment would help enhance the contribution of these sectors to the economy. The NDP was discussed at the financing roundtable in Paris in September 2017. Donors expressed strong commitment to help finance the NDP and to provide technical assistance for its implementation. Nonetheless, the Government recognizes that donors' financial support will take time to materialize, and the reforms contemplated in the NDP will take time to yield concrete results.

4. **While some signs of stabilization in the fiscal area began to appear since July 2017, significant challenges remain**. Disbursements from international partners and the successful rollover of public debt have helped ease the liquidity position of the Government, which has been able to pay wages on time and clear some domestic arrears. Nonetheless, the economic, fiscal, financial, and social situation continues to be difficult. The Government will need to remain focused on implementing reforms to stabilize the financial situation in the country, and ensure that the fiscal position stabilizes, and economic growth in the non-oil sector rebounds.

5. **This memorandum is an update and a supplement to that of June 2017**. It lays out the specific elements of the Government's reform strategy under the ECF arrangement. It describes the recent economic developments, the Government's efforts to implement policies agreed under the existing program supported by the current arrangement, the macroeconomic prospects, as well as the Government policies and reforms agenda for the 2018–20 period.

RECENT ECONOMIC DEVELOPMENTS AND IMPLEMENTATION OF THE 2017 ECF ARRANGEMENT

A. Recent Economic Developments

6. **Growth has been revised downward in 2017 due to underperformance of the oil sector and overall activity is now expected to contract this year for the second consecutive year, although non-oil GDP appears to have stabilized in late 2017**. Oil production has been significantly lower than expected in 2017 following technical problems faced by Esso, the second largest oil producer. While non-oil activity is still weak, spillovers from the oil sector on non-oil activity are expected to be limited, notably as government spending is not likely to be affected by lower oil revenue. Deflationary pressures seem to have abated in the last few months of 2017, although demand remains relatively weak including because cross border trade continues to be disrupted by security concerns.

7. **Fiscal pressures have slightly eased after the approval of the ECF arrangement, but liquidity pressures remerged later in the year**. Disbursements in July from the IMF (first disbursement of $48.8 million) and the World Bank ($65 million), and the payment by Esso in July and August (about $100 million) to settle an old tax dispute eased the government's liquidity position. This helped the government to pay wages broadly on time and to clear some of its domestic arrears including those that accumulated last year to domestic and regional banks. Later in the year though, liquidity pressures resurfaced as some of the expected external support

was delayed. Nonetheless, the government was able to continue to pay wages on time, but could not pay the entire stock of recognized domestic arrears that accumulated in the first half of 2017.

8. While oil revenues were very low in 2017 due to lower oil receipts, the Government made strong efforts to offset this underperformance. First, the use of government oil for local consumption instead of for export, has reduced debt service to Glencore and generated higher revenue for the treasury. In addition, efforts to mobilize non-oil tax and non-tax revenues were doubled and led to an improvement in total revenue performance.

9. On the spending side, the Government maintained a very tight spending envelop even though the needs of the population are very large. While the wage bill significantly overshot the budgeted envelop, limits on other spending offset this increase. New measures were put in place to reduce the wage bill in the context of the revised 2017 budget, notably reduction in bonuses and benefits. Although some of those measures had to be rescinded later in the year, this yielded important savings in the second half of 2017 (the monthly wage bill declined to about CFAF 30.2 billion against more than CFAF 32 billion in the first six months).

10. The Government made an effort to pay external arrears accumulated prior to the approval of the ECF arrangement, but additional arrears accumulated in the second half of 2017. Arrears to the Arab Bank for Economic Development in Africa, OPEC Fund for International Development, Kuwait, and Saudi Arabia were paid. The Government has rescheduled its loan (including arrears that had accumulated) with EXIM Bank China. Given the ongoing efforts of the Government to clear previous arrears to India, Libya, Congo, and Equatorial Guinea, new maturities that came due in the second half of 2017 have not been paid because of continued liquidity constraints. The Government has received written indication from the Indian authorities that they are willing to reschedule Chad’s debt. Efforts are underway to approach the Libyan authorities to address the arrears, while the Government has reached out to the Republic of Congo and Equatorial Guinea to reschedule obligations due to them. Small arrears to a private external creditor accumulated because of technical difficulties processing the payment transfer.

11. The banking sector is grappling with the consequences of the government liquidity crunch and the economic crisis more generally. Banks’ exposure to government debt and private sector dependence on government procurement have increased their vulnerabilities. At end-December 2017, non-performing loans accounted for 28 percent of gross loans. This, together with the fact that some banks (which increased significantly their exposure to public securities in the last two years) have reached the refinancing limit at the BEAC, has increased liquidity pressures. Deposits and credit to the private sector declined by 9 percent and one percent respectively in 2017 and the deposit-to-loan ratio fell to 94 percent from over 100 percent at end-2016. The interim emergency liquidity facility introduced by the BEAC has helped prevent further liquidity position deterioration for banks that rolled over domestic securities. BEAC refinancing now accounts for about 17 percent of bank liquidity on average, and is much larger for some banks.

B. Program Implementation

12. Despite the unfavorable environment, the Government has demonstrated a strong determination to implement the program. All performance criteria at end-June were met, but the continuous PC on external arrears was missed. Only one indicative target was not met.

- The ceiling on non-oil primary balance (NOPD) for end-June has been met with a large margin. The deficit stood at CFAF 64 billion compared to the quantitative performance criterion of CFAF 139 billion set in the program. This result was achieved primarily because of the Government's efforts to contain current expenditure, mainly, goods and services, and transfers and subsidies.

- The floor on customs revenue has been met. Despite still low economic activity and imports in the first half of the year, the Government amplified its tax and customs collection efforts. Customs revenue gradually improved and reached CFAF 38 billion against a target of CFAF 35 billion.

- The criterion on net domestic government financing from BEAC has been met with a large margin.

- The criterion on net domestic government financing excluding BEAC was met, taking into account the adjustor built into the program.

- The stock of domestic arrears reached CFAF 240 billion at end-June 2017, which will constitute the basis for assessing the performance of this variable in the period ahead.

- The zero ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises was met.

- The indicative target on poverty-reducing social spending has been met. In a context of spending restraints, the Government remains strongly committed to protect spending on social sectors in line with the program.

- The indicative target on the regularization of emergency spending procedures (DAO) has been missed. The Government has been making a concerted effort to regularize DAO quickly, but the stock of DAO in June was very large, which is taking time to regularize.

13. The continuous zero ceiling on new external arrears of the government and non-financial public enterprises has been missed, as a payment to Libya in the amount of $13 million was not made in September, a payment to India in the amount of $1.3 million was not made in December, and some payments during the third quarter in the total amount of about $6.5 million were made with delays. In addition, payment of $0.6 million to one private creditor (Mega Bank in Taiwan Province of China) due in December was not made. The delays happened because of technical problems the Government faced in making the payments.

The Government requests a waiver for the relatively small breach of this performance criterion based the actions taken by the Government to resolve the remaining arrears and prevent the accumulation of further arrears.

14. All but one end-September indicative targets were also met. The floor on the regularization of DAO was missed, but since end-September efforts in this regard have escalated and by the end of the year, it is estimated that around 74 percent of DAO would have been regularized. For the year as whole, given the strong spending discipline, we estimate that the target for non-oil primary balance was met, but final data on this and other program targets are not available.

15. The Government continued to make progress on the structural reform agenda in line with program objectives, and 4 out of 8 structural benchmarks were implemented. The new National Development Plan was submitted to the National Assembly in July and the unit in charge of tax policy was established by ministerial decree in August and is under the direct supervision of the Minister of Finance and Budget. Work is ongoing to make the unit operational as soon as possible. To enhance transparency in the oil sector, the Government prepared the first two quarterly notes on the oil sector, in line with the template agreed with IMF staff. Work is underway to launch the audit of domestic arrears. Given that the African Development Bank has agreed to finance the audit, and a firm has been selected to do the audit, the audit is expected to be launched very soon. The benchmark for establishing a single customs window in N'gueli is delayed because of difficulties identifying a private operator to manage it. The Government has given the objective of improving the management of the wage bill a priority and has thus adopted an action plan to improve it in early 2018. Finally, the terms of reference for the audit of transfers and subsidies to identify potential areas for saving are under preparation and the audit is expected to be launched shortly.

C. Glencore Debt Restructuring

16. In line with its commitment at the time of the request for the new ECF arrangement, the Government has concluded an agreement in principle to restructure the Glencore debt. While the Government aimed to conclude this agreement in 2017, more time was necessary to ensure that the agreement is fully in line with the IMF supported program and that it is fully beneficial to Chad. The restructuring agreement in principle includes a significant extension of maturity, a large reduction in restructuring fees, and lower interest rate. Specific contingencies are included to provide protection to the Chad in case of lower oil receipts. The final steps towards conclusion of the restructuring include the finalization of the legal documents to reflect the new terms including the operational modalities for the payment and cash sweep mechanisms. The restructuring has significantly improved the debt dynamics, and is set to generate the necessary financing for the program.

ECONOMIC AND FINANCIAL POLICIES FOR THE REMAINDER OF THE PROGRAM

17. The Government's economic reform strategy remains focused on stabilizing the economy and supporting a resumption in non-oil growth. Fiscal policy will continue to preserve much of the adjustment in current spending of the past two years, focus on redirecting resources to social sectors and public investment, while reducing domestic debt to banks and arrears to suppliers. The Government considers that controlling the wage bill is necessary to bring it to a sustainable level over the medium term. At the same time, efforts to raise non-oil revenue will need to be sustained to ensure that the Government has a steady and reliable source of income.

18. In addition to the main elements outlined in the June MEFP, in the period ahead, the Government will also aim to strengthen the banking sector. In addition to the efforts to reduce government debt to banks and pay down domestic arrears which would help reduce pressure on banks, the Government is committed to identify measures to strengthen these banks and enhance their intermediation role.

A. Fiscal Policy in 2018 and the Medium-Term

19. While significant challenges remain in 2018 and the medium term, the Government considers that 2018 will be a critical year in its efforts to durably lift the economy out of the crisis of the past two years. With adequate policies and reforms, it expects that non-oil GDP will recover, and that the economy will benefit more from oil revenue that are set to accrue to the treasury following the restructuring of the Glencore debt.

20. As such, the 2018 budget was designed with a view to address in a balanced way the multiple needs of the economy while maintaining fiscal sustainability. It is based on conservative oil and non-oil revenue assumptions and maintains a tight spending envelop while ensuring that adequate resources are allocated to social sectors. It also aims to reduce the stock of verified domestic arrears while also paying down some of the maturing debt to the banking sector. Policies regarding transfers and subsidies as well as public investment remain unchanged from the June 2017 MEFP.

21. In spite of previous difficulties, the Government is determined to improve the management of the wage bill and reduce it in 2018 to CFAF 354 billion. Controlling the wage bill in a sustainable manner has proven to be challenging given the tense social situation in the country and the delicate state of security both in the country and the region. Nonetheless, the Government recognizes that the size of the wage bill has become problematic and jeopardizes the conduct of fiscal policy. It has already taken measures to reduce bonuses and benefits earlier this year. While these measures have led to a significant reduction in the January wage, they also intensified social tension and led to long strikes by civil servants. After long negotiations, the Government reached an agreement with labor unions to end the strikes and help ensure that the wage bill is reduced in 2018 as planned. The Government also plans to implement the following measures to better control the wage bill: (i) further eliminate ghost workers, civil servants that reached retirement age, and those that are under age; (ii) update the payroll file with comprehensive information for each civil servant to ensure benefits and bonuses are only paid to rightful civil servants; (iii) improve the budgeting and monitoring of the wage bill; and (iv) implement the recommendations of the planned audit of diplomas of the civil service. These measures are detailed in the action plan to improve the management of the wage bill due.

22. With regard to domestic financing, the government will limit its recourse to domestic banks to rolling over maturing treasury bills and bonds in close collaboration with the BEAC and banks. In addition to paying maturities related to non-securitized debt (Emprunt Obligataire 2013-2018 and Convention de prêt 60 villas), it will aim to repay at least 10 percent of maturing treasuries depending on resource availability. It commits to using additional external financing and oil revenue toward this purpose. The Government is aware of the difficulties faced by some public companies, particularly in the cotton sector, which have accumulated arrears to the banking sector. Given the critical economic and social significance of the cotton sector for a large part of the Chadian population, the Government is considering ways to support the sector while respecting the objectives of the program. The relief obtained from the restructuring of BEAC debt which was finalized in September 2017 (4-year grace period, maturity of 14 years and interest of 2 percent) will be used to build buffers and reduce debt to domestic banks in 2019 and beyond.

23. The repayment of domestic arrears will be guided by the performance criterion set under the program for 2018 and by the strategy described in section D below. Because additional recognized domestic arrears accumulated last year, the Government is committed to pay more than originally agreed under the program, and aims to speed up the clearance depending on the availability of budgetary resources. Repayment of yet to be validated arrears (outside those in the reste-a-paye table) will await the result of the audit of domestic arrears.

24. Strengthening non-oil revenue mobilization is a major element of the Government program to improve fiscal sustainability. Within the 2018 budget, the Government has taken measures to improve non-oil tax revenue. In particular, expiring exemptions (notable in the construction, energy, and hotel sectors) will not be reintroduced, and personal income tax scale has been reformed to enhance its progressive nature. Ongoing efforts to improve the efficiency of customs collections are also expected to improve revenue performance. The Government will consider introducing additional measures to generate additional resources to further reduce domestic debt. Under its economic program, the Government is targeting a gradual increase in non-oil tax revenue of about 2 percent of non-oil GDP by 2020, to a level equivalent to about 9 percent of non-oil GDP. Additional discussion of tax and customs reforms is in section B.

25. In its efforts to raise additional financing including to finance the 2017-21 National Development Plan, the Government is committed to refrain from contracting or guaranteeing new non-concessional external loans. Recognizing the heavy burden of non-concessional external loan, the Government will ensure that all external financing agreements, including for externally financed investment projects, will be concessional (have at least 35 percent grant element, see TMU) and are consistent with debt sustainability. The Government will respect the same parameters for potential budget loans. All draft loan agreements will continue to be submitted for prior approval to the National Commission for Debt Analysis (CONAD), which is supported by the technical and financial analysis of the Technical Team for Debt Sustainability Analysis (ETAVID).

B. Tax and Customs Reforms and Policies

26. The Government will pursue measures to improve tax and customs revenues.

- Customs revenues. The Government welcomes the results of recent IMF technical assistance missions, and will follow up on their recommendations, in three areas. First, the Government will focus on improving the control of transit operations to reduce the large share of shipment that currently bypass registration and control including through new partnership agreements with neighboring countries. Second, the Government is committed to enhance the control of the value of imports, recognizing the challenges that it represents for small custom offices across the country which are not all computerized and connected to internet. Third, the Government is committed to strengthen the control of customs exemptions and already started using an inventory of existing exemptions. In addition, the brigade in charge of controlling ex-post the use of goods that benefitted from exemptions has been reinforced. Lastly, in view of simplifying customs procedure and securing customs revenues, the Government also plans to extend to all customs offices the mandatory payment of import duties and taxes directly to the banks, and is committed to set up a single window (in Ngueli) for customs operations (existing SB).

- Non-oil tax revenues. Efforts are underway for the modernization and computerization of tax filling and payment procedures, as well as for streamlining the classification of large enterprises to improve collection efficiency.

27. Going forward, concrete reforms will be pursued in the following areas:

- Tackling the prevalence of tax and customs exemptions which deprive the budget of important resources. The cost of exemptions is particularly high. The cost of exemptions for the General Directorate of Customs alone is estimated at about CFAF 140 billion in 2016. In addition, based on a sample of 39 (out of a total of 150–250) "conventions d'établissement", an EU study estimates the cost of exemptions for the Tax Directorate at about CFAF 45 billion in 2015. To begin dealing with these losses, the Government will publish a full list of exemptions provided under common law or contractual instruments, "conventions d'établissement, conventions ad-hoc" (new structural benchmark for end-May). On the basis of this work, the Government will identify specific exemptions to remove as well as exemptions that are not in line with CEMAC directives. Requests for tax exemptions will be assessed by the ministry of finance taking into consideration their effect on tax revenues.

- Widening the tax base, and prioritizing reforms of the personal income tax, the VAT, and the property tax. The Government is aware that the current personal income tax code is complex, with different schemes and a complicated taxation scale, which the Government intends to address with TA support from the IMF and the EU. In addition, the Government understands that revenue from the VAT, which stands at about 1 percent of non-oil GDP, is the lowest in Africa. One of the main challenges the Government intends to address is the set-up of a VAT refund mechanism, the absence of which has partly been responsible for the weak performance of the VAT. In addition, the Government sees a significant potential gain from improvements in property tax revenues through better land and property registration and tax collection procedures. Currently there are fewer than 5,000 land titles registered in Chad and revenue from tax on land ownership represents less than 1 percent of total tax revenue.

C. Structural Reforms on Public Financial Management

28. The Government reaffirms that achieving the objectives of its economic program depends on sound and transparent public financial management. The Government emphasizes the recent progress made in terms of budget execution, monitoring, and reporting, as well as the integration of CEMAC directives within the Chadian legislation. The Government intends to continue the strong collaboration with its development partners to further improve PFM.

29. The improvement of the expenditure chain is a high priority for the Government.

- The use of emergency spending procedures ("dépenses avant ordonnancement", DAO), has been extensive in the past two years. The government is committed to both reduce the use of DAO and to regularize them as soon as possible after they occur to limit the risks of over-spending and the accumulation of arrears. In order to achieve this objective, and recognizing the existing capacity constraints, the Government is committed to regularize within 45 days, 90 percent of DAOs after the first, 70 percent after the second, 75 percent after third quarter, and 80 percent after the fourth quarter of 2018. This objective will be monitored through an indicative target (Table 1). The Government will consider introducing a nominal limit on the use of DAO.

- More broadly, the expenditure chain has to be better applied. The four phases of the expenditure chain (commitment, validation, authorization of payment order, and cash payment) should be implemented and monitored through the computerized system (CID). This is especially important for the last phase (cash payment), which has not been activated and led to difficulties tracking the exact date of payment and potential arrears.

30. Beyond the repayment of recognized arrears, the Government is firmly determined to implement a comprehensive strategy to clear all potential existing arrears. The Government is committed to adopt a holistic approach to clear arrears which will include a well-defined and well-communicated clearance strategy. It expects that such a strategy will help rebuild confidence of the private sector by reducing a key source of uncertainty regarding the repayment of arrears. Reforms envisaged to improve PFM (described above) would help avoid the recurrence of new arrears.

- In addition to the already validated arrears (CFAF 240 billion by end-June 2017) which are reported in the "Reste a Paye" table prepared by the Treasury, other potential claims that could be sizeable exist. In this regard, an FAD technical assistance mission on managing and preventing domestic payment arrears took place in September 15-28, 2016. The TA mission estimates the size of potential additional claims at CFAF 300 billion although this estimate is subject to a wide variation. They include but may not be limited to: (i) claims related to capital expenditures incurred under public procurement contracts but which have not gone through the standard spending chain, (for instance "décomptes", which are an acknowledgement by line ministries that a tranche of a public procurement contract has to be paid, but has not been transmitted to the Treasury for commitment and payment); (ii) claims related to goods and services expenditures that have not gone through the standard spending chain; (iii) claims related to public procurement contracts for capital expenditures that have not generated any "décomptes"; and (iv) debt not approved by the Debt Directorate (under litigation process), which includes some liabilities of public enterprises. In addition, claims associated with the operation of CotonTchad (the cotton public enterprise) amount to about CFAF 80 billion.

- The Government is committed to adopt a clearance strategy of domestic arrears based on the audit results by end-October 2018 (new structural benchmark). The clearance of arrears will proceed at a pace consistent with resource availability and the medium-term fiscal framework. The Government is committed to prioritize the payments on the basis of their economic and social impact, and the effect they are expected to have on the banking sector. It will establish clear modalities for repayment after the audit is completed, which could include cash payment, securitization of arrears, and potential discounts. The government will endeavor to publicly communicate its repayment strategy.

31. The Government continues to work towards a more efficient cash management system. The Cash Plan Committee is now fully operational. The committee is in charge of cash flow forecasts and management, monitoring the current Treasury account at the BEAC, and centralizing public accounting operations, cash flow and public debt. A cash management plan, including monthly forecast of revenue and main expenditure (notably the wage bill, and domestic and external debt service) has been developed. Moving forward, efforts would focus on refining the monthly cash flow plan and strengthening the responsiveness of the Committee to update revenue and expenditure forecasts.

32. Strengthening public debt recording and monitoring capacity remains an important objective of the reform agenda. To further improve public debt management, the Government intends to draw on the findings of ongoing AFRITAC Center's technical assistance missions to develop a medium-term debt strategy and strengthen debt monitoring. It will also seek follow-up TA support to improve debt management. Meanwhile, the Government will continue to publish the annual public debt management report and will incorporate a section to elaborate on the short to medium term debt management strategy and a risk analysis.

33. The Government intends to improve the efficiency and transparency of public procurement management. To this end, it plans to strengthen the capacity of the Public Procurement Regulatory Authority. The General Directorate of control of public procurement continues to publish a quarterly bulletin. The last report shows that in 2016, only 7 of the 146 markets (for a total of CFAF 250 billion) were attributed without public tendering.

D. Banking Sector Reforms

34. The Government will launch a plan of reforms to strengthen the financial position of the banking sector. Reforms will aim `to ensure that the banking system plays its proper financial intermediation role, including proper allocation of resources and monitoring of risks related to credit, liquidity and solvency. The government's strategy is based on:

- ***Strengthening public banks.*** The Government and the regional supervisory authority (COBAC) confirm that public banks are solvent and play a critical role in the economy. To further strengthen their contribution to the economy, the Government will consider its role in public banks and ways to improve their position, including a review of their financial situation and strategy and the adoption of a reorganization plan. To this end, the Government will appoint an external consultant to identify specific actions in this regard. The terms of reference for the review of public banks' strategy and the adoption of a reorganization plan, will be finalized by end-May 2018 (new structural benchmark), in coordination with the COBAC and with support from IMF staff. The external consultant will be hired by end-July 2018 (new structural benchmark). The review of public banks strategy and the reorganization plan report will be delivered by end-January 2019 to the IMF staff and the COBAC (new structural benchmark).

- ***Strengthening the banking supervision***. This will involve requesting on-site inspection from the regional supervisor COBAC for banks facing liquidity pressures.

35. The Government recognizes the importance of deepening the financial sector in supporting economic growth and reducing poverty. While the use of financial services by Chadian households has expanded somewhat over the years along with the expansion of commercial banks' physical presence, it is still very limited. For example, the agricultural sector which represents about 25 percent of GDP, receives around 2 percent of total credit provided by commercial banks. The Government intends to place emphasis on this issue including by developing an appropriate legal, regulatory and institutional framework. This would help foster financial inclusion and develop micro-financial institutions over the long term. The Government will also consider promoting mobile banking, which is proven to be an effective way to widen access to financial services, due to the increasing coverage of mobile phone services among the population and the relative low cost of mobile phones.

E. Other Structural Reforms

36. Chad faces significant structural competitiveness challenges and has started the implementation of the 2017-21 National Development Plan to address them. With still poor transportation infrastructure and being landlocked, the country has one of the highest trade costs in the world. It also scores poorly in doing business and competitiveness indicators, trailing behind its peers in quality of institutions, barriers to starting a business, enforcing contracts, paying taxes and access to electricity. Educational attainment among the population is also low. Addressing these structural weaknesses remains key for diversification and sustainable growth. Strategies included in the NDP aim to reduce these weaknesses including through public investment. In this regard, the Government commits to borrow externally on concessional terms and to give priority to projects with the highest value added to the economy. It will also work closely with its external partners to ensure their continued support and will put in place a transparent monitoring framework. A monitoring committee has been established and plans to prepare and publish annual and mid-term follow-up reports.

37. The Government attaches high importance to the fight against corruption. A high-level committee on institutional reforms, placed under the authority of the Prime Minister, has been created in October 2016 to design and implement key institutional reforms, including drafting and approving new, stronger anti-corruption legislation and identifying measures to advance and strengthen its anti-corruption and anti-rent seeking legal framework. The fight against corruption is an essential component of the Government strategy to improve the business environment and promote cross-border trade and private investment. As such, the Government considers becoming a party to the United Nations Convention against Corruption (UNCAC) to be an important initial step to strengthen the anti-corruption framework. It hence requests to replace the structural benchmark on the establishment of a special court for economic and financial crimes with a structural benchmark on the ratification of the United Nations Convention Against Corruption (UNCAC) by end-June 2018. The Government plans to follow this step with measures to ensure the effective implementation of the Convention.

38. Given the importance of Cotton public enterprise to cotton farmers and rural welfare, the government plans to explore ways to improve its efficiency including through private management. Efforts will be made to minimize losses and make the enterprise profitable, which should reduce the need for transfers from the national budget.

MONITORING THE IMPLEMENTATION OF THE PROGRAM

39. To monitor the implementation of measures and attainment of objectives under the program, the Government will continue to rely on the Negotiation Committee based in the Ministry of Finance and Budget. The Committee is in constant communication with IMF staff in Washington and its Resident Representative in Chad.

40. The program will be monitored through bi–annual reviews by the IMF Executive Board on the basis of performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2 attached). The indicators are outlined in the attached Technical Memorandum of Understanding (TMU). The second review will be based on end-December 2017 test dates and should be completed on or after April 15. The third review will be based on end-June 2018 test dates and should be completed on or after October 15, 2018. The fourth review will be based on end-December 2018 test dates and should be completed on or after April 15, 2019. the Government undertakes to adopt, in consultation with IMF staff, any new financial or structural measures, which may be necessary for the success of the program.

Table 1. Quantitative Performance Criteria (QPC) and Indicative Targets (IT) under the ECF arrangement

(in billions of CFAF, unless otherwise indicated)

	End-Dec 2017 QPC	End-Mar 2018 IT	End-June 2018 QPC	End-Sept 2018 IT	End-Dec 2018 QPC	End-Mar 2019 IT
1. Floor on non-oil primary budget balance (NOPB)	-221	-65	-125	-175	-218	-60
2. Floor on customs revenue	110	25	45	85	118	25
3. Ceiling on net domestic government financing excluding BEAC	-40	0	-5	-15	-55	0
4. Ceiling on net government financing from the BEAC	29	0	70	35	35	85
5. Ceiling on the stock of domestic payment arrears by the government	210	200	185	170	165	160
6. Ceiling on new external arrears of the government and non-financial public enterprises	0	0	0	0	0	0
7. Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises	0	0	0	0	0	0
	IT	**IT**	**IT**	**IT**	**IT**	**IT**
8. Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO)	90	90	70	75	80	50
9. Floor for poverty-reducing social spending	205	45	107	160	214	50
Memo item:						
10. Ceiling on new domestic payment arrears by the government	*0*	*0*	*0*	*0*	*0*	*0*
11. External concessional borrowing (US$ million)	*235*	*35*	*70*	*142*	*193*	*…*
12. Oil Revenue	*310*	*79*	*131*	*202*	*272*	*66*
13. Grants	*261*	*45*	*77*	*121*	*155*	*0*

Sources: Chadian authorities; and IMF Staff.
1. NOPB: Non-oil revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).
2. Customs revenue as given by the Treasury in the Table "Situation des Regies financières".
3. Includes Treasury bills / bonds and domestic banks direct loans net of amortization, see Technical memorandum of understanding.
5. Stock of verified arrears, as given in the Table "Restes à payer". In line with the TMU, the target for end-December 2017 is 210 (reflecting the actual end-June 2017 stock of domestic arrears). Starting end-March 2018, the target will be adjusted to reflect actual end-December 2017 actual stock.
6. Applies continuously.
7. Applies continuously.
8.DAO is defined as all expenditures which do not go through the standard spending procedure. Regularization of DAO consists in recording the expenditure in the correspondent line of the budget. This will be done within 45 days after the end of the quarter.
9. Expenditure of Ministries in charge of social sectors, as recommended by the World Bank in the absence of a budgetary functional classification. An adjustor will be defined in case of expenditure cuts, which will ensure an increase of the share of poverty-reducing social spending in the total of primary current expenditure (see TMU for details).
12. Oil Revenue is the sum of direct receipt and the sale revenue of government oil net of operating and transportation cost.
13. Budget grants.

Table 2. Structural Benchmarks for the Program 2018- 2019

Measures	Due Dates
Structural benchmarks	
1. Publication of a quarterly note on the oil sector, in line with the template agreed with the authorities, including detailed information on debt service to Glencore.	Quarterly, starting End-September 2017
2. Finalization of the terms of reference for external consultants to review and prepare a reorganization plan for two public banks	End-May 2018
3. Publication of Tax and Customs exemptions	End-June 2018
4. Ratification of the United Nations Convention Against Corruption (UNCAC)	End-June 2018
5. Hire external consultants to review and prepare a reorganization plan for two public banks	End-July 2018
6. Adopt a clearance strategy of domestic arrears based on the audit results	End-October 2018
7. Deliver report of external consultants on the review and reorganization plan for two public banks	End-January, 2019

Sources: Chadian authorities; and IMF staff.

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Letter of Intent (LOI) and Memorandum on Economic and Financial Policies (MEFP) of March 30, 2018**. It describes the information requirements to monitor performance under the ECF arrangement. The authorities will consult with the IMF before modifying measures contained in this TMU, or adopting new measures that would deviate from the goals of the program. It describes more specifically:

a) reporting procedures;

b) definitions and computation methods;

c) quantitative performance criteria;

d) indicative targets;

e) adjusters to the quantitative performance criteria and indicative targets; and

f) structural benchmarks.

A. Reporting Procedures to the IMF

2. **Data on all the variables subject to quantitative performance criteria (QPC) and indicative targets (ITs)** and information on the progress towards meeting structural benchmarks will be transmitted regularly to the IMF in accordance with the table shown in Attachment 1 herewith. With respect to continuous QPCs, the authorities will report any non-observance to the IMF promptly. For the purpose of this TMU, **days** refer to calendar days unless otherwise specified. Revisions to data will also be forwarded to the IMF within 14 days after being made. In addition, the authorities will transmit to IMF staff any information or data not defined in this TMU but pertinent for assessing or monitoring performance relative to the program objectives.

B. Definitions and Computation Methods

3. **Unless otherwise indicated, the term Government** refers to the central government of the Republic of Chad comprising all the executive bodies, institutions and any structure receiving special public funds and whose competence is included in the definition of central government as defined in the Government Finance Statistics Manual of 2014 (GFSM 2014), paragraphs 2.85 – 2.89.

4. **A public nonfinancial enterprise is a government–controlled corporations[1] whose principal activity is the production of goods or nonfinancial services.** For the purpose of the program monitoring, these include: *Société Tchadienne des Eaux (STE), Société Nationale*

[1] Control of a corporation is defined as the ability to make key financial and operating decisions (see GFSM 2014 paragraph 2.104 – 2.114).

d'Electricité (SNE), Société des télécommunications du Tchad (SOTEL), Société Tchadienne des Postes et de l'Epargne (STPE), Société Cotonnière du Tchad (SN), Société des Hydrocarbures du Tchad (SHT), Compagnie Tchadienne de Textiles (COTEX), Sociètè Nationale de Ciment (SONACIM Tchad), CimenTchad, Société Industrielle de Materiels Agricoles et d'Assemblage des Tracteurs (SIMATRAC), Société Tchadienne d'Hydraulique (STH), Fonds d'Entretien Routier (FER).

5. **Oil revenue** is defined as the sum of (i) the gross sales revenue of government's crude oils obtained through government's equity participation in oil companies minus all costs incurred due to the equity participation (*cash-call*) and transportation cost associated with the sales of government's crude oils, (ii) royalties, (iii) statistical fees, (iv) profit tax, (v) dividends, (vi) bonuses, (vii) revenues from exploration duties, (viii) surface tax, (ix) access rights to the pipe and (x) any other flows of revenue paid by oil companies (settled *in-kind* and *in-cash*), except indirect duty and taxes. The authorities will notify IMF staff of changes in the oil taxation systems and laws that may impact revenue flows. **Exceptional receipts** paid by oil companies, whose definition is given in Paragraph 7 below, are excluded from oil revenue.

6. **Customs revenue** is defined as the revenue generated from all levies and duties payable on goods of a particular kind because they are entering the country or services because they are delivered by nonresidents to residents (as defined in GFSM 2014, paragraph 5.84). Customs revenue is recorded on a cash basis. For the purpose of the program monitoring, customs revenues are those recorded in the table "*Situation des régies financières*" of the Treasury.

7. **Exceptional receipts** are defined as payments to the government that include:

- Payments from resolution of protracted disputes between foreign companies operating in Chad and the Government in connection with their tax obligations or potential violations to laws and standards or any other legal obligations.
- Payments from the sale or placement or privatization of Government's assets, granting or renewal of licenses.

8. **Total government revenue** is the sum of tax revenue and non-tax revenue (as defined in GFSM 2014, Chapter 5). Oil revenue, as defined in paragraph 5 and custom revenue as defined in paragraph 6, and exceptional receipts as defined in paragraph 7. These items will be shown in the breakdown of total government revenue report.

9. **Total government expenditure** is understood to be the sum of expenditure on wages and salaries of government employees (as provided in the document "*Masse salariale*", see Paragraph 11 for details), goods and services, transfers (including subsidies, grants, social benefits, and other expenses), interest payments, and capital expenditure. All these categories are recorded on a commitment basis, unless otherwise stated. Except for capital expenditure, which is defined as shown in the Government Finance Statistics Manual 1986 (GFSM 1986),[2] all other spending items are defined as in GFSM 2014 (Chapter 6). Total government expenditure also includes "*dépenses avant ordonnancement*" (DAO) which are not yet regularized (see paragraph 10 for details).

10. ***Dépenses avant ordonnancement*** **(DAO)** is defined as all expenditures which do not go through the standard spending procedure. A standard procedure entails a chain which includes the commitment ("engagement"), the validation ("liquidation"), the authorization of payment order ("*ordonnance*"), and the cash payment. There are two categories of DAOs:

- The first category consists of DAOs which are made relative to a credit line in the budget. These DAOs can be regularized (i.e., recorded in the correspondent line of the budget) without difficulties.

- The second category consists of DAOs which are made regardless of the existence of a credit line in the budget. Their regularization requires either an adjustment in the revised budget, i.e., Amended Financial Law (LFR), or a ministerial order to transfer credit allocation within the budget.

11. **Wages and salaries** correspond to the compensation of all government employees, including civil servants and members of the armed and security forces. Compensation is defined as the sum of wages and salaries, allowances, bonuses, pension fund contributions on behalf of civil servants, and any other form of monetary or non–monetary payment. For the purpose of program monitoring, data are computed from the document "Masse salariale", which excludes compensations to staff under certain contracts that are classified as Transfers (see Paragraph 13 for details).

12. **Subsidies** are defined as government current expenditure that are made to enterprises on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import. For the purpose of program monitoring, subsidies refers to those reported in "Tableau de 4 Phases".

13. **Transfers** are defined as government current expenditure to individuals, private nonprofit institutions, nongovernmental foundations, corporations, or government units that are not included in other categories of transfers. For the purpose of program monitoring, transfers refer to those reported in "Tableau de 4 Phases".

[2] Capital Expenditure - expenditure for acquisition of land, intangible assets, government stocks, and nonmilitary, nonfinancial assets, of more than a minimum value and to be used for more than one year in the process of production. Capital expenditure is frequently separated (in some cases along with certain revenue) into a separate section or capital account of the budget or into an entirely separate budget for expenditure, i.e., the capital budget. This separation may sometimes follow different criteria, however.

14. For the purposes of this TMU:

- The term "debt" is as defined in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107) but also includes contracted or guaranteed commitments for which values have not been received. For purposes of these guidelines, the term "debt" is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take several forms; the primary ones being as follows:

    i. Loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchange of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the loan funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

    ii. Suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

    iii. Lease agreements, that is, arrangements under which the lessee is allowed to use a property for a duration usually shorter than that of the life of the property in question, but without transfer of ownership, while the lessor retains the title to the property. For the purposes of this guideline, the debt is the present value (at the inception of the lease) of all the lease payments expected for the period of the agreement, except payments necessary for the operation, repair, and maintenance of the property;

- In accordance with the definition of debt set out above, penalties and judicially awarded damages arising from failure to pay under a contractual obligation that constitutes debt are also debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

- **Domestic debt** is any debt as defined in above, which is denominated in Central African Franc (CFAF).

- **External debt** is any debt as defined in above, which is denominated in a foreign currency, i.e., a currency other than CFAF.

- Debt is considered **concessional** if it includes a **grant element** of at least 35 percent[3] and **non-concessional** if otherwise. The grant element is defined as the difference between the nominal value of the loan and its present value, expressed as a percentage of the nominal value of the loan. The present value of the debt at the date on which it is contracted is calculated as the discounted sum of all future the debt service payments at the time of the contracting of the debt[4]. The discount rate used for this purpose is **5 percent per annum**.

15. **Domestic payment arrears** is defined as the sum of (i) recognized expenditure payment arrears and (ii) domestic debt payment arrears, which are defined below:

- The outstanding amount in a payment order, to a private or public company, for an expenditure incurred, validated and certified by the financial controller and then created by the "*Direction of Ordonnancement*", is defined as a **float** after the payment authorization is issued by the Treasury. The outstanding amount of a float is classified as a **recognized expenditure payment arrear** 90 days after the issuance of the payment authorization. The recognized expenditures payment arrears so defined do not include domestic debt payment arrear and arrears on wage and salaries. **Unrecognized expenditure payment arrears** are defined as any potential expenditures payment arrears which have not gone through that standard spending procedure. The nature and the amount of those potential arrears will be determined by an audit of domestic arrears (see paragraph 23).

- **Domestic debt payment arrears** are defined as the difference between the amount required to be paid under the contract or legal document and the amount actually paid after the payment deadline specified in the pertinent contract.

16. **External debt payment arrears** are defined as external debt obligations of the government and public, non-financial enterprises that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). This PC excludes arrears on external financial obligations of the government for which the creditor has accepted in writing to negotiate alternative payment schedules before the relevant payment due, and excludes technical arrears that are less than two weeks.

17. **The non–oil primary balance (NOPB)** is defined on a commitment basis as the difference between (i) total government revenue (not including grants), oil revenue and exceptional receipts, and (ii) primary expenditure, which is defined as the total government expenditure minus interest payments on domestic and external debt and foreign–financed capital expenditure.

[3] The IMF website gives an instrument (link hereafter) that allows the calculation of the grant element for a wide range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

[4] The calculation of concessionality takes into account all aspects of the loan agreement, including maturity, grace period, schedule, commitment and management fees commissions. The computation of the grant element for loans from the Islamic Development Bank (IsDB) will take into account the existing agreement between the IsDB and the IMF.

18. Poverty–reducing social spending, according to the latest general structure of Government, comprises public spending by the following ministries: (i) National Education and Civic Promotion, (ii) Public Health, (iii) Women, Early Childhood Protection and National Solidarity, (iv) Production, Irrigation and Agricultural Equipment, (v) Livestock and Animal Production, (vi) Environment Water and Sanitation, and (viii) Professional Training and small Job Promotion.

19. Domestic currency government financing is defined as the issuance of any instrument in CFAF to creditors; loans from BEAC (including support from the IMF), BDEAC, and CEMAC Member States, or any other debt contracted in CFAF. Net domestic currency financing to the government is subdivided into net bank financing, net securitized financing, net government financing from BEAC, and other non-bank financing. Net bank financing is defined as the change in the net government position towards the domestic commercial banks. Net government financing from BEAC is defined as the change in net government position towards the BEAC.[5] Net securitized financing includes the issuance of securitized government bonds and loans in CFAF to domestic and regional banks net of related amortizations since the end of the previous year.

20. "Program reference rate", is based on staff's "average projected rate" for the six-month USD LIBOR over the following 10 years and is identified as 3.22 percent for the duration of the program. The present value of loans with flexible interest rate will be calculated using the program reference rate plus the fixed spread (in basis points) specified in the loan contract. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 basis points) will be added.

C. Quantitative Performance Criteria

21. The quantitative performance criteria and indicative targets listed below are those specified in Table 1 of the MEFP. Continuous Quantitative Performance Criteria (QPC) require that at no point in time it will be non-observed. Should any non-observance occur, the authorities would inform the IMF promptly. Adjusters for the QPCs are specified in Section E below. Unless stated otherwise, all quantitative performance criteria will be assessed cumulatively from the beginning of the calendar year to the applicable test-dates (**the assessment period**) specified in Table 1 of the MEFP. The quantitative performance criteria and details on their assessment are as follows:

- **A floor for the non–oil primary balance**. The non–oil primary balance is defined in paragraph 17 above.
- **A floor on custom revenue.** The custom revenue is defined in paragraph 6 above.

[5] Net claims of the BEAC and domestic commercial banks to the State represent the difference between government debts and its deposits in the Central Bank and commercial banks. The scope of the net claims of the bank system on the State is defined by BEAC and represents the government net position.

- **A ceiling on the net domestic government financing (excluding BEAC). This is the sum of net bank financing and net securitized financing as defined in para 19**. This ceiling does not apply to the new agreements on internal debt restructuring and arrears securitization and to credit from the banking sector used to pay the arrears of the cotton public enterprise.

- **A ceiling on net government financing from BEAC** (as defined in para 19). The ceiling includes support from the IMF.

- **A ceiling on the stock of domestic recognized expenditure payment arrears**. Domestic recognized expenditure payment arrears are defined in paragraph 15. As of end-June 2017, the stock of recognized expenditure payment arrears was at CFAF 240 billion based on information in the Table "*Reste à Payer*" (prepared by the Treasury). The ceiling set for end-March 2018 onwards would be adjusted to reflect the end-December actual stock of arrears when final data is available.

- **A zero ceiling on the accumulation of any new external payment arrears by the government and public non-financial enterprises**. This ceiling applies continuously. Any non-observance to the ceiling will be reported promptly to the IMF with information regarding the date of the non-observance, amount of the missed payment and the creditor involved.

- **A zero ceiling on new non-concessional external debt contracted or guaranteed by the government and non–financial public enterprises, with a maturity of more than one year**. This ceiling applies continuously and does not include IMF financing. Debt is non-concessional if it includes a grant element of less than 35 percent, as described in Paragraph 14. Excluded from the ceiling are: (i) normal short–term credits for imports; and (ii) debt contracted before the ECF arrangement, and rescheduled during this arrangement to the extent that the rescheduling is assessed to improve the overall public debt profile.

D. Indicative Targets

22. **The indicative targets** listed below are those specified in Table 1 of the MEFP. Adjusters of them are specified in Section E below. Unless stated otherwise, all indicative targets will be assessed cumulatively from the beginning of the calendar year to the applicable test-dates (**the assessment period**) specified in Table 1 of the MEFP. The indicative targets and details on their assessment are as follows:

- **A floor on regularization of spending executed through emergency spending procedures (DAO**) Regularization of DAO (as defined in paragraph 10) will be done within 45 days after the end of the quarter and as follows: 90 percent of DAOs after the first quarter, 70 percent after the second quarter, 75 percent after the third quarter, and 80 percent after the fourth quarter.

- **A floor on poverty–reducing social spending**. Poverty–reducing social spending is defined in paragraph 18.

E. Adjustors to Performance Criteria and Indicative Targets

23. To take into account factors or changes beyond the government's control, the following quantitative performance criteria during the assessment period will be adjusted as follows:

- If the total budgetary receipts and loans are **lower** than the programmed amount, because of lower oil revenue or budget support, then the ceiling on the stock of domestic payment arrears can be adjusted **upward** up to the planned arrears repayment amount. An increase in net domestic financing (either net domestic government financing or net government financing from BEAC) could be envisaged up to 25 percent of the shortfall not compensated for through reduction in arrears payment.

- If the total budgetary receipts and loans are larger than the programmed amount, because of higher oil revenue, additional budget support, or exceptional receipt, the floor for the non-oil primary balance can be adjusted downward by 25 percent of the excess amount. For the purpose of the TMU, baseline oil revenue, budget support and exceptional receipts are shown in the text table below.

Text Table 1. Baseline Projection of Selected Variables

(Cumulative on annual basis)

	2018			
	End-March	End-June	End-September	End-December
	(in CFAF billion)			
Net Oil Revenue [1]	60	131	202	272
Budget Grants	48	77	121	155
Budget Loans	0	0	26	26
Exceptional Receipts	0	0	0	0
Total	108	208	348	453

[1] Net Oil Revenue is the sum of direct receipt and the sale revenue of government oil net of operating and transportation cost.

- Should expenditure compression be needed, poverty-reducing social spending would be adjusted to the extent that it is reduced proportionally less than other domestically financed primary spending such that its ratio does not decline compared to the previous year.

F. Structural Benchmarks

24. Structural benchmarks are specified in Table 2 of the MEFP. Outstanding SBs are governed by the previous TMU.

- Publication of a quarterly note on the oil sector, in line with the template agreed with the IMF staff, including detailed information on debt service to Glencore, starting end-September 2017 (Table 2).

    i. The note will comment on the recent development in the oil sector, including information related to production, export, and new exploration over the previous quarter, and expectation and forecast for the next 6 months.

    ii. The note will also provide a detailed account of the flow of oil revenue. Oil revenue will be reported by categories and the corresponding types of payments, in-cash (payment made in cash by oil companies) and in-kind (payment made in crude oil by oil companies). Other information will include information on the sale of government-owned crude oils, such as gross sales revenue, volume sold, transaction prices, operating costs ("Cash-call") to oil companies, transportation cost, interest payments, principal repayment, other related fees paid to service the Glencore loan and the final amount of sales revenue accrued to the Treasury.

- Finalization of the terms of reference of the external consultants for the review of the financial position and strategy of Banque Commercial du Chari (BCC) and Commercial Bank of Tchad (CBT), and development of a reorganization plan for these banks by the end-May 2018.

- Hire external consultant to review the financial position and strategy of BCC and CBT and develop a reorganization plan by end-July 2018.

- Publication of list of all tax and customs exemptions by end-June 2018. Related legal texts to be shared with IMF staff by end-June 2018.

- Ratification of the United Nations Convention Against Corruption (UNCAC) by end-June 2018.

- Adopt a clearance strategy of domestic arrears based on the audit results by end-October 2018.

- Deliver the report of external consultant on BCC and CBT to the IMF staff and regional supervisory authorities (COBAC) by end-January 2019.

Table 1. Summary of Data to be Reported		
Data	***Provider***	***Periodicity and Target Date***[1]
Oil and Non–oil revenue, by category *Collection situation* *Revenue position of the revenue–collecting agencies*	Ministry of Finance and Budget (Treasury)	Monthly, within 45 days of month–end
Quarterly Oil Sector Note	Ministry of Finance and Budget	Quarterly, within 45 days of quarter-end
Budget execution data, including on poverty–reducing social spending, showing commitments, validations, authorizations of payment order, and cash payments *Table showing the four phases; payroll table, including benefits*	Ministry of Finance and Budget General Budget Directorate DGB	Monthly, within 45 days after month–end.
Table of expenditure before payment authorization; TOFE, on a cash basis; *Comparative table on budget execution, consolidated balance tables (changes in debts, claims, etc.); and consolidated Treasury balance*	Ministry of Finance and Budget General Budget Directorate DGB DGTCP DGTCP	Monthly, within 45 days of month–end
Detailed budget execution information for transfers in the same classification as the budget	Ministry of Finance and Budget (General Budget Directorate)	Monthly, within 45 days of month–end
Details by project financed domestically, execution of the investment budget, with the information organized by Ministry	Ministry of Finance and Budget (General Budget Directorate)	Quarterly, within 45 days of the end of the quarter.
Information on DAO regularization	Ministry of Finance and Budget.	Quarterly, within 60 days after the end of the Quarter
Details, by externally financed project; investment budget execution; information organized by Ministry	Ministry of Finance and Budget (DGB) Ministry of Plan and International Cooperation (DGCI)	Quarterly, within 45 days of the end of the quarter.

Table 1. Summary of Data to be Reported (continued)

Data	***Provider***	***Periodicity and Target Date***
Information on public procurement in the previous month and updating of payment maturity for the rest of the year.	Ministry of Finance and Budget (Financial Control)/SGG (OCMP/Procurement Directorate)	Monthly, within 45 days of month–end
Table on external debt (including those in local currency). The table should include previous month's due payments, payments made, and projected payments due for the next 3 months broken down by creditors.	Ministry of Finance and Budget	Monthly, within 45 days of month-end
Information on external debt arrears (including those in local currency): i) updated list of stock of arrears broken down by creditors (which incorporates any rescheduling agreement with creditors); ii) information on repayment of arrears including amount paid and date on which payments were made; iii) information on any rescheduling agreement on the stock of external arrears at the beginning of the program period.	Ministry of Finance and Budget	Monthly, within 45 days of month-end
In case of missed external debt service payment the following information will be needed: i) the date of the missed payment; ii) amount of the missed payment and iii) creditor involved.	Ministry of Finance and Budget	Within 14 days of occurrence
Details on the servicing of the domestic debt and payment arrears of the government[2]	Ministry of Finance and Budget (Debt Directorate, DCP)	Quarterly, within 45 days of the end of the quarter.
Details on the servicing of the external debt of the government[3]	Ministry of Finance and Budget DGTCP (Debt Directorate)	Quarterly, within 45 days of the end of the quarter.
Details on new loans contracted or guaranteed by the government and public non-financial companies	Ministry of Finance and Budget (Debt Directorate) Ministry of Plan and International Cooperation (DGCI)	Within 45 days of transaction completion.

Table 1. Summary of Data to be Reported (concluded)

Data	***Provider***	***Periodicity and Target Date***
Monetary survey	BEAC	Monthly, within 45 days of month–end.
Provisional monetary data from the BEAC *(Exchange rates, foreign reserves, assets and liabilities of the monetary authorities, base money, broad money, central bank balance sheet, consolidated balance sheet of the banking system, interest rates*[4]*)*	BEAC	Monthly, within 45 days of month–end.
Balance of SDR account at month end	BEAC NGP Committee	Monthly, within 3 months of month–end
Net banking system claims on the government (NGP)	BEAC	Monthly, within 30 days of month–end.
Consumer price index	INSEED	Monthly, within 45 days of month–end.
Gross domestic product and gross national product	Macroeconomic Framework Committee (SG MFB)	Annually, within 180 days of year end.
Balance of payments (External current account balance, exports and imports of goods and services, etc.)	BEAC	Annually, within 180 days of year end (preliminary data).
Gross external debt	Ministry of Finance and Budget DGT (Debt Directorate)	Annually, within 90 days of year end.

[1] For end-December fiscal data, data should be reported 45 days after the end of the complementary period.

[2] Including maturities.

[3] Including the breakdown by currency and maturity

[4] Both market-based and officially determined, including discounts, money market rates, and rates on treasury bills, and bonds and other securities.

Table 2. Summary of Oil Revenue

CFAF Million	2017 *Actual*	2017 *Projection*	2018 *Projection*	2019 *Projection*	2020 *Projection*	Unit
Production and Export Overiew						
Production Volume						Barrel
Export Volume						Barrel
Export Value						CFAF
Crude Oil supplied to SRN						Barrel
Crude Oil Received						
By the Government						Barrel
By SHT						Barrel
Total						Barrel
Total Oil Revenue						CFAF
Direct Receipt						CFAF
Net Sales Revenue						CFAF
Direct Receipt						
Profit Tax (in Cash)						CFAF
Statistical Fee						CFAF
Surface Fee						CFAF
Dividend						CFAF
Bonus						CFAF
Other Receipt in cash						CFAF
Total						CFAF
Gross Government Crude Oil Sales Revenue						
Government						CFAF
SHT						CFAF
Net Sales Revenue						CFAF
Average Selling Price						
in FCFA						CFAF
in USD						US Dollar
Doba Discount						US Dollar
Oil sales until March 2017						
Government						
Export Volume						Barrel
Export Value						CFAF
Average Selling Price						CFAF
Transportation Cost						CFAF
SHT						
Export Volume						Barrel
Export Value						CFAF
Average Selling Price						CFAF
Transportation Cost						CFAF
SHT participation cost (Cash-call)						CFAF
Glencore Debt						
Interest Payment						CFAF
Principal Repayment						CFAF
Restructuring Fee						CFAF
Net Sales Revenue						CFAF
Memorandum Item						
Exchange Rate						CFAF/USD

CHAD

March 30, 2018

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, REPHASING OF DISBURSEMENTS, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

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Following the agreement in principle to restructure the debt to Glencore, Chad's debt vulnerabilities have declined significantly. Once the final agreement is reached and progress is made on clearing outstanding external arrears, other things equal, the risk rating would be expected to be upgraded to 'moderate' under the current LIC DSF methodology. The Debt Sustainability Analysis[1] (DSA) shows that all debt burden indicators fall below their respective thresholds in the baseline from 2018 onwards. Notably, the debt-service-to-revenue ratio, which was significantly above the threshold in the 2017 DSA, is now projected to be about 5 percentage points below for 2018 and to remain below the threshold throughout the projection period. Overall, public debt vulnerabilities are elevated although the present value (PV) of the public debt-to-GDP ratio remains on a downward trajectory. Given that some external arrears remain outstanding and debt restructuring discussions with Glencore have not been finalized, staff considers that debt is in distress at this time. The fixed primary balance scenario, which keeps the primary deficit-to-GDP ratio unchanged from 2017, shows the public debt ratio declining at a slower pace throughout the forecast period, further highlighting the need to adhere to the prudent fiscal policy framework underpinning the IMF-supported program. Adoption and implementation of an appropriate debt management strategy, while making progress in economic diversification would further reduce vulnerabilities.

[1] Chad's three-year average score of the Country Policy and Institutional Assessment (CPIA) for 2015–17 is estimated at 2.60. This corresponds to a weak policy performance under the DSA framework.

BACKGROUND AND RECENT DEVELOPMENTS

1. **Chad's external public debt burden increased considerably from 2008, mainly on account of external commercial borrowings related to oil.** At end-2017, outstanding public and publicly guaranteed (PPG) external debt stood at nearly US$2.8 billion (27.2 percent of GDP) compared to US$1.6 billion (18 percent of GDP) at end-2008 (Text Table 1). Commercial borrowings (oil sale advances) from Glencore in 2013 to cover revenue shortfalls and in 2014 to purchase a share in the Doba oil Consortium were the main contributors. Falling oil prices over 2014-16 also contributed to rising debt service burdens by reducing revenues available to repay oil sales advances.

2. **Debt relief, following the achievement of the HIPC completion point, along with some debt reprofiling helped to ease the rising debt burden.** Chad benefited from US$756 million in debt relief after achieving the HIPC completion point in April 2015. This amount includes MDRI relief from the International Development Association and the African Development Bank, and forgiveness from the Paris Club, while non-Paris Club members agreed to reschedule their remaining amounts on IDA comparable terms. In late 2015, the authorities also signed a rescheduling agreement with Glencore to consolidate the oil sale advances and extend their maturities. However, while the rescheduling agreement provided some flow relief, it proved to be insufficient, and led to an increase in the present value of the debt. In February 2018, the authorities reached an agreement in principle with Glencore for a deeper restructuring which helped reestablish debt sustainability. In April 2017, the authorities rescheduled arrears (accrued in 2016) and upcoming maturities with China.

3. **The composition of external public debt has changed significantly over the past decade**. The share of external debt from multilaterals has fallen sharply from about 86.5 percent in 2008 to 24.1 percent in 2017, while the share of commercial debt, which was virtually non-existent in 2008, has risen to almost 50 percent, mostly to Glencore. Bilateral debt doubled over the decade but, as a share of total debt, it is still significantly less than commercial debt (Text Table 1).

4. **External payment arrears accumulated in 2016 and in 2017.** As a result of liquidity challenges in 2016 and the first half of 2017, the government accrued external arrears vis-à-vis a number of multilateral, bilateral, and one commercial creditor (a bank from Taiwan province of China). While some arrears particularly to multilateral creditors were cleared, some (to bilaterals) estimated at about US$98 million (1 percent of GDP) remained outstanding at end-2017 (Text Table 2). The authorities are making an effort to address those arrears.

5. **Domestic public debt, which includes external debt denominated in domestic currency, has increased significantly in recent years.** There has been a greater reliance on non-central bank financing, in particular issuance of government securities. While debt to the regional central bank (BEAC) remains high, its share in total debt has declined. In addition, in September 2017, all debt to the BEAC (for an amount of CFAF 479 billion) was consolidated and rescheduled into long-term securities with a grace period of 4 years and maturity of 14 years (Text Table 3).

Text Table 1. Chad: External Debt Stock 2014-17 /1

	2014	2015	2016	2017
Total (Billions of CFA francs)	2010.2	1616.6	1622.5	1561.9
(Percent of GDP)	29.1	25.0	27.1	27.2
Billions of CFA francs				
Multilateral	734.8	375.1	390.4	377.1
IMF	11.1	38.3	77.3	96.0
World Bank/IDA	397.4	112.9	110.1	100.9
African Development Fund/Bank	180.7	68.6	55.9	55.6
Others	145.6	155.4	147.2	124.7
Bilateral	334.0	366.3	369.5	417.0
Paris Club official debt	11.5	2.1	…	25
Non-Paris Club official debt	322.5	364.2	369.5	391.9
of which: China, People's Republic	129.0	144.4	156.0	131.5
Libya	139.6	158.3	164.0	149.6
India	21.1	27.4	30.1	26.9
Commercial 2/	941.5	875.2	862.5	767.9
Share of Total (percent)				
Multilateral	36.6	23.2	24.1	24.1
Bilateral	16.6	22.7	22.8	26.7
Commercial 2/	46.8	54.1	53.2	49.2

Sources: Chadian authorities, selected creditors, and World Bank and IMF staff estimates.

[1]Includes only debt denominated in foreign currency

[2]Glencore loan accounts for about 98 percent of commercial debt stock in 2017

Text Table 2. Chad: Estimated External Arrears
(Millions of US dollars)

	2017
Multilateral	**6.68**
Islamic Development Bank	6.50
European Investment Bank	0.18
Bilateral	**92.02**
Libya	40.35
India	10.25
Congo[1]	37.89
Equatorial Guinea	3.53
Commercial	**3.20**
Mega International Commercial Bank[2]	3.20
Total	**101.90**

[1] In CFAF

[2] Commercial bank from Taiwan Province of China.

Text Table 3. Chad: Domestic Debt at Year-End, 2014-2017

	2014	2015	2016	2017p
Total (Billions of CFA francs)	**708.9**	**1185.0**	**1437.0**	**1457.4**
(Percent of GDP)	**10.3**	**18.3**	**24.0**	**25.5**
		Share of Total (in percent)		
Central Bank financing	31.4	38.4	34.4	32.9
Statutory advances [1]	*26.5*	*23.6*	*19.5*	...
Exceptional advance [1]		*11.8*	*11.8*	...
Consolidated debt	*4.9*	*2.9*	*3.1*	...
Commercial banks' loans	19.4	7.3	3.8	3.5
2011 Bond[2]	7.6	2.3	0.0	0.0
2013 Bond[2]	10.2	4.6	3.8	1.2
Treasury Bonds[3]		11.8	20.8	21.6
BDEAC	1.7	1.7	3.3	4.7
Republic of Congo	4.9	3.0	2.4	2.4
Equatorial Guinea	2.1	1.3	1.0	1.0
Cameroon			2.1	2.1
Domestic arrears[4]	7.3	16.9	11.7	14.4
Others[5]	12.4	7.4	6.1	6.0
Memo items:				
Treasury Bills	*3.9*	*7.1*	*11.9*	*10.2*

Source: Chadian authorities

[1]Existing balances were converted into long-term securities with grace period of 4 years and maturity of 14 years.

[2]Issued through banks' syndication

[3]Auctionned in regional securities' market.

[4]Assumes repayment of 20 billion in recognized arrears since June 2017 bring the total for 2017 to 51 billion.

[5]Legal commitments, Standing payment orders, and accounting arrears.

Glencore Debt Restructuring

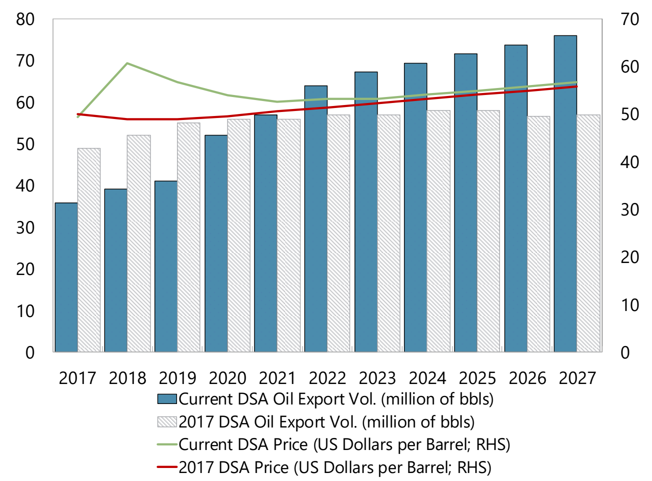
6. **The authorities have reached an *agreement in principle* with Glencore on the terms of the debt restructuring.** The restructuring is expected to reestablish debt sustainability and alleviate budgetary pressures. The restructuring agreement covers a total of about US$1.3 billion of external debt and includes a significant extension of maturity, a large reduction in restructuring fees, and a lower interest rate. Specific contingencies are included to help safeguard sustainability in downside scenarios and accelerate the payment of debt in case of upside scenarios.

UNDERLYING ASSUMPTIONS

7. The DSA's baseline scenario reflects policies and financing assumptions underlying the ECF arrangement and the Glencore debt restructuring. It is based on the WEO oil price projection, a gradual recovery in oil production, and policies to stabilize the fiscal position and support a sustainable recovery in non-oil activity. It also assumes clearance of external arrears in 2018.

- **Oil exports.** Chad's medium- and long-term macroeconomic outlook is characterized by a gradual increase in oil production. In 2017, oil production was significantly lower than projected at the time of the 2017 DSA due to technical problems faced by the second largest oil producer in Chad. Production is expected to begin to recover in 2018 but delays in implementing new extraction technologies will keep production below the 2017 DSA projections up to 2020, after which production is expected to increase gradually in line with the use of this technology and with the capacity of new fields projected to start production (Text Figure 1). The price of a barrel of Chadian oil has been revised upward in the medium-term relative to the 2017 DSA projections, reflecting a significant decline in the discount applied to Chad oil in the past year and higher world oil prices, but converges from 2023 onwards.

Text Figure 1. Changes in Oil Projections



Sources: Chadian authorities; and IMF staff calculations.

- **Fiscal policy.** It is assumed that the authorities remain committed to strengthen the fiscal position, including by maintaining tight spending control, and improving non-oil revenue mobilization. However, the fiscal surplus over 2018-21 is slightly lower than assumed in the 2017 DSA due to small revisions to non-oil tax revenues to take into account lower-than expected performance in 2017.

- **Arrears.** Efforts are underway to clear arrears to official bilateral creditors and the authorities are making good faith efforts to clear arrears to the bank from Taiwan province of China. The baseline scenario also includes a gradual reduction in the stock of verified domestic arrears.

- **External current account.** The current account deficit is now wider in the medium-term than under the 2017 DSA reflecting lower oil export receipts due to lower production and the use of part of government oil for domestic consumption. In addition, import projections have been revised up to reflect planned increases in oil capital expenditure and currency appreciation.

8. Risks to the outlook. While the agreement in principle to restructure the Glencore debt has removed a major source of vulnerability, the baseline remains subject to a number of risks. These stem from the potential for additional domestic debt and arrears not identified yet, a rise in non-concessional borrowing, and overruns in the wage bill. In addition, a further deterioration in the liquidity position of banks presents a risk given that it could undermine the rollover of domestic public debt. Developments in the international oil market continue to pose both upside and downside risks to the outlook, although the contingencies integrated into the agreement in principle to restructure the Glencore debt help alleviate the impact of lower oil prices.

Text Table 4. 2017 DSA vs. Current DSA (assumptions)

	2017	2018	2019	2020	2021	2022
	(Percentage Change)					
Real Growth						
2017 DSA	0.6	2.4	3.1	3.9	3.6	3.7
Current DSA	-3.1	3.5	2.8	6.8	4.8	4.6
Inflation (deflator, av.)						
2017 DSA	-4.1	1.5	2.3	3.2	2.7	2.3
Current DSA	1.0	12.4	3.6	4.1	3.7	3.6
	(Percent of GDP)					
Budget Balance						
2017 DSA	3.6	3.1	2.4	2.4	1.9	2.2
Current DSA	0.6	2.1	0.9	1.7	1.5	2.3
Net FDI						
2017 DSA	3.2	3.4	3.7	4.0	4.0	3.6
Current DSA	3.7	4.0	4.4	4.6	4.7	3.5
Non-Interest Current Account Balance						
2017 DSA	-0.7	-1.9	-2.5	-2.7	-3.2	-2.6
Current DSA	-4.2	-3.6	-4.8	-4.2	-4.3	-4.0

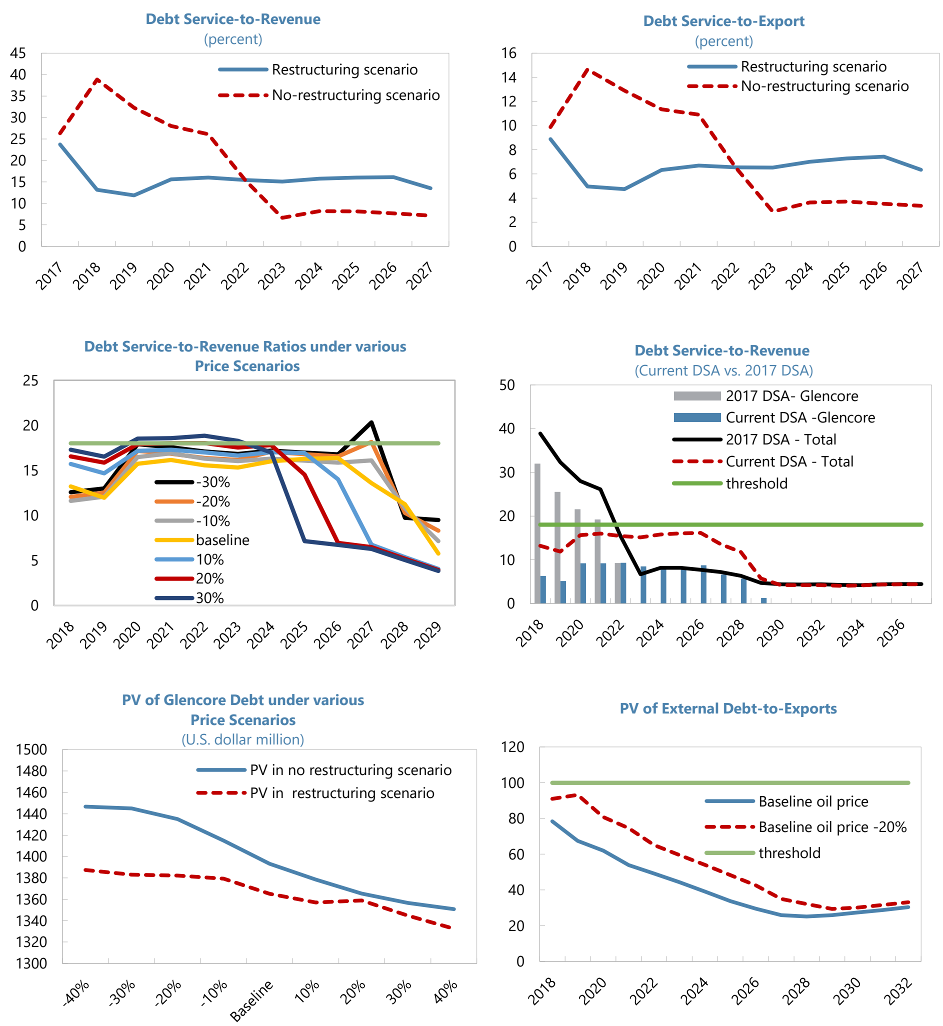
EXTERNAL DSA

9. While the Glencore debt restructuring is expected to lead to a significant improvement in debt dynamics, at this time staff assesses external debt to be in distress given that the final restructuring agreement has not been signed and some external arrears remain. Once the final agreement is reached and progress is made on clearing the outstanding external arrears, other things equal, staff would expect to upgrade the risk rating to moderate under the current LIC DSF methodology (Text Figures 2).

- The agreement in principle to restructure the Glencore debt has eliminated the breach to the debt service to revenue threshold mainly responsible for the debt difficulties Chad has faced recently. The ratio drops considerably in 2018 to 13.2 percent, almost 5 percentage points below the threshold. While it increases slightly over the medium term, it remains firmly below the threshold under the baseline scenario, as well as under reasonable lower oil price scenarios. This is the main change from the 2017 DSA, in which the ratio was close to 40 percent for 2018. Similar improvement is seen to the evolution of the debt service to export ratio.

- The present value of the debt reflecting the agreement in principle also improves. It is 4 percent lower compared to the old debt contract under a baseline scenario that reflects similar prices, and is also lower under higher and lower oil price scenarios. The PV of debt to exports is significantly below the LIC DSF threshold even with oil prices 20 percent lower than under the baseline.

Text Figure 2. Impact of Debt Restructuring



Sources: Chadian authorities; and IMF staff calculations.

10. All external debt burden indicators are generally below their respective thresholds in the baseline. The PV of public and publicly guaranteed external debt as a share of GDP declines gradually from 27.2 percent at end-2017 to under 10 percent by 2028 (Figure 1; Table 1). At 202.7 percent, the PV of debt-to-revenue ratio is slightly above the 200 percent threshold mark in 2018 but falls below it in 2019 and continues to decline steadily to reach 54 percent by 2028.

11. All the debt indicators breach the relevant thresholds in the presence of extreme shocks (Figure 1, Table 2). A shock to exports would push the PV of debt-to-exports and the debt service-to-exports ratios well above their thresholds. The shock that generates the largest impact for the PV of debt-to-GDP ratio, the PV of debt-to-revenue ratio, and debt service-to-revenue ratio is a combination shock where both growth and the primary balance fall below their historical average by half a standard deviation. All three debt burden indicators would rise sharply above their respective threshold in 2018 and remain elevated well into the medium-term. This highlights the sensitivity of the debt trajectory to the fiscal and growth assumptions and further confirms the need to adhere to the fiscal adjustment path under the IMF-supported program.

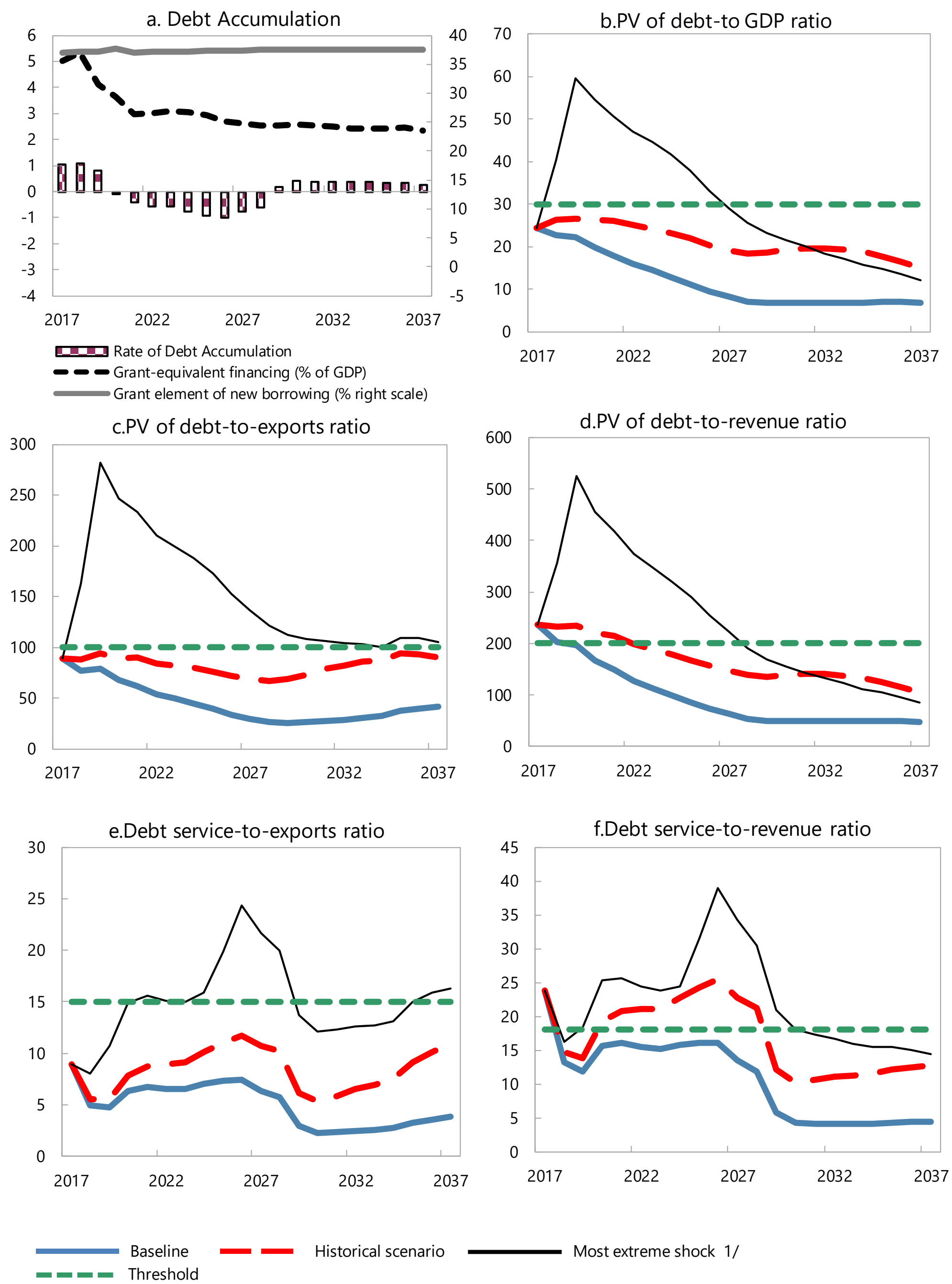
PUBLIC DSA

12. Analysis of total public debt suggests a heightened level of vulnerability (Figure 2, Table 3). The PV of total public debt, as a share of GDP, at end-2017 stood at 49.7 percent, which is about 11.5 percentage points above the benchmark level associated with heightened public debt vulnerabilities for weak policy performance. However, this indicator declines continuously over the medium-term, falling below the threshold by 2023 and eventually stabilizing at about 20 percent into the long-term. The fixed primary balance scenario follows a similar trajectory but remains above the baseline, underscoring the need to remain committed to prudent fiscal policies (Figure 2).

CONCLUSION

13. Chad's external debt is assessed to be in distress at this time and there are heightened public debt vulnerabilities. The rescheduling of the Glencore debt, along with the projected recovery in the oil sector and prudent fiscal policy, result in debt burden indicators declining significantly over the near and medium term. The external debt trajectory remains sensitive to a number of shocks including on exports and to fiscal slippages. However, given that the restructuring agreement is still to be finalized and some external arrears remain outstanding, external debt is considered currently in distress. Additionally, total public debt vulnerabilities remain elevated, which reinforces the need to maintain prudent fiscal policy including on external and domestic borrowing. Finally, effective inter-agency coordination to strengthen the capacity to record and monitor public debt is very important to better manage public debt.

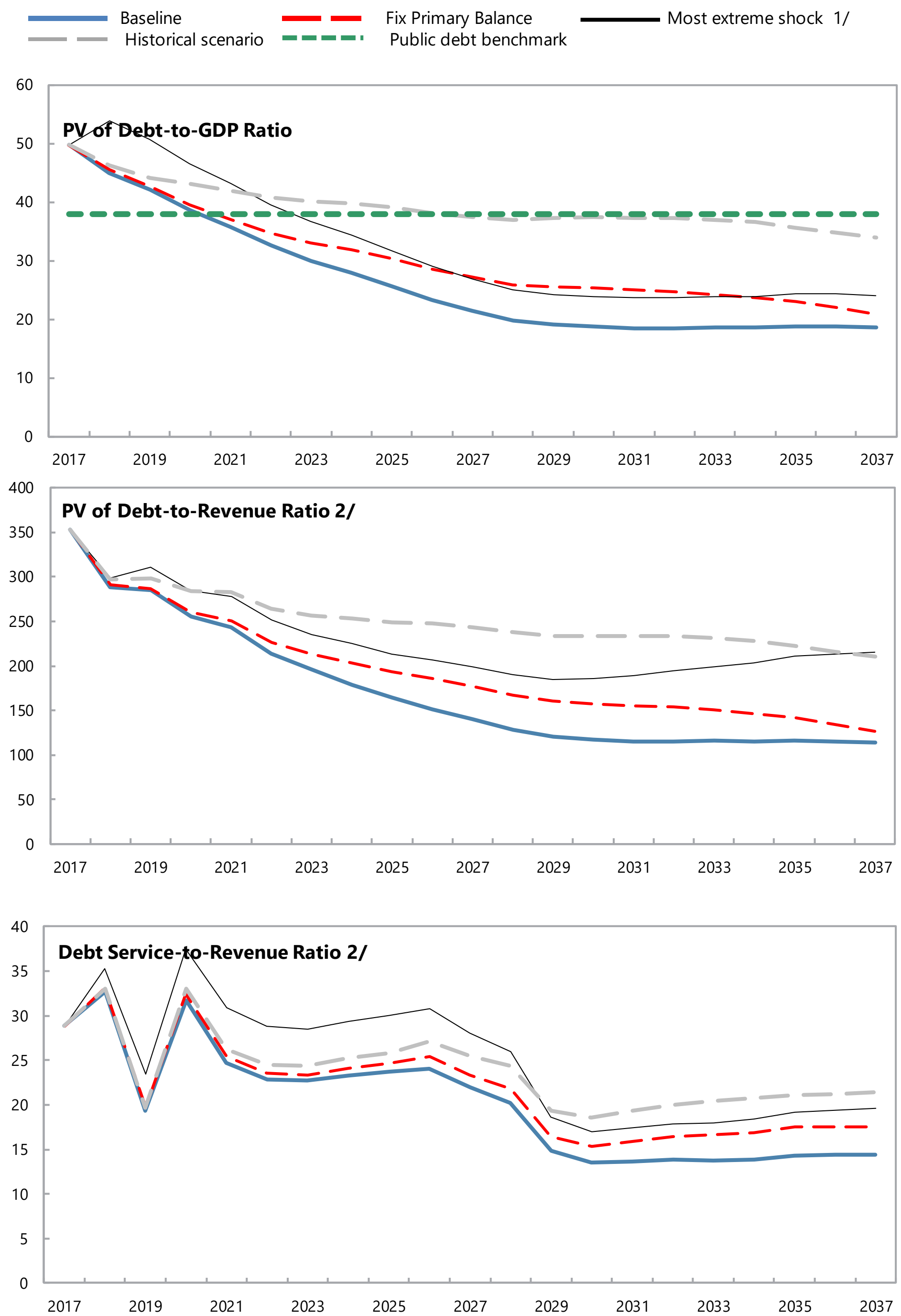
Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2017–37 1/



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 2027. 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 Combination shock

Figure 2. Chad: Indicators of Public Debt under Alternative Scenarios, 2017–37 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 2027.
2/ Revenues are defined inclusive of grants.

Table 1. Chad: External Debt Sustainability Framework, Baseline Scenario, 2014–37 1/

(Percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	29.1	25.0	27.1			27.2	26.0	25.4	23.0	20.7	18.7		10.3	9.7	
of which: public and publicly guaranteed (PPG)	29.1	25.0	27.1			27.2	26.0	25.4	23.0	20.7	18.7		10.3	9.7	
Change in external debt	8.0	-4.1	2.2			0.1	-1.2	-0.6	-2.4	-2.2	-2.0		-1.4	-0.2	
Identified net debt-creating flows	2.2	16.7	8.9			2.5	-0.6	0.5	-1.2	-0.8	0.1		0.4	1.8	
Non-interest current account deficit	8.2	12.5	7.2	5.3	6.3	4.2	3.6	4.8	4.2	4.3	4.0		2.6	2.9	2.4
Deficit in balance of goods and services	12.5	16.3	15.0			13.9	13.1	13.3	11.5	10.7	8.6		5.6	7.3	
Exports	31.4	26.5	24.4			27.5	29.9	28.3	29.5	28.9	29.8		27.9	16.6	
Imports	43.9	42.9	39.4			41.5	43.0	41.6	41.1	39.6	38.3		33.5	23.9	
Net current transfers (negative = inflow)	-7.9	-7.1	-7.7	-6.1	1.5	-10.0	-9.6	-8.7	-7.9	-7.0	-6.7		-5.3	-4.3	-5.1
of which: official	-4.4	-3.0	-2.9			-3.6	-4.3	-3.1	-2.5	-1.9	-1.9		-1.5	-1.6	
Other current account flows (negative = net inflow)	3.6	3.2	-0.2			0.2	0.2	0.2	0.5	0.6	2.1		2.3	0.0	
Net FDI (negative = inflow)	-5.2	-5.1	-2.4	-4.3	1.9	-3.7	-4.0	-4.4	-4.6	-4.7	-3.5		-2.0	-1.0	-1.8
Endogenous debt dynamics 2/	-0.8	9.3	4.2			2.0	-0.2	0.0	-0.9	-0.5	-0.4		-0.3	-0.1	
Contribution from nominal interest rate	0.7	1.2	2.1			1.1	0.7	0.7	0.7	0.6	0.5		0.2	0.1	
Contribution from real GDP growth	-1.4	-0.7	1.7			0.9	-0.8	-0.7	-1.6	-1.0	-0.9		-0.4	-0.3	
Contribution from price and exchange rate changes	-0.2	8.8	0.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	5.7	-20.8	-6.7			-2.4	-0.7	-1.0	-1.2	-1.4	-2.1		-1.7	-2.0	
of which: exceptional financing	-0.1	-0.8	-1.1			-1.0	-1.7	-1.1	-0.6	-0.3	-0.3		-0.2	-0.1	
PV of external debt 4/	...	...	25.2			24.4	22.8	22.2	19.9	17.9	16.1		8.2	6.9	
In percent of exports	...	...	103.6			88.7	76.4	78.4	67.4	62.0	53.9		29.5	41.2	
PV of PPG external debt	...	...	25.2			24.4	22.8	22.2	19.9	17.9	16.1		8.2	6.9	
In percent of exports	...	...	103.6			88.7	76.4	78.4	67.4	62.0	53.9		29.5	41.2	
In percent of government revenues	...	...	262.2			236.8	202.8	196.4	166.5	148.3	127.3		63.0	47.8	
Debt service-to-exports ratio (in percent)	15.6	9.5	16.7			8.9	5.0	4.7	6.3	6.7	6.5		6.3	3.8	
PPG debt service-to-exports ratio (in percent)	15.6	9.5	16.7			8.9	5.0	4.7	6.3	6.7	6.5		6.3	3.8	
PPG debt service-to-revenue ratio (in percent)	29.9	24.0	42.2			23.7	13.2	11.9	15.6	16.0	15.4		13.5	4.4	
Total gross financing need (Billions of U.S. dollars)	1.1	1.1	0.9			0.3	0.1	0.2	0.2	0.2	0.4		0.5	1.0	
Non-interest current account deficit that stabilizes debt ratio	0.2	16.6	5.0			4.1	4.9	5.3	6.7	6.5	6.0		4.0	3.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.9	1.8	-6.4	4.1	5.3	-3.1	3.5	2.8	6.8	4.8	4.6	3.2	3.9	2.8	3.0
GDP deflator in US dollar terms (change in percent)	0.8	-23.2	-1.5	-0.1	12.5	1.0	12.4	3.6	4.1	3.7	3.6	4.7	2.9	2.9	2.9
Effective interest rate (percent) 5/	3.6	3.3	7.6	2.7	2.1	4.1	2.8	3.0	3.0	2.7	2.7	3.0	1.5	1.2	1.9
Growth of exports of G&S (US dollar terms, in percent)	1.3	-33.9	-15.3	-1.7	19.6	10.5	26.5	0.9	16.0	6.5	11.5	12.0	5.4	0.0	2.0
Growth of imports of G&S (US dollar terms, in percent)	9.8	-23.6	-15.3	1.9	14.1	2.9	20.7	3.2	9.8	4.9	4.8	7.7	4.4	1.4	2.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	37.1	37.1	37.3	37.7	37.0	37.1	37.2	37.4	37.6	37.4
Government revenues (excluding grants, in percent of GDP)	16.4	10.5	9.6			10.3	11.3	11.3	12.0	12.1	12.6		13.0	14.4	13.6
Aid flows (in Billions of US dollars) 7/	0.4	0.4	0.3			0.6	0.6	0.5	0.5	0.5	0.5		0.6	0.9	
of which: Grants	0.3	0.4	0.3			0.4	0.5	0.4	0.4	0.4	0.4		0.5	0.8	
of which: Concessional loans	0.1	0.1	0.0			0.2	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.0	5.4	4.1	3.6	3.0	3.0		2.6	2.3	2.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			70.7	75.6	79.9	82.4	82.7	83.3		81.0	80.8	80.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.0	10.9	10.1			9.9	11.5	12.2	13.6	14.8	16.0		22.4	38.0	
Nominal dollar GDP growth	7.8	-21.8	-7.8			-2.2	16.3	6.6	11.2	8.7	8.3	8.2	6.8	5.7	5.9
PV of PPG external debt (in Billions of US dollars)			2.4			2.5	2.6	2.7	2.7	2.7	2.6		1.8	2.6	
(PVt-PVt-1)/GDPt-1 (in percent)						**1.0**	1.1	0.8	-0.1	-0.4	-0.6	0.3	-0.8	0.3	-0.1
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	25.2			24.4	22.8	22.2	19.9	17.9	16.1		8.2	6.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	103.6			88.7	76.4	78.4	67.4	62.0	53.9		29.5	41.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	16.7			8.9	5.0	4.7	6.3	6.7	6.5		6.3	3.8	

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 2. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37

(Percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to GDP ratio								
Baseline	24	23	22	20	18	16	**8**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	24	26	27	26	26	25	**19**	15
A2. New public sector loans on less favorable terms in 2017-2037 2/	24	23	23	21	19	17	**10**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	24	24	24	22	20	18	**9**	7
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	24	30	39	35	33	30	**18**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	24	30	34	31	28	25	**13**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	24	27	30	27	25	23	**13**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	24	40	60	55	51	47	**29**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	24	31	30	27	25	22	**11**	9
PV of debt-to-exports ratio								
Baseline	89	76	78	67	62	54	**29**	41
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	89	88	94	90	90	84	**69**	90
A2. New public sector loans on less favorable terms in 2017-2037 2/	89	78	82	71	66	58	**38**	65
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	89	77	79	68	62	54	**30**	41
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	89	162	281	246	233	210	**136**	105
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	89	77	79	68	62	54	**30**	41
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	89	91	107	93	87	77	**47**	46
B5. Combination of B1-B4 using one-half standard deviation shocks	89	157	249	218	207	187	**124**	87
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	89	77	79	68	62	54	**30**	41
PV of debt-to-revenue ratio								
Baseline	237	203	196	166	148	127	**63**	48
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	237	233	235	221	215	199	**147**	104
A2. New public sector loans on less favorable terms in 2017-2037 2/	237	208	205	175	158	138	**80**	75
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	237	214	216	182	163	139	**69**	52
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	237	268	342	295	271	240	**141**	59
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	237	263	302	255	228	195	**96**	73
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	237	241	268	229	208	182	**101**	53
B5. Combination of B1-B4 using one-half standard deviation shocks	237	357	527	455	419	373	**223**	85
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	237	278	270	228	203	174	**86**	65

Table 2. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37 (continued)

(Percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
Debt service-to-exports ratio								
Baseline	9	5	5	6	7	7	**6**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	9	6	5	8	9	9	**11**	11
A2. New public sector loans on less favorable terms in 2017-2037 2/	9	5	5	6	7	7	**6**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	9	5	5	6	7	7	**6**	4
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	9	8	11	15	16	15	**22**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	9	5	5	6	7	7	**6**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	9	5	5	7	7	7	**8**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	9	7	9	12	13	12	**19**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	9	5	5	6	7	7	**6**	4
Debt service-to-revenue ratio								
Baseline	24	13	12	16	16	15	**14**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	24	15	14	19	21	21	**23**	13
A2. New public sector loans on less favorable terms in 2017-2037 2/	24	13	12	16	16	16	**13**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	24	14	13	17	17	17	**15**	5
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	24	13	13	18	18	17	**22**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	24	17	18	24	24	24	**21**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	24	13	13	17	17	16	**18**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	24	16	18	25	26	24	**34**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	24	18	16	21	22	21	**18**	6
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, 2014-2037

(Percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	39.3	43.3	51.4			52.5	48.1	45.4	41.7	38.6	35.3	43.6	23.6	21.6	21.6
of which: foreign-currency denominated	29.1	25.0	27.1			27.2	26.0	25.4	23.0	20.7	18.7		10.3	9.7	
Change in public sector debt	8.8	3.9	8.1			1.2	-4.5	-2.7	-3.7	-3.1	-3.4		-1.9	-0.2	
Identified debt-creating flows	0.1	5.4	3.9			-1.7	-4.6	-2.9	-5.1	-4.0	-4.6		-3.3	-0.5	
Primary deficit 6/	2.6	3.0	-0.4	0.9	3.9	-0.6	-2.1	-0.9	-1.7	-1.5	-2.3	-1.5	-1.9	0.4	-1.1
Revenue and grants	18.4	14.0	12.6			14.1	15.7	14.8	15.1	14.7	15.3		15.3	16.4	
of which: grants	2.0	3.4	2.9			3.8	4.4	3.5	3.2	2.6	2.6		2.3	2.0	
Primary (noninterest) expenditure	21.0	17.0	12.2			13.5	13.6	13.9	13.5	13.2	13.0		13.4	16.8	
Automatic debt dynamics	1.9	3.0	4.8			0.4	-2.1	-1.6	-3.1	-2.2	-2.0		-1.2	-0.8	
Contribution from interest rate/growth differential	-1.0	-2.6	5.0			4.2	1.4	-1.1	-2.7	-1.9	-1.8		-1.2	-0.8	
of which: contribution from average real interest rate	1.0	-1.9	2.0			2.5	3.2	0.3	0.2	0.0	-0.1		-0.3	-0.2	
of which: contribution from real GDP growth	-2.0	-0.7	3.0			1.7	-1.8	-1.3	-2.9	-1.9	-1.7		-0.9	-0.6	
Contribution from real exchange rate depreciation	2.9	5.6	-0.3			-3.8	-3.5	-0.5	-0.4	-0.3	-0.2		...	...	
Other identified debt-creating flows	-4.4	-0.7	-0.5			-1.4	-0.4	-0.4	-0.3	-0.3	-0.3		-0.2	-0.1	
Privatization receipts (negative)	-4.0	-0.4	0.0			-0.9	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)	-0.4	-0.3	-0.5			-0.5	-0.4	-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	8.7	-1.4	4.3			2.8	0.1	0.2	1.5	0.9	1.2		1.3	0.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	49.5			49.8	45.0	42.2	38.7	35.9	32.7		21.5	18.8	
of which: foreign-currency denominated	...	...	25.2			24.4	22.8	22.2	19.9	17.9	16.1		8.2	6.9	
of which: external	...	...	25.2			24.4	22.8	22.2	19.9	17.9	16.1		8.2	6.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	8.4	8.2	6.2			6.5	5.5	4.0	4.9	3.9	3.0		4.0	5.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	394.1			353.1	287.0	285.5	255.5	243.7	214.0		140.6	114.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	514.1			482.5	398.9	373.4	323.3	296.4	258.9		165.1	130.6	
of which: external 3/	...	...	262.2			236.8	202.8	196.4	166.5	148.3	127.3		63.0	47.8	
Debt service-to-revenue and grants ratio (in percent) 4/	31.6	33.6	41.7			28.8	32.5	19.4	31.9	24.9	23.1		22.2	14.5	
Debt service-to-revenue ratio (in percent) 4/	35.3	44.6	54.4			39.4	45.1	25.3	40.4	30.3	27.9		26.0	16.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-6.2	-0.9	-8.5			-1.7	2.4	1.8	2.0	1.6	1.1		0.1	0.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.9	1.8	-6.4	4.1	5.3	-3.1	3.5	2.8	6.8	4.8	4.6	3.2	3.9	2.8	3.0
Average nominal interest rate on forex debt (in percent)	3.6	3.3	7.6	2.7	2.1	4.1	2.8	3.0	3.0	2.7	2.7	3.0	1.5	1.2	1.9
Average real interest rate on domestic debt (in percent)	5.1	-1.5	-1.3	1.7	3.4	2.2	1.5	-0.8	-0.7	-0.5	-1.0	0.1	-0.7	-0.5	-0.6
Real exchange rate depreciation (in percent, + indicates depreciation)	14.3	20.8	-0.9	3.7	13.9	-12.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-2.0	3.3	3.1	1.2	3.6	-0.7	0.3	2.2	2.6	2.7	2.9	1.7	2.8	3.0	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	4.8	-26.6	-35.9	-5.7	13.7	7.5	6.1	5.1	4.1	3.2	3.0	4.8	5.4	3.5	4.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	37.1	37.1	37.3	37.7	37.0	37.1	37.2	37.4	37.6	...

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 grosses up oil revenue and debt service on the oil sales advances

Table 4. Chad – Current Policies: Sensitivity Analysis for Key Indicators of Public Debt, 2017–37

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	50	45	42	39	36	33	21	19
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	50	46	44	43	42	41	37	34
A2. Primary balance is unchanged from 2017	50	45	43	40	37	35	27	21
A3. Permanently lower GDP growth 1/	50	46	43	41	39	36	30	48
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	50	47	47	44	42	39	31	36
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	50	49	50	46	43	40	28	25
B3. Combination of B1-B2 using one half standard deviation shocks	50	49	49	45	43	40	29	29
B4. One-time 30 percent real depreciation in 2018	50	54	51	46	43	40	27	24
B5. 10 percent of GDP increase in other debt-creating flows in 2018	50	51	48	45	42	39	27	25
PV of Debt-to-Revenue Ratio 2/								
Baseline	353	288	285	255	243	213	140	114
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	353	297	298	283	283	265	244	210
A2. Primary balance is unchanged from 2017	353	291	287	260	251	226	177	127
A3. Permanently lower GDP growth 1/	353	290	291	266	260	235	195	285
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	353	299	310	284	278	251	199	215
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	353	314	335	302	291	259	184	154
B3. Combination of B1-B2 using one half standard deviation shocks	353	310	326	296	287	257	190	178
B4. One-time 30 percent real depreciation in 2018	353	344	341	305	292	258	175	147
B5. 10 percent of GDP increase in other debt-creating flows in 2018	353	327	326	294	283	252	178	150
Debt Service-to-Revenue Ratio 2/								
Baseline	29	33	19	32	25	23	22	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	33	20	33	26	25	25	21
A2. Primary balance is unchanged from 2017	29	33	20	32	25	24	23	18
A3. Permanently lower GDP growth 1/	29	33	20	33	26	25	26	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	29	34	21	35	27	25	25	21
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	29	33	20	34	26	24	26	18
B3. Combination of B1-B2 using one half standard deviation shocks	29	34	21	34	27	25	26	19
B4. One-time 30 percent real depreciation in 2018	29	35	23	37	31	29	28	20
B5. 10 percent of GDP increase in other debt-creating flows in 2018	29	33	20	34	26	24	25	18

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. Sembene, Executive Director for Chad, and Mr. Nguema-Affane, and Mr. Bangrim Kibassim, Advisors to the Executive Director for Chad

April 13, 2018

The authorities have continued to fulfill program commitments amid a challenging economic, social and security environment. In spite of the delayed undertaking of the first review of Chad's arrangement under the Extended Credit Facility (ECF), the program has remained on track, and its implementation is broadly satisfactory. Macroeconomic policies and structural reforms have continued to be carried out in line with program objectives—albeit with setbacks in some instances.

With the Agreement in principle (AIP) to restructure Glencore debt reached on February 23, 2018, solid financing assurances have been secured for the program, and external debt sustainability is expected to be regained. In addition to being fully in line with program parameters, the AIP provides significant benefits from the perspective of the Chadian authorities, notably by increasing maturity and lowering the interest rate and restructuring fees. Upon its implementation, it will contribute to a significant decline in Chad's debt vulnerabilities, translating into a welcome upgrade in the country's rating under staff's debt sustainability analysis.

I. Recent performance under the Extended Credit Facility

Program performance under the ECF has overall been positive with most of performance criteria, indicative targets, and structural benchmarks being met. However, the continuous zero ceiling on new external arrears has been breached because of missed and untimely minor payments to some official and private creditors. The nonobservance of this performance criterion was notably due to tight liquidity constraints and unanticipated payment processing challenges. To avoid recurrence of similar slippages, the authorities have sustained their efforts to reach a rescheduling agreement with creditors on pending external arrears, while taking steps to strengthen public financial management. While the end- September indicative target on the regularization of spending through emergency procedures (DAO) was missed, the authorities have since stepped up their efforts on this front, thus making significant progress toward the target by end-2017.

Significant inroads were made in the implementation of structural reforms, with the implementation of a number of structural benchmarks. In particular, the new National Development Plan was submitted to the National Assembly in July, 2017. Moreover, a tax policy unit was established in August by a ministerial decree and work is ongoing to make it operational as soon as possible. Reflecting the authorities' desire to enhance transparency in the oil sector, the first two quarterly oil sector notes have been published.

Other benchmarks were—or are expected to be—implemented with some delay. These include the recently adopted action plan for improving management of the wage bill as well as the planned audit of transfers and subsidies. Furthermore, work is also underway to launch the audit of domestic arrears following the recent selection of a firm, while the establishment of a single customs window in N'gueli has been delayed because of challenges involved in identifying a private operator to manage the structure.

In consultation with the staff, the authorities are requesting the replacement of the structural benchmark on establishing an anti-corruption court with the ratification of the United Nations Convention Against Corruption (UNCAC).

II. Policies for 2018 and beyond

The Chadian authorities are determined to pursue prudent policies to achieve program objectives. These will continue to focus on further strengthening macroeconomic and financial stability, while pursuing the implementation of the NDP and contributing to the efforts to rebuild external buffers. The 2018 budget envisages greater mobilization of domestic resources and further containment of current spending, notably the wage bill.

On the revenue side, the authorities intend to redouble efforts to boost mobilization of non- oil revenue, notably through reform measures aimed at boosting tax and customs revenue mobilization. These will include steps to broaden the tax base, modernize tax administration, reduce tax exemptions, and implement recommendations made by recent Fund technical assistance missions to increase customs revenue. The repayment of domestic arrears will also play a useful role in this regard by helping alleviate liquidity pressures in the banking system and fostering private sector activity, thereby revitalizing the economy and enhancing the social climate.

On the expenditure side, a key priority for the authorities has been to exercise stricter control over current spending. As part of these efforts, the authorities are committed to reducing the wage bill to a sustainable level in line with staff recommendations. In this regard, they have implemented several measures to contain the wage bill, including by introducing a hiring freeze in civil services, limiting wage increases, and reducing bonuses and benefits. Partly, as a result of these moves, social tensions have exacerbated, but have subsequently weakened following agreements reached between the government and unions that helped preserve positive prospects for reducing the wage bill. Going forward, they are planning a civil service census, while exploring avenues for modernizing the payroll management system and reforming the civil service to achieve increased cost efficiency and transparency.

At the same time, actions will be taken to prioritize poverty reducing spending in social sectors. Indeed, maintaining such spending at about 30 percent of domestically financed primary expenditure, while streamlining transfers and subsidies remains among the authorities' top priorities.

The authorities intend to improve public financial and debt management to strengthen transparency and accountability and prevent arrears accumulation, with a view to supporting economic recovery and reducing vulnerabilities in the banking sector. To address the stock of external arrears, they are actively making good-faith efforts to reach an agreement with concerned creditors. At the same time, steps will be taken to develop a strategy for domestic arrears clearance based on the results of an audit that will be launched soon. As a key component of the program, such arrears clearance is expected to be facilitated through adjustment policies aimed at creating additional fiscal space.

In the same spirit, the authorities will continue to work towards more efficient cash management system and public procurement management. They will continue to reduce the use of DAO procedures which was exacerbated by the impact of recent volatile security conditions.

The authorities will strengthen the financial health and stability of the banking sector. In particular, the government will reflect on ways to improve public banks’ position and contribution to the economy, including through the review of their financial situation and strategy as well as the adoption of a reorganization plan, with the assistance of the regional banking supervision body (COBAC). To foster improved access to credit, the authorities intend to promote financial inclusion by developing an enabling regulatory and institutional framework.

As a landlocked country, Chad faces significant structural challenges which the NDP launched aims at addressing. It reflects notably a long-term vision focused on governance, economic diversification, competitiveness, and private sector development. Its implementation phase has now begun, with a monitoring committee tasked with assessing progress and publishing progress reports on regular basis.

Conclusion

The Chadian authorities value their fruitful collaboration with the Fund and welcome the policy advice it has continuously provided in support of their stabilization and development policy endeavors. They also appreciated the contributions of the country’s partners to the NDP financing roundtable held last September in Paris. In the face of a challenging domestic and regional context, they have demonstrated their strong commitment to the ECF-supported program objectives. However, Fund program engagement remains key to achieving these objectives and sustaining successful implementation of the CEMAC ongoing economic recovery efforts. In this light, Directors’ favorable consideration of the authorities’ request for the completion of the first ECF review would be critical.