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CHAD

August 2018

SECOND REVIEW OF THE PROGRAM UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHAD

In the context of the Second Review of the Program Under the Extended Credit Facility, Request for Waivers of Nonobservance of Performance Criteria, And Financing Assurances review, 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 July 27, 2018, following discussions that ended on May 13, 2018, 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 July 16, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Staff Supplement** updating information on recent developments.
- 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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July 27, 2018

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IMF Executive Board Completes Second Review under the ECF arrangement for Chad and Approves US$ 49.09 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second 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 the equivalent of SDRSDR 35.05 million (about US$ 49.09 million). This brings total disbursements under the arrangement to SDR 105.15 million (about US $147.27 million). The Board granted a further waiver of nonobservance of the continuous performance criterion on the accumulation of external arrears, for arrears incurred before completion of the first review under the ECF arrangement.

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. David Lipton, Acting Chair and First Deputy Managing Director, made the following statement:

"Performance under the ECF-supported program has been satisfactory, reflecting strong commitment by the authorities to the objectives of the program. All, but one, end-December 2017 performance criteria, notably the non-oil primary balance, and most end-March indicative targets were met. The criterion on non-accumulation of arrears was missed by a small margin. All structural benchmarks have been implemented. In June 2018, the authorities reached a final agreement to restructure debt to a private external creditor.

"The authorities are determined to continue implementing their strategy to further stabilize the fiscal position, foster inclusive non-oil growth, and reduce banking sector vulnerabilities. A key element of the strategy is to create sufficient space for increased spending in social sectors and public investment, reduce debt, and to clear outstanding arrears. This will entail maintaining control over the wage bill, increasing non-oil revenue mobilization, strengthening governance, and improving public financial management.

“Chad’s program is supported by the implementation of supportive policies and reforms by the regional institutions in the areas of foreign exchange regulations and monetary policy framework and to support an increase in regional net foreign assets, which are critical to the program’s success.”

INTERNATIONAL MONETARY FUND

CHAD

July 16, 2018

SECOND REVIEW OF THE PROGRAM UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, 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. The crisis was precipitated by the oil price and security shocks that began in 2014, and the heavy burden of external commercial debt. An agreement in principle to restructure the Glencore debt was reached in February 2018, which paved the way for the completion of the first review in April 2018. Chad's stability is key for the regional security situation given its regional peace-keeping efforts.

Program. All but one performance criterion (PC) for end-December 2017 were met, as were all structural benchmarks (SBs). Most indicative targets (ITs) for end-March 2018 were also met. The continuous PC on the non-accumulation of external arrears was missed. The authorities are requesting waivers for the two missed PCs. The final agreement to restructure the Glencore debt was signed in June (prior action); it is in line with the program and will restore debt sustainability and generate sufficient financing for the program. The program is supported by union-level efforts to maintain an appropriate monetary policy stance, build up regional reserves, and promote financial sector stability.

Staff views. Staff support the completion of the second review under the ECF, and the waivers of non-observance of the two PCs. Completion of the second review will result in the disbursement of 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 large resort to nonconcessional financing, overshooting in the wage bill, 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 N'Djamena (May 5-13, 2018) and through video conferences afterward. The staff team comprised Mr. Bakhache (head), Messrs. Ben Hassine and Delepierre (all AFR), Mr. Greenidge (SPR), Mr. Nachega (Resident Representative) and Mr. Topeur (local economist). Mr. Bangrim Kibassim (Advisor to the Executive Director) participated in the video conferences. Meetings were held with the Minister of Finance and Budget, Minister of Economy and Development, 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. Ms. Ibrahim and Ms. Canales supported the preparation of the staff report.

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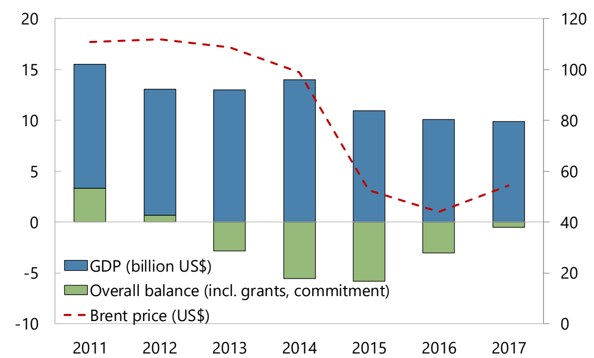
APPENDIX

BACKGROUND

1. Chad is a low-income fragile country with significant development challenges. The oil price shock in 2014-15 has had a severe and lasting impact on the Chadian economy and has led to serious social pressures. The drop in oil GDP and dramatic spending cuts led to a reduction in nominal GDP from $14 billion in 2014 to $9.9 billion in 2017 (Text Figure 1). While some signs of economic stabilization emerged towards the end of 2017, the economic, financial and social situation remains fragile. Chad remains actively engaged in peace keeping efforts in the region, including in the context of the G5 Sahel countries.

Text Figure 1. Chad: GDP, Oil Price and Fiscal Balance 2010-17

(Percent of non-oil GDP)



Sources: Chadian authorities and IMF staff calculations.

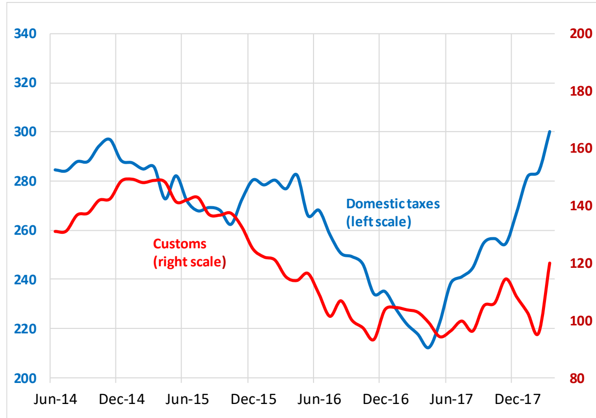
2. In June 2017, the Board approved an ECF arrangement with access of 160 percent of quota (SDR 224.32 million) to support the authorities' reform program, and the first review was completed in April 2018. The main elements of the program are to (i) reestablish debt sustainability through external commercial debt restructuring, (ii) achieve further gradual fiscal adjustment through domestic revenue mobilization and create space for domestic arrears payment by maintaining a tight spending envelope, and (iii) limit reliance on domestic financing to help alleviate pressure on domestic banks. An updated assessment on developments at the regional level, which remains vital for the success of Chad's program, is discussed in detail in the June 2018 staff report on the Common Policies in Support of Member Countries Reform Programs.

RECENT DEVELOPMENTS

3. Non-oil economic activity continued to decline in 2017, but signs of macroeconomic stabilization appeared in the second half of the year, particularly on the fiscal side. GDP is estimated to have declined by about 3 percent in 2017. Non-oil GDP is estimated to have declined by 0.5 percent in 2017, while oil GDP collapsed by about 16 percent following technical problems by one of the main operators. However, in the second half of 2017, non-oil activity seems to have bottomed out and deflationary pressures began to ease. On the fiscal side, non-oil revenues increased significantly in 2017 (Text Figure 2) reflecting strong collection efforts, particularly late in the year. Total domestically financed primary spending remained broadly within the budget envelope, as the overshooting in the wage bill was more than offset by restraint in other spending categories.

4. While non-oil economic activity is yet to pick up and social tensions remain high, the fiscal position is showing signs of improvement in early 2018. Non-oil revenue performance has been encouraging in the first quarter, with tax revenue exceeding expectation (Text Figure 2). This reflects strong efforts to secure revenues, including by channeling them through banks and reforming VAT collection (MEFP ¶10 and ¶30). In addition, oil tax revenues also performed well in the first quarter, as corporate income tax from oil operators was higher than initially expected. On the spending side, the monthly wage bill declined in Jan-April 2018 to about CFAF 27 billion (about 10 percent lower than the 2017 average of CFAF 31 billion, see Text Figure 3). This decline reflects significant cuts in bonuses and benefits, which led to a rise in social tension, with demonstrations and long strikes in February and March. After an agreement was reached with labor unions to reduce social tensions while ensuring that the wage bill remains under control, tensions resurfaced somewhat in May with unions demanding that cuts be rescinded. Lastly, although the overall rollover of domestic debt for about CFAF 150 billion (3 percent of non-oil GDP) was broadly in line with assumptions under the program (rollover rate of 90 percent), the composition of domestic public debt is shifting towards shorter maturities.

Text Figure 2. Chad: Non-oil Revenues, 2014-17
(12 months cumulative, CFAF billion)



Sources: Chadian authorities and IMF staff calculations.

5. The authorities made good progress in clearing domestic and external arrears in 2017 and early 2018. About CFAF 45 billion or 0.9 percent of non-oil GDP of domestic arrears recorded at the Treasury were cleared in the second half of 2017. In addition, the authorities cleared the arrears of the cotton public enterprise towards banks (CFAF 54 billion), and paid about CFAF 6 billion of arrears that are not recorded at the Treasury because those are associated with projects that were important to reactivate. Outstanding external arrears were reduced from $102 million at end-2017 to $55 million, as the authorities reached an agreement in principle with Libya to reschedule the outstanding stock of arrears and upcoming maturities and paid all arrears to the Islamic Development Bank (Text Table 1). The authorities report progress underway with regards to arrears to India and arrears in local currency to the Rep. of Congo and Equatorial Guinea.

Text Table 1. Chad: Estimated External Arrears
(Millions of US$)

	2017	2018 (end-April)
Multilateral	**6.7**	**0.2**
Islamic Development Bank	6.5	0.0
European Investment Bank	0.2	0.2
Bilateral	**92.0**	**51.7**
Libya	40.3	0.0
India	10.2	10.2
Congo[1]	37.9	37.9
Equatorial Guinea	3.5	3.5
Commercial	**3.2**	**3.2**
Mega International Commercial Bank[2]	3.2	3.2
Total	**101.9**	**55.1**

[1] In CFAF

[2] Commercial bank from Taiwan Province of China.

6. **Along with the significant reduction in external arrears, and the finalization of the restructuring agreement with Glencore, external debt vulnerabilities declined but remain high (see debt sustainability analysis).** The debt agreement signed in June (prior action) after good faith negotiations with Glencore is in line with the agreement in principle signed in February, with a few modifications that have no substantive impact on debt sustainability**.** These modifications include (i) a 1 percent floor on the LIBOR (which serves as the reference rate for the debt contract), (ii) outsourcing (to an agent other than Glencore) the financial accounting related to government oil exports, operating costs and debt service to Glencore, (iii) the exclusion of military assets from the applicable collateral. Under current oil price and oil production assumptions, the Glencore debt would be fully repaid by early 2026. The signed agreement will become effective as soon as a number of standard procedural requirements are satisfied.

7. **Banks continue to face liquidity pressures.** While banks remain solvent, the significant effects of the economic recession and the limited fiscal buffers have increased their vulnerabilities**.** Credit to the private sector and deposits continued their downward trend during the first quarter of 2018 (declining year-on-year by 1.3 percent and 0.7 percent respectively in March 2018). At end-March 2018, overdue loans accounted for 30 percent of gross loans, against 28 percent in December. The interim emergency liquidity facility launched by the BEAC in September 2017 has helped prevent further liquidity position deterioration for banks that rolled over government domestic securities. BEAC refinancing still accounts for 16.8 percent of bank liquidity on average, and was much larger for some banks at end-March. However, despite their difficult liquidity situation, Chadian banks remain adequately capitalized with a capital adequacy ratio of 19.1 percent at end-March 2018.

8. **The external position improved considerably as higher oil prices more than offset lower oil export volumes.** The current account deficit for 2017 is estimated at 5.7 percent of GDP compared to 9.2 percent in 2016. Oil export volumes fell by almost 15 percent during 2017 but the recovery in prices in 2017 contributed to oil export earnings increasing by roughly 10.4 percent. The financial account surplus also increased during 2017 due to lower debt service associated with the Glencore debt and financing of higher capital expenditure by oil companies. At end-2017, Chad's net foreign asset position at the regional central bank stood at about CFAF -257 billion. This position improved to around CFAF -220 billion at end April-2018, and is expected to reach CFAF -147 billion by end 2018.

9. **A new constitution was promulgated on May 4, 2018, after which a new government was formed.** The new constitution has consolidated the powers of the presidency, including a transition to a full presidential system (with no prime minister), and extended the term of the president to 6 years, renewable once. The president announced that parliamentary elections will be held in November 2018, but the precise timing remains uncertain and is likely to be in 2019, given that preparation for the elections, including the financing to cover their cost, appears to be lacking at this time.

PROGRAM PERFORMANCE

10. All but one performance criteria (PC) for end-December have been met (Text Table 7). The non-oil primary balance (NOPB) was met with some margin as non-oil revenues exceeded expectations, and domestically financed spending was slightly lower than expected despite overruns in the wage bill. The PCs on domestic financing from the BEAC and commercial banks, and on the payment of domestic arrears have also been met. The PC on customs revenues was missed by a small margin as the authorities strengthened the collection effort in the context of continued weak economic activity. The continuous PC on the non-accumulation of external arrears was missed by a small amount ($0.74 million), as external debt service payments to an official creditor were missed in the second quarter of 2018. A share of the missed payments was subsequently made, and the remainder is expected to be paid shortly.

11. One out of two indicative targets (ITs) at end-December 2017 was met. The regularization of spending through emergency procedures (DAO) increased significantly in the fourth quarter (from 49 percent at end-September to 65 percent at end-December), but not sufficiently to meet the target of 90 percent. Poverty reducing social spending reached CFAF 202 billion at end-December, meeting the adjusted target.

12. Most end-March 2018 ITs have been met. The NOPB PC was met with a large margin, as non-oil revenues continued to perform well while domestically financed spending was low. The target on customs revenue was also met with a margin, as were the targets on domestic financing from the BEAC and from banks. The ITs on the regularization of DAO and on poverty reducing social spending were both missed.

13. All structural benchmarks through end-June 2018 and the prior action have been met (Table 8). The quarterly oil sector note (the third since the beginning of the program) was published. The terms of reference for external consultants to review and prepare a reorganization plan for two public banks have been finalized. The United Nations Convention Against Corruption (UNCAC) was ratified in June. The list of tax exemptions was also published before end June. Lastly, the audit of unrecognized expenditure payment arrears, a key step in the effort to clear domestic arrears, was launched in June 2018 after a long delay.

14. The authorities request waivers of nonobservance of the PCs on customs revenues and external arrears accumulation. Despite some early signs of stabilization, activity remained subdued in 2017, which affected customs revenues. In this difficult context, customs revenues reached CFAF 108 billion and the target was missed by CFAF 2 billion. The authorities are requesting a waiver on the basis of the minor nature of the nonobservance. The request for waiver regarding the breach of the zero ceiling on external arrears accumulation is also based on the small size of the breach.

POLICY DISCUSSIONS

15. Chad's economic stabilization and reform program continues to be anchored on a medium term macroeconomic framework that reflects a steady improvement in non-oil revenue, spending control, and gradual increase in oil production. While public debt is back on a sustainable path and the fiscal position is showing signs of improvement, the overall economic and financial situation remains fragile. Policies to further stabilize the budgetary position and reduce domestic arrears, strengthen the banking sector, and support economic diversification will help reduce vulnerabilities, strengthen non-oil activity, and support regional stabilization.

A. Medium-Term Macroeconomic Framework

16. The macroeconomic outlook is broadly unchanged relative to the first review and continues to be shaped by the projected gradual recovery in oil production and fiscal improvement. In line with staff's projection and following the resolution of the technical problems that undermined production in 2017, oil production is expected to recover in 2018, increase gradually in 2019 before jumping to higher levels in 2020 as new extraction technologies are implemented and new fields start to produce. Higher oil prices are expected to lead to higher gross oil revenues, part of which will be offset by higher external debt service to Glencore in line with the new Glencore debt contract, and the remaining windfall will help repay more domestic arrears and reduce domestic debt. The recovery in non-oil activity is expected to begin in 2018 and pick-up in the medium term. This reflects a gradual improvement in the fiscal position, which would allow for an increase particularly in discretionary spending and domestic arrears repayment. The privatization of the cotton public enterprise is likely to pave the way for the cotton sector to contribute positively to the growth of the non-oil economy (MEFP ¶14).

17. The current account deficit is expected to improve gradually over the medium term. Oil exports are expected to pick up as production increases in the coming years. Imports are also expected to moderately rise over the medium term, reflecting higher domestic demand and planned increases in oil capital expenditures. Expected increases in foreign direct investment and lower external debt amortization will help strengthen Chad's net foreign assets position, contributing positively to the CEMAC regional reserves pool.

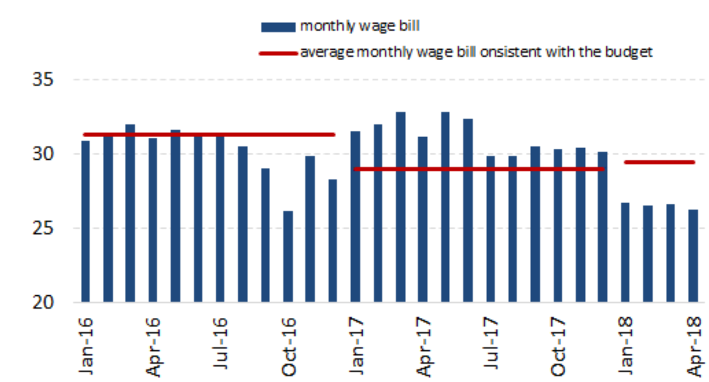
B. Fiscal Policy for the Remainder of 2018 and the Medium Term

18. Fiscal policy in 2018 and the medium term will be focused on maintaining spending discipline while strengthening non-oil revenue mobilization. Policies for the remainder of 2018 will be based on the 2018 budget, while the already agreed broad program objectives will guide policies over the medium term.

19. On the spending side, controlling the wage bill is key to allow space for higher spending on other categories which are important to support the economic recovery. While discussions are ongoing with labor unions, the authorities have shown strong commitment to avoid increases in the wage bill to unsustainable levels as demonstrated so far this year (MEFP ¶23). For 2019, to the authorities aim to raise the share of non-wage spending in total spending and in non-oil GDP while maintaining overall spending discipline. Demands for higher spending related to the likely elections in 2019 and possible higher social and security spending will need to be accommodated through higher grant financing or through domestic financing consistent with avoiding an increase in domestic debt and adding undue pressure on banks.

Text Figure 3. Chad: Public Wage Bill, 2016-17

(CFAF billion)



Sources: Chadian authorities and IMF staff calculations.

20. On the revenue side, strengthening non-oil revenue performance should continue to be the priority. Based on the encouraging performance in late 2017 and early this year, and with continued strong collection efforts, non-oil tax revenues are expected to increase to 7.9 percent of GDP in 2018. Tax policy reforms (notably the reform of the PIT) and measures to improve tax administration (planned measures to modernize excise duties collection, improve property tax collection, and start reducing exemptions) are expected to help achieve this increase. For 2019, the authorities are committed to build on these measures, including by further reducing tax exemptions (MEFP ¶27).

21. For the remainder of 2018, domestic debt and recognized domestic arrears will be reduced. Under the baseline scenario, domestic public debt is projected to be broadly unchanged in percent of non-oil GDP in spite of the increase related to the clearance of the arrears of the cotton public enterprise. This reflects the authorities' commitment to reduce securitized debt by limiting the rollover to 90 percent for those securities. In addition, the authorities plan to clear about 1.2 percent of non-oil GDP in recognized domestic arrears. Additional resources are expected to be used to further reduce domestic debt, repay arrears, and improve the position of the government towards the banking sector.

22. Over the medium term, the projected increase in non-oil revenues will support gradual fiscal consolidation while allowing for a pickup in primary spending. Non-oil tax revenues are expected to increase to about 9 percent of non-oil GDP, while oil revenue would pick up gradually due to higher production and lower operating costs. The wage bill would increase by about 1 percent every year in nominal term, allowing for a reduction of its share in primary spending and non-oil GDP. Other spending, notably domestically financed investment would gradually pick-up, in line with available resources. Public debt should continue to decline, consistent with the authorities' plan to pay down debt to banks. In addition, it is expected that by the end of 2018, a plan for the clearance of all domestic arrears would be in place. As such, the authorities should focus their attention on identifying sources of financing for clearing those arrears. At this time, the equivalent of about 0.9 and 0.2 percent of non-oil GDP in verified and yet to be audited arrears respectively are planned to be paid in 2019.

C. Tax and Customs Reforms

23. Reducing and better controlling tax exemptions will help widen the tax base (MEFP ¶30). Building on the recently published list of tax exemptions, and based on the 2017 audit of 47 tax conventions, the authorities will identify exemptions for removal or amendment that would generate a meaningful increase in revenue (proposed new SB).

24. In addition, strong efforts in tax and customs administration reform are needed (MEFP ¶29). The collection of non-oil revenues through banks ("*banquarisation des recettes*") boosted revenues so far in 2018 and should help support the needed increase in revenues in 2018. Improving VAT collection and compliance is also key, as quantitative analysis estimate that revenues from VAT could increase by about 3 percent of non-oil GDP. The authorities are committed to elaborate a plan with timebound measures to improve VAT collection (proposed new SB) including to set up a refund mechanism and reduce VAT exemptions, and to improve collaboration between the customs and the tax administrations. In addition, the creation of a dedicated unit within the Tax Directorate is expected to lead to an increase in property tax collection. With regards to customs, efforts are ongoing to improve the control of transit operations and the value of imports.

D. Banking Sector

25. The authorities have expressed strong commitment to the agreed reforms necessary to strengthen the banking sector (MEFP ¶38). Recognizing that the two large public banks are solvent and have a key role to play in the economy, the authorities have directed their efforts to strengthen their position. They have made progress in this regard with the preparation, in coordination with the regional supervisor (COBAC) and support from IMF staff, of the terms of reference for the review of these banks' strategy and the adoption of a reorganization plan, that are well targeted to identify and address potential issues. The authorities are working on hiring of external consultants to undertake this work (existing SB); a team at the Ministry of Finance was assigned to explore options for selecting them and coordinating their work, with a view to completing the review and the reorganization plan report by end-January 2019 (existing SB). Concerning the BAC, a small non-operational bank, the Chadian and Sudanese authorities (the two shareholders) decided to recapitalize the bank and presented its strategic plan to the COBAC.

26. The on-going reform of the monetary policy framework presents an opportunity to deepen the interbank market, which would help improve banks' intermediation function, but risks should be carefully monitored. In general, the removal of existing ceilings on the use of government securities as collateral and the introduction of competitive bidding for the BEAC's open market operations is expected to improve the overall access of Chadian banks to BEAC refinancing. However, some banks risk further shortage of eligible collateral, due to the introduction of a new haircut system or the lifting of the reserve requirement exemption, scheduled for July. While this may further exacerbate the liquidity stress of these banks, the risk could be mitigated through extension of high quality credit and identification of existing private collateral that could be eligible for BEAC refinancing, as well as better deposit mobilization. Efforts to pay domestic arrears and reduce domestic debt as planned should also help ease liquidity pressures.

E. Public Financial Management and Other Structural Reforms

27. Determined PFM reform efforts are needed to further improve spending control and transparency and prevent the accumulation of arrears (MEFP ¶31, 32, and 35). Some progress has been made on cash flow projections, the management of the wage bill and, albeit insufficient and fragile, emergency spending procedures and their regularization. The authorities need to strengthen their efforts in these areas, improve public debt management (including the use of the updated version of SYGADE) and the reporting and monitoring of spending more generally. The authorities also need to focus on regularizing spending through emergency procedures (DAO) on time in line with the program, as well as reducing the use of DAO itself.

28. Implementation of the new National Development Plan (NDP) will help strengthen the non-oil sector recovery. While the NDP was successfully launched in September 2017 with the objective to achieve sustainable inclusive growth, its implementation is likely to be complicated by the weak governance as well as the dearth of available financing. As such, the authorities should focus their efforts on identifying key priority projects for which adequately concessional financing or grants can be secured, and on close and transparent monitoring of implementation.

29. Improving governance is a priority and reduction of corruption is needed to support activity both in the oil and non-oil sectors. The ratification of the UNCAC represents a promising step within the authorities' strategy to reduce corruption and improve the business climate. The focus should now turn to measures and reforms to effectively implement the UNCAC (MEFP ¶40).

F. Financing, Program Modalities, and Risks

30. The program is fully financed, with firm assurances in place for the next 12 months and good prospects for the rest of the program (Text Table 2). Most of the budget support initially planned for 2017 has been disbursed in 2018 (African Development Bank, European Union) and the remaining amount will be disbursed in the coming weeks (World bank). The final agreement with Glencore will provide significant debt relief and ensure the program is fully financed, even under downside oil price scenarios.

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

	2017	2018	2019	2020	2021
Budget support	**143**	**323**	**154**	**153**	**80**
Multilateral	86	263	118	…	…
Bilateral	56	60	36	…	…
IMF financing	**49**	**151**	**80**	**40**	**0**
percent of quota	*25*	*75*	*40*	*20*	*0*

Sources: Chadian authorities and IMF staff calculations.

31. Staff and the authorities proposed to maintain the end-December 2018 PCs set at the time of the first review, and reached agreement on new structural benchmarks. PCs for end-June 2019 will be set at the time of discussions for the third review in the context of the preparation of the 2019 budget. Variation in external flows, including budget support and oil revenue, would be accommodated through adjustments to domestic financing, the non-oil primary balance, and the payment of domestic arrears. The two proposed new SBs will aim at widening the tax base by reducing tax exemptions and improving VAT collection.

32. Although the finalization of the restructuring agreement of the Glencore debt removes a major source of risk, the program remains subject to risks. These include overruns in spending, notably on the wage bill or security, deterioration of the social situation, resort to nonconcessional borrowing, worsening in banks' liquidity position, and a drop in oil revenue. The authorities' strong and demonstrated commitment to the program and the contingencies under the new Glencore debt contract provide key risk mitigating factors.

33. The BEAC and COBAC have pursued the implementation of their policy commitments and provided new policy assurances in support of CEMAC countries' programs.[1] Implementation of previous commitments include tighter monetary policy, the elimination of statutory advances, and maintaining firm control over the extension of credit to banks. Moreover, regional NFA accumulation up to December 2017 was in line with projections, and corrective actions addressing recent fiscal slippages in some CEMAC countries are being implemented to put NFA accumulation back on a desired upward path, following the underperformance in early 2018. The BEAC also provided new policy assurances aimed at enhancing monetary policy transmission and reinforcing centralization of foreign exchange reserves at BEAC, which will be critical for the success of the CEMAC countries' programs. These policy assurances include the completion by end-2018 of the modernization of the monetary policy operation framework and the submission (for adoption) to the CEMAC ministerial committed by end-2018 of revised foreign exchange regulations. Moreover, the policy assurance on achieving the projected regional NFA accumulation is based on

[1] See Staff Report on the Common Policies in Support of CEMAC Member Countries Reform Programs, June 2018.

BEAC's commitment to implement an adequately tight monetary policy together with the commitment by the member states to implement adjustment policies in the context of IMF-supported programs. These policy assurances are critical for the success of Chad's program as they will support rebuilding sufficient external reserves cover for the external sustainability of the region, and hence for Chad.

34. 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 strengthen its governance through amendments to its charter provisions and plans to strengthen financial reporting transparency through full transition to IFRS. The BEAC continues to implement the outstanding recommendations from the 2017 assessment.

STAFF APPRAISAL

35. While the economic, financial and social situation remains difficult, signs of macroeconomic stabilization are strengthening, notably on the fiscal front. Non-oil economic activity seems to have stabilized although it is yet to firmly pick-up. Fiscal performance has been encouraging, with non-oil revenue improving since late 2017 and spending discipline, notably on the wage bill, maintained.

36. Performance under the Fund-supported program has been satisfactory and the authorities' commitment to the program is strong. All but one end-December PC have been met and most end-March ITs have been met, notably the non-oil primary balance which is the fiscal anchor for the program. The continuous PC on external arrears accumulation was missed by a small amount. The structural reform agenda is also on track as all SBs have been met and the final Glencore debt agreement was signed.

37. With the finalization of the debt restructuring agreement with Glencore and the clearance of a large share of outstanding arrears, public debt vulnerabilities declined but remain high. The final Glencore debt agreement is in line with the agreement in principle signed in February; it has restored external debt sustainability and generated sufficient financing for the program. The authorities should fulfil as soon as possible the outstanding procedural requirements set in the signed agreement to make it effective. In order to preserve debt sustainability and further reduce vulnerabilities, the authorities should avoid unduly adding to the existing external debt burden, keep domestic debt on a declining trend, and improve debt management. The authorities should also continue to focus on normalizing the payment of outstanding external arrears, and prevent the accumulation of new ones.

38. Fiscal policy in 2018 and the medium term should be focused on maintaining spending discipline while strengthening non-oil revenue mobilization. On the spending side, control of the wage bill is key to allow space for higher spending in other areas which are important to support the economic recovery and meet the needs of all Chadians. On the revenue side, it is critical to continue strengthening non-oil revenue performance including by widening the tax base, and strengthening tax and customs administration. Improving VAT performance is key in this regard. Sustaining the improvement in the fiscal position and supporting the economic recovery hinges in part also on continued strong and timely donor support including to help pay domestic arrears.

39. While the banking sector is solvent, it continues to face liquidity pressures. The authorities' commitment to address existing vulnerabilities is important and will need to be supported by timely implementation of the agreed steps to review and reorganize the large public banks. Efforts to pay domestic arrears and reduce domestic debt would strongly help ease liquidity pressures.

40. Risks to the program have declined but remain high. Risks include overruns in spending, notably on the wage bill and security, deterioration of the social situation, nonconcessional borrowing, worsening in banks' liquidity position, and a drop in oil revenue. The authorities' strong and demonstrated commitment to the program and the contingencies under the new Glencore debt contract provide key risk mitigating factors.

41. Based on Chad's performance under the program, the restoration of debt sustainability through the final restructuring of the Glencore debt, and the adequate implementation of the regional policy assurances, staff recommends the completion of the second review under the ECF arrangement. Staff also support the authorities' request for waivers of nonobservance of the PCs on customs revenue and external arrears accumulation, on the basis of the minor size of the breaches. Staff proposes completion of the financing assurances review. Staff proposes that completion of the third review will be conditional on the implementation of critical policy assurances at the union level, as established in the June 2018 union-wide paper.

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

	2015	2016	2017		2018		2019		2020		2021	
	Prel.	Prel.	1st Rev.	Est.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.
	(Annual percentage change, unless otherwise indicated)											
Real economy												
GDP at constant prices	1.8	-6.4	-3.1	-3.1	3.5	3.5	2.8	3.6	6.8	6.9	4.8	4.8
Oil GDP	32.1	-8.4	-16.2	-16.2	15.7	15.2	4.4	8.0	22.6	21.9	8.4	8.2
Non-oil GDP	-2.9	-6.0	-0.5	-0.5	1.4	1.5	2.5	2.7	3.7	3.8	4.0	4.0
GDP deflator	-8.0	-1.2	-0.9	-0.9	2.2	2.2	2.5	2.5	3.0	3.0	3.0	3.0
Consumer price index (annual average)[1]	6.8	-1.1	-0.9	-0.9	2.1	2.1	2.6	2.6	3.0	3.0	3.0	3.0
Oil prices												
Brent (US$/barrel)[2]	52.4	44.0	54.4	54.4	64.7	73.3	60.7	72.5	58.0	68.7	56.6	66.0
Chadian price (US$/barrel)[3]	39.9	36.2	49.4	49.4	60.7	67.6	56.7	68.5	54.0	64.7	52.6	62.0
Oil production for exportation (millions of barrels)	47.5	44.4	35.9	35.9	39.1	39.8	41.1	42.6	52.1	53.5	57.1	58.5
Exchange rate CFAF per US$ (period average)	591.2	592.7	582.1	582.1	...	...	...	...	...	...	...	...
Money and credit												
Net foreign assets	-40.3	-38.2	0.5	0.5	8.5	11.8	5.2	6.3	9.3	10.7	9.8	9.5
Net domestic assets	35.6	30.5	-1.4	-4.7	-0.9	-4.6	2.6	1.2	-2.2	-3.1	-2.8	-2.4
Of which : net claims on central government	32.2	26.5	-4.4	-4.4	2.2	-0.2	0.4	0.0	-4.5	-4.5	-4.6	-3.9
Of which : credit to private sector	1.1	-2.7	-1.7	-1.7	1.7	1.0	2.2	1.2	2.3	1.4	1.8	1.5
Broad money	-4.7	-7.7	-0.9	-4.3	7.6	7.2	7.8	7.5	7.1	7.7	7.0	7.1
Velocity (non-oil GDP/broad money)[4]	5.0	5.1	5.1	5.3	5.0	5.1	4.8	5.1	4.8	5.0	4.8	5.0
External sector (valued in US dollar)												
Exports of goods and services, f.o.b.	-34.0	-15.4	10.5	10.4	26.5	37.8	0.9	7.0	16.0	15.4	6.5	5.0
Imports of goods and services, f.o.b.	-23.7	-15.3	2.9	2.9	20.7	20.3	3.2	6.3	9.8	10.2	4.9	5.7
Export volume	29.2	-3.9	-15.0	-15.1	7.3	7.5	5.1	5.7	20.3	20.1	7.9	7.8
Import volume	-21.8	-10.4	1.6	1.4	18.7	18.1	1.7	4.9	8.3	8.9	3.1	4.1
Overall balance of payments (percent of GDP)	-6.4	-8.6	-0.8	-1.1	1.5	1.3	0.5	0.6	1.0	1.1	1.1	0.9
Current account balance, including official transfers (percent of GDP)	-12.3	-9.2	-5.2	-5.7	-4.3	-4.2	-5.5	-5.5	-4.9	-4.4	-4.9	-4.6
Terms of trade	-47.7	-6.9	28.3	28.1	16.0	25.8	-5.4	-0.1	-4.9	-5.1	-3.0	-4.2
External debt (percent of GDP)[5]	25.0	27.1	27.2	27.3	26.0	26.2	25.4	24.9	23.0	22.2	20.7	19.7
NPV of external debt (percent of exports of goods and services)	98.5	97.2	88.7	95.3	76.4	72.0	78.4	66.8	67.4	56.6	62.0	51.3
	(Percent of non-oil GDP, unless otherwise indicated)											
Government finance												
Revenue and grants	17.1	14.9	16.1	17.1	18.5	19.4	17.5	18.5	18.6	20.0	18.3	19.5
Of which : oil revenue [6]	4.9	3.5	4.1	4.1	5.4	6.3	5.0	5.9	5.8	7.2	5.7	7.0
Of which : non-oil revenue	8.3	8.4	8.1	8.7	8.2	8.3	8.7	8.8	9.2	9.2	9.6	9.6
Expenditure	22.9	18.0	17.8	18.0	17.9	18.3	18.1	18.3	18.2	18.4	17.9	18.0
Current	15.6	14.2	13.3	13.7	12.4	12.9	12.2	12.4	12.2	12.4	11.7	11.8
Capital	7.3	3.7	4.5	4.4	5.5	5.5	5.9	5.9	6.0	6.0	6.2	6.2
Non-oil primary balance (commitment basis, excl. grants)[7]	-9.7	-4.4	-4.2	-3.8	-4.5	-4.4	-4.2	-4.1	-3.8	-3.7	-3.0	-3.0
Overall fiscal balance (incl. grants, commitments basis)	-5.9	-3.0	-1.7	-1.0	0.6	1.0	-0.6	0.2	0.4	1.6	0.3	1.5
CEMAC reference fiscal balance (in percent of GDP)[8]			-0.2	0.4	-0.8	-1.2	-1.3	-1.2	-0.7	-0.4	-0.4	0.2
Total debt (in percent of GDP)[5]	43.3	51.2	52.5	52.5	48.1	49.2	45.4	45.4	41.7	40.8	38.6	36.9
Of which : domestic debt	18.3	24.0	25.4	25.1	22.1	23.0	20.0	20.5	18.8	18.6	17.9	17.2
Memorandum items:												
Nominal GDP (billions of CFA francs)	6,474	5,984	5,747	5,746	6,077	6,079	6,403	6,455	7,041	7,103	7,602	7,669
Of which: non-oil GDP	5,184	4,838	4,829	4,829	5,005	5,011	5,264	5,283	5,604	5,631	5,996	6,028
Nominal GDP (billions of US$)	10.9	10.1	9.9	9.9	11.5	11.1	12.2	11.8	13.6	13.1	14.8	14.2

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

[1]2017 inflation rate reflects the authorities' data using the year 2014 as a base year.

[2]WEO projections for Brent crude oil price.

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

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

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

[6] oil revenues for 2018 includes receipts associed with Government oil cargo originaly planned for 2017.

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

[8]The CEMAC reference fiscal balance is calculated as the overall fiscal balance minus 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.	1st Rev.	Est.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.
Total revenue and grants	884	722	778	825	927	971	922	975	1,043	1,126	1,095	1,178
Revenue	682	576	591	619	685	732	724	778	843	922	919	1,000
Oil[1]	254	171	200	199	273	318	264	312	325	403	342	421
Non-oil	428	405	391	420	412	414	460	466	518	519	578	579
Tax	407	339	345	373	387	397	434	439	490	491	548	549
Non-tax	22	66	47	47	25	18	26	26	28	28	30	30
Grants	202	145	187	206	242	239	198	197	200	204	176	178
Budget support	90	65	105	102	154	151	85	84	79	83	41	43
Project grants	112	81	82	103	88	88	113	113	121	121	135	135
Expenditure	1,187	869	861	871	895	919	953	966	1,020	1,035	1,075	1,087
Current	811	689	642	660	621	644	644	656	682	696	701	712
Wages and salaries	369	365	377	376	354	354	359	359	363	363	367	367
Goods and services	93	96	82	88	87	87	97	97	112	112	119	119
Transfers and subsidies	240	108	91	103	112	112	123	123	135	135	145	145
Interest	109	121	92	92	68	91	66	78	73	87	71	82
Domestic	13	12	33	34	27	27	18	22	25	27	28	30
External	96	109	59	59	41	64	47	56	48	60	43	52
Memo: Glencore loan (after restructuring)			*51*	*51*	*29*	*53*	*34*	*43*	*35*	*46*	*30*	*38*
Investment	377	180	218	212	274	274	310	310	339	339	375	375
Domestically financed	231	51	43	36	83	83	105	105	119	119	130	130
Foreign financed[2]	146	129	176	176	191	191	205	205	220	220	245	245
Overall balance (incl. grants, commitment)	-303	-147	-83	-46	32	52	-32	9	22	92	20	92
Non-oil primary balance (excl. grants, commitment)[3]	-504	-214	-202	-183	-224	-222	-223	-217	-210	-209	-182	-180
Float from previous year[4]	-181	-103	-80	-80	-10	-12	-48	-43	-75	-75	-84	-79
Float at end of period[4]	103	80	10	12	48	43	75	75	84	79	96	91
Var. of Arrears[5]	148	-10	41	6	-60	-60	-50	-50	-20	-35	-20	-35
Repayment of other arrears[6]		-72		-13		-54	-10	-10	-10	-10	-20	-20
Overall balance (incl. grants, cash)	-233	-253	-111	-122	10	-31	-65	-19	1	51	-8	49
Non-oil primary balance (excl. grants,cash)	-434	-320	-230	-259	-246	-304	-246	-245	-221	-250	-190	-223
Financing	233	252	111	122	-9	30	65	18	-1	-51	8	-49
Domestic financing	265	299	31	45	-31	21	42	28	15	-8	37	6
Bank financing	289	50	17	9	33	11	63	69	-29	-27	-8	-14
Central Bank (BEAC)	292	61	-3	-11	33	11	63	69	-29	-27	-8	-14
Deposits	26	-6	-16	-24	-48	-72	20	25	-48	-47	0	-8
Advances (net)	232	30	-14	-14	0	0	0	0	0	0	0	0
IMF	34	37	27	27	81	83	43	44	19	20	-8	-6
Commercial banks (deposits)	-3	-11	20	20	0	0	0	0	0	0	0	0
Other financing (net), of which:	-48	250	-39	-37	-63	1	-21	-41	44	18	45	21
Amortization	*-234*	*-53*	*-71*	*-71*	*-192*	*-192*	*-79*	*-85*	*-184*	*-189*	*-103*	*-91*
Commercial banks loans	*-32*	*-10*	*11*	*11*	*0*	*54*	*0*	*0*	*10*	*10*	*10*	*10*
Non-bank loans (gross)[7]	*9*	*60*	*20*	*2*	*28*	*45*	*30*	*30*	*32*	*32*	*35*	*35*
Treasury bills (net)	*49*	*79*	*-26*	*-6*	*-24*	*32*	*-22*	*-35*	*3*	*-5*	*3*	*-4*
Treasury Bonds (gross)	*139*	*174*	*27*	*27*	*125*	*62*	*49*	*49*	*183*	*170*	*101*	*71*
Privatization and other exceptional receipts	24	0	53	73	0	9	0	0	0	0	0	0
Foreign financing	-32	-47	80	77	21	10	24	-10	-17	-42	-29	-56
Loans (net)	-56	-104	35	30	28	-9	-1	-36	-40	-67	-52	-80
Disbursements	34	18	161	159	102	85	62	62	67	67	76	76
Budget borrowings	0	0	88	88	26	26	0	0	0	0	0	0
Project loans	34	18	73	71	76	58	62	62	67	67	76	76
Amortization	-91	-122	-127	-128	-74	-94	-64	-98	-107	-134	-128	-156
Memo: Glencore loan (after restructuring)			-59	-59	-14	-40	-3	-35	-42	-66	-55	-79
Debt relief/rescheduling (HIPC)	20	30	30	30	25	26.3	25	26	23	24	23	24
External arrears[8]	0	27	15	17	-32	-7	0	0	0	0	0	0
Financing Gap			0	0	0	0	0	0	0	0	0	0
Memorandum items:												
Non-oil GDP	5,184	4,838	4,829	4,829	5,005	5,011	5,264	5,283	5,604	5,631	5,996	6,028
Poverty-reducing social spending	260	196	205	202	214	214						
Bank deposits (including BEAC)	97	114	110	119	158	190	138	165	186	212	186	220
(In months of domestically-financed spending)	1.1	1.9	1.9	2.0	2.7	3.1	2.2	2.6	2.8	3.1	2.7	3.1
BEAC advances[9]	455	485	480	480	480	480	480	480	480	480	480	480

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

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

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

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

[4]Difference between committed and cash expenditure, and errors and omissions.

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

[6]Other arrears include unrecognized arrears, the total of which will be specified after the audit of arrears, and the clearance in 2018 of CFAF 54 billion of arrears of the then public company Coton Tchad owed to domestic banks.

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

[8]27 billion in 2016 include arrears to China, cleared through an agreement in April 2017.

[9]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.	1st Rev.	Est.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.
Total revenue and grants	17.1	14.9	16.1	17.1	18.5	19.4	17.5	18.5	18.6	20.0	18.3	19.5
Revenue	13.2	11.9	12.2	12.8	13.7	14.6	13.7	14.7	15.0	16.4	15.3	16.6
Oil[1]	4.9	3.5	4.1	4.1	5.4	6.3	5.0	5.9	5.8	7.2	5.7	7.0
Non-oil	8.3	8.4	8.1	8.7	8.2	8.3	8.7	8.8	9.2	9.2	9.6	9.6
Tax	7.8	7.0	7.1	7.7	7.7	7.9	8.2	8.3	8.7	8.7	9.1	9.1
Non-tax	0.4	1.4	1.0	1.0	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Grants	3.9	3.0	3.9	4.3	4.8	4.8	3.8	3.7	3.6	3.6	2.9	3.0
Budget support	1.7	1.3	2.2	2.1	3.1	3.0	1.6	1.6	1.4	1.5	0.7	0.7
Project grants	2.2	1.7	1.7	2.1	1.8	1.8	2.1	2.1	2.2	2.1	2.2	2.2
Expenditure	22.9	18.0	17.8	18.0	17.9	18.3	18.1	18.3	18.2	18.4	17.9	18.0
Current	15.6	14.2	13.3	13.7	12.4	12.9	12.2	12.4	12.2	12.4	11.7	11.8
Wages and salaries	7.1	7.5	7.8	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	1.7	1.8	1.7	1.7	1.8	1.8	2.0	2.0	2.0	2.0
Transfers and subsidies	4.6	2.2	1.9	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.4	2.4
Interest	2.1	2.5	1.9	1.9	1.3	1.8	1.2	1.5	1.3	1.5	1.2	1.4
Domestic	0.2	0.2	0.7	0.7	0.5	0.5	0.3	0.4	0.4	0.5	0.5	0.5
External	1.9	2.3	1.2	1.2	0.8	1.3	0.9	1.1	0.9	1.1	0.7	0.9
Memo: Glencore loan (after restructuring)			*1.1*	*1.1*	*0.6*	*1.1*	*0.6*	*0.8*	*0.6*	*0.8*	*0.5*	*0.6*
Investment	7.3	3.7	4.5	4.4	5.5	5.5	5.9	5.9	6.0	6.0	6.2	6.2
Domestically financed	4.4	1.1	0.9	0.7	1.7	1.7	2.0	2.0	2.1	2.1	2.2	2.1
Foreign financed[2]	2.8	2.7	3.6	3.6	3.8	3.8	3.9	3.9	3.9	3.9	4.1	4.1
Overall balance (incl. grants, commitment)	-5.8	-3.0	-1.7	-1.0	0.6	1.0	-0.6	0.2	0.4	1.6	0.3	1.5
Non-oil primary balance (excl. grants, commitment)[3]	-9.7	-4.4	-4.2	-3.8	-4.5	-4.4	-4.2	-4.1	-3.8	-3.7	-3.0	-3.0
Float from previous year[4]	-3.5	-2.1	-1.6	-1.6	-0.2	-0.2	-0.9	-0.8	-1.3	-1.3	-1.4	-1.3
Float at end of period[4]	2.0	1.6	0.2	0.2	1.0	0.9	1.4	1.4	1.5	1.4	1.6	1.5
Var. of Arrears[5]	2.9	-0.2	0.9	0.1	-1.2	-1.2	-0.9	-0.9	-0.4	-0.6	-0.3	-0.6
Repayment of other arrears[6]		-1.5		-0.3		-1.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3
Overall balance (incl. grants, cash)	-4.5	-5.2	-2.3	-2.5	0.2	-0.6	-1.2	-0.4	0.0	0.9	-0.1	0.8
Non-oil primary balance (excl. grants, cash)	-8.4	-6.6	-4.8	-5.4	-4.9	-6.1	-4.7	-4.6	-3.9	-4.4	-3.2	-3.7
Financing	4.5	5.2	2.3	2.5	-0.2	0.6	1.2	0.3	0.0	-0.9	0.1	-0.8
Domestic financing	5.1	6.2	0.6	0.9	-0.6	0.4	0.8	0.5	0.3	-0.2	0.6	0.1
Bank financing	5.6	1.0	0.4	0.2	0.7	0.2	1.2	1.3	-0.5	-0.5	-0.1	-0.2
Central Bank (BEAC)	5.6	1.3	-0.1	-0.2	0.7	0.2	1.2	1.3	-0.5	-0.5	-0.1	-0.2
Deposits	0.5	-0.1	-0.3	-0.5	-1.0	-1.4	0.4	0.5	-0.9	-0.8	0.0	-0.1
Advances (net)	4.5	0.6	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.7	0.8	0.6	0.6	1.6	1.7	0.8	0.8	0.3	0.4	-0.1	-0.1
Commercial banks (deposits)	-0.1	-0.2	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing (net)	-0.9	5.2	-0.8	-0.8	-1.3	0.0	-0.4	-0.8	0.8	0.3	0.8	0.3
Privatization and other exceptional receipts	0.5	0.0	1.1	1.5	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	-0.6	-1.0	1.7	1.6	0.4	0.2	0.4	-0.2	-0.3	-0.8	-0.5	-0.9
Loans (net)	-1.1	-2.2	0.7	0.6	0.6	-0.2	0.0	-0.7	-0.7	-1.2	-0.9	-1.3
Disbursements	0.7	0.4	3.3	3.3	2.0	1.7	1.2	1.2	1.2	1.2	1.3	1.3
Amortization	-1.7	-2.5	-2.6	-2.7	-1.5	-1.9	-1.2	-1.9	-1.9	-2.4	-2.1	-2.6
Memo: Glencore loan (after restructuring)			*-1.2*	*-1.2*	*-0.3*	*-0.8*	*-0.1*	*-0.7*	*-0.8*	*-1.2*	*-0.9*	*-1.3*
Debt relief/rescheduling (HIPC)	0.4	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
External arrears[7]	0.0	0.6	0.3	0.3	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Non-oil GDP	5,184	4,838	4,829	4,829	5,005	5,011	5,264	5,283	5,604	5,631	5,996	6,028
Poverty-reducing social spending	5.0	4.1	4.2	4.2								
Exceptional financing from the Glencore restructuring					3.5	3.2	2.8	2.6	1.9	2.1	1.5	0.9
Bank deposits (including BEAC)	1.9	2.4	2.3	2.5	3.2	3.8	2.6	3.1	3.3	3.8	3.1	3.7
(In months of domestically-financed spending)	1.1	1.9	1.9	2.0	2.7	3.1	2.2	2.6	2.8	3.1	2.7	3.1
BEAC advances[8]	8.8	10.0	9.9	9.9	9.6	9.6	9.1	9.1	8.6	8.5	8.0	8.0

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

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

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

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

[4]Difference between committed and cash expenditure.

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

[6]Other arrears include unrecognized arrears, the total of which will be specified after the audit of arrears, and the clearance in 2018 of CFAF 54 billion of arrears of the then public company Coton Tchad owed to domestic banks.

[7]27 billion in 2016 include arrears to China, cleared through an agreement in April 2017.

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

Table 4. Chad: Balance of Payments, 2016-21
(In billions of CFAF, unless otherwise indicated)

	2016	2017		2018		2019		2020		2021	
	Prel.	1st Rev.	Est.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.	1st Rev.	Proj.
Current account, excl. budget grants	-638	-357	-382	-417	-403	-438	-426	-347	-312	-373	-356
Trade balance	135	176	177	351	513	322	523	502	731	555	733
Exports, f.o.b.	1,318	1,433	1,433	1,658	1,886	1,646	2,032	1,907	2,337	2,019	2,442
Of which : oil	955	1,045	1,045	1,253	1,477	1,219	1,596	1,454	1,879	1,541	1,959
Oil Export Volume (million barrel)	44	36	36	39	40	41	43	52	53	57	58
Doba Price (thousand CFAF)	21.5	29.1	29.1	32.1	37.1	29.6	37.5	27.9	35.1	27.0	33.5
Imports, f.o.b.	-1,184	-1,257	-1,255	-1,307	-1,373	-1,324	-1,509	-1,406	-1,605	-1,463	-1,709
Services (net)	-1,034	-975	-978	-1,146	-1,159	-1,174	-1,197	-1,315	-1,355	-1,369	-1,408
Income (net)	-107	-76	-76	-54	-183	-59	-204	-88	-226	-88	-190
Transfers (net)	370	517	495	431	425	473	452	554	537	529	509
Official (net)	85	151	149	106	108	110	122	176	182	144	148
Private (net)	285	366	346	324	317	363	330	378	355	385	361
Financial and capital account	34	167	171	326	308	386	382	415	391	453	425
Capital transfers	77	78	100	84	84	109	109	117	117	131	131
Foreign direct investment	145	211	211	245	263	279	324	321	321	355	355
Other medium and long term investment	-131	-66	-71	-12	-49	-16	-61	-55	-82	-67	-95
Public sector (excl. budget support loans)	-119	-54	-58	2	-35	-1	-46	-40	-67	-52	-80
Private sector	-12	-13	-13	-14	-14	-15	-15	-15	-15	-15	-15
Short-term capital	-57	-56	-69	9	10	14	10	31	34	34	33
Errors and omissions	0	0	0	0	0	0	0	0	0	0	0
Overall balance	-604	-190	-211	-91	-95	-52	-44	68	78	81	68
Financing	421	-81	-81	-163	-193	-101	-110	-110	-123	-96	-91
Change in official reserves (decrease +)	421	-81	-81	-163	-193	-101	-110	-110	-123	-96	-91
IMF (net)											
Exceptional Financing	57	98	120	-7	28	25	26	23	24	23	24
Debt relief (HIPC)	30	30	30	25	26	25	26	23	24	23	24
Other Exceptional Receipt	0	53	73	0	9	0	0	0	0	0	0
External arrears accumulation	27	15	17	-32	-7	0	0	0	0	0	0
Financing gap	-126	-174	-173	-261	-260	-128	-128	-19	-20	8	2
Financing gap (percent of GDP)	-2.1	-3.0	-3.0	-4.3	-4.3	-2.0	-2.0	-0.3	-0.3	0.1	0.0
Expected financing (excl. IMF; incl. expected budget loans and grants)	88	146	145	180	177	85	84	0	0	0	0
Residual gap/IMF financing, *of which*	-37	-28	-27	-81	-83	-43	-44	-19	-20	8	2
IMF ECF	37	27	27	81	83	43	44	19	20	…	…
Memorandum items:											
Current account (incl. expected budget grants; percent of GDP)	-9.2	-5.2	-5.7	-4.3	-4.2	-5.5	-5.5	-4.9	-4.4	-4.9	-4.6
Overall Balance of Payment (incl. expected budget support; percent of GDP)	-8.6	-0.8	-1.1	1.5	1.3	0.5	0.6	1.0	1.1	1.1	0.9
Exports (percent of GDP)	22.0	24.9	24.9	27.3	31.0	25.7	31.5	27.1	32.9	26.6	31.8
Of which : oil	16.0	18.2	18.2	20.6	24.3	19.0	24.7	20.7	26.4	20.3	25.5
Imports (percent of GDP)	-19.8	-21.9	-21.8	-21.5	-22.6	-20.7	-23.4	-20.0	-22.6	-19.2	-22.3
FDI (percent of GDP)	2.4	3.7	3.7	4.0	4.3	4.4	5.0	4.6	4.5	4.7	4.6
Gross imputed reserves (billions of USD)	-0.3	-0.2	-0.2	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8

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

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	-244.0	-235.0	-203.0	-192.1	-130.9	-18.5	88.4
Central bank	145.4	-302.2	-257.0	-220.0	-200.0	-165.0	-147.1	-80.9	21.5	118.4
Foreign assets	229.4	13.0	12.5	40.0	55.0	80.0	102.9	194.1	316.5	403.4
Foreign liabilities	-84.0	-315.2	-269.6	-260.0	-255.0	-245.0	-250.0	-275.0	-295.0	-285.0
o/w. IMF financing	-37.9	-75.2	-97.3	-97.3	-124.8	-152.5	-180.0	-223.9	-244.3	-237.9
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	1207.1	1159.0	1180.0	1167.0	1165.3	1177.0	1144.7	1117.3
Domestic credit	1120.8	1365.6	1308.1	1309.0	1330.0	1317.0	1315.3	1327.0	1294.7	1267.3
Claims on the government (net)	580.0	852.3	810.9	778.5	806.0	843.7	809.3	809.3	762.6	718.3
Treasury (net)	520.2	796.6	757.2	723.5	751.0	788.7	754.3	779.3	732.6	683.3
Central bank	492.2	592.7	584.5	554.5	592.0	629.7	595.3	664.3	637.6	623.3
Claims on general government	530.0	603.9	609.5	609.5	637.0	664.7	692.2	736.1	756.5	750.1
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	124.8	152.5	180.0	223.9	244.3	237.9
Liabilities to general government	-37.7	-11.2	-25.0	-55.0	-45.0	-35.0	-96.9	-71.9	-118.9	-126.9
Commercial banks	28.0	203.9	172.7	169.0	159.0	159.0	159.0	115.0	95.0	60.0
Claims on general government	177.1	331.1	263.7	260.0	250.0	250.0	250.0	245.0	225.0	190.0
Liabilities to general government	-149.1	-127.3	-91.0	-91.0	-91.0	-91.0	-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	30.0	30.0	35.0
Credit to the economy	540.7	513.3	497.1	530.5	524.0	473.3	506.0	517.7	532.1	549.0
Other items (net)	-182.0	-114.0	-101.0	-150.0	-150.0	-150.0	-150.0	-150.0	-150.0	-150.0
Money and quasi money	1027.0	948.0	907.7	915.0	945.0	964.0	973.2	1046.1	1126.2	1205.6
Currency outside banks	482.4	399.6	406.5	409.8	423.2	431.7	435.9	468.5	504.4	540.0
Demand deposits	453.9	438.2	404.0	407.2	420.6	429.0	433.1	465.6	501.2	536.6
Time and savings deposits	90.8	110.2	97.2	98.0	101.2	103.2	104.2	112.0	120.6	129.1
Memorandum items:										
Broad money (annual percentage change)	-4.7	-7.7	-4.3				7.2	7.5	7.7	7.1
Credit to the economy (annual percentage change)	2.3	-5.1	-3.2				1.8	2.3	2.8	3.2
Credit to the economy (percent of GDP)	8.4	8.6	8.7				8.3	8.0	7.5	7.2
Credit to the economy (percent of non-oil GDP)	10.4	10.6	10.3				10.1	9.8	9.4	9.1
Velocity (non-oil GDP)	5.0	5.1	5.3				5.1	5.1	5.0	5.0
Velocity (total GDP)	6.3	6.3	6.3				6.2	6.2	6.3	6.4

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 September
Capital Adequacy							
Regulatory capital / Risk-weighted assets	20.0	18.1	22.0	13.4	14.7	13.2	16.1
Asset Quality							
Gross credits in arrears/Gross banking loans	7.6	7.4	9.8	11.7	17.0	20.9	22.9
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	…
Return on equity	19.2	15.5	21.1	19.4	15.2	14.6	…
Liquidity							
Liquid assets / Total assets	29.9	31.8	28.6	30.8	26.0	23.1	19.5
Liquid assets / Short term liabilities	149.3	146.6	139.3	152.9	142.1	155.0	131.7

Source: COBAC.

Table 7. Chad: Performance Criteria and Indicative Targets up to End-March 2018

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

	End-December 2017 PCs				End-March 2018 ITs			
	PC	PC w/ adjustor	Actual	Status	IT	IT w/ adjustor	Actual	Status
Performance Criteria								
Floor on non-oil primary budget balance	-221		-183	met	-65		-6	met
Floor on customs revenue	110		108	not met	25		30	met
Ceiling on net domestic government financing excluding BEAC	-40	11	-18	met	0		-16	met
Ceiling on net government financing from the BEAC	29		-11	met	0		-33	met
Ceiling on the stock of domestic payment arrears by the government	210		195	met	185	195	192	met
Ceiling on new external arrears of the government and non-financial public enterprises[2]	0		4[3]	not met	0		12[4]	not met[5]
Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises[2]	0		0	met	0		0	met
Indicative Targets								
Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO)	90		65	not met	90		0	not met
Floor for poverty-reducing social spending	205	191	202	met	45	37	34	not met
Memo item:								
New domestic payment arrears by the government	0		…		0		…	
External concessional borrowing (US$ million)	235		124		35		29	
Oil Revenue	310		200		79		47	
Grants[6]	261		205		45		35	

Sources: Chadian authorities; and IMF staff estimations

1. Quantitative indicators and adjustors are defined in the TMU.
2. To be respected continuously.
3. Reflects delayed payments to Kuwait, Saudi Arabia, and multilateral creditors in Q4 2017.
4. Reflects a missed payment to Libya and delayed payments to China, Kuwait, Saudi Arabia, and multilateral creditors in Q1 2018.
5. The PC for the second review is not met as arrears accumulated since the Executive Board approved the first review of the ECF on April 13, 2018 (see paragraph 10 of the staff report).
6. For end-December 2017, include project grants

Table 8. Chad: Prior Action and Structural Benchmarks for the Program Under the ECF Arrangement – Status as of end-June 2018 and Proposed New Benchmarks

Measures	Due Dates	Status
Prior action		
1. Sign final agreement with Glencore on the restructuring		Met
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	Met
2. Finalization of the terms of reference for external consultants to review and prepare a reorganization plan for two public banks	End-May 2018	Met
3. Publication of Tax and Customs exemptions	End-June 2018	Met
4. Ratification of the United Nations Convention Against Corruption (UNCAC)	End-June 2018	Met
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. Develop an action plan with timebound measure to improve VAT collection	End-December 2018	Proposed
8. Deliver report of external consultants on the review and reorganization plan for two public banks	End-January, 2019	…
9. Based on the audit of 47 tax conventions, remove exemptions not in line with legal texts and ensure that others are adequately implemented.	End-February 2019	Proposed

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	**155**	**100**
Concessional debt of which	**155**	**100**
Multilateral debt	92	60
Bilateral debt	63	40
Other	0	0
Non-concessional	0	0
Use of debt financing	**155**	**100**
Infrastructure	28	18
Social (education, health)	20	13
Agriculture and livestock	39	25
Energy	18	12
Budget Financing [2]	47	30
Other	34	22

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	29.7	33.7	29.0	22.9	14.0	3.5	0.0	0.0	0.0	0.0
Charges and interest	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Fund obligations based on existing and prospective credit															
Principal	0.0	0.0	2.0	8.1	17.0	29.7	50.5	57.1	53.8	44.9	34.4	14.0	2.8	0.0	0.0
Charges and interest	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Total obligations based on existing and prospective credit															
SDR millions	0.3	0.5	2.5	8.6	17.5	30.2	51.0	57.6	54.3	45.4	34.9	14.5	3.3	0.5	0.5
CFAF billions	0.2	0.4	2.0	6.7	13.6	23.5	39.7	44.8	42.2	35.3	27.1	11.3	2.6	0.4	0.4
Percent of exports of goods and services	0.0	0.0	0.1	0.3	0.5	0.8	1.3	1.4	1.2	1.0	0.7	0.3	0.1	0.0	0.0
Percent of debt service[1]	0.1	0.3	1.2	3.7	6.6	10.7	16.4	17.5	27.5	30.6	26.5	14.1	3.2	0.5	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	0.0	0.1	0.4	1.1	2.1	3.3	5.0	5.1	4.3	3.3	2.3	0.9	0.2	0.0	0.0
Percent of quota	0.2	0.4	1.8	6.1	12.5	21.5	36.4	41.1	38.7	32.4	24.9	10.4	2.4	0.4	0.4
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	180.4	225.0	244.1	237.4	223.6	197.8	158.3	113.9	72.0	37.1	13.1	2.2	0.0	0.0	0.0
Percent of exports of goods and services	8.8	10.2	9.7	9.0	7.8	6.7	5.1	3.5	2.1	1.0	0.3	0.1	0.0	0.0	0.0
Percent of debt service[1]	127.4	175.6	144.7	129.8	108.1	90.2	65.4	44.4	46.8	32.1	12.8	2.7	0.0	0.0	0.0
Percent of GDP	3.0	3.5	3.4	3.1	2.7	2.3	1.7	1.1	0.7	0.3	0.1	0.0	0.0	0.0	0.0
Percent of tax revenue	42.4	47.1	46.1	40.4	33.9	27.4	19.8	12.9	7.4	3.4	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	-29.7	-50.5	-57.1	-53.8	-44.9	-34.4	-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	29.7	50.5	57.1	53.8	44.9	34.4	14.0	2.8	0.0	0.0
Memorandum items:															
Exports of goods and services (CFAF billions)	2,047	2,199	2,510	2,623	2,852	2,956	3,108	3,271	3,443	3,624	3,817	4,023	4,122	4,107	4,102
External Debt service (CFAF billions)[1]	142	128	169	183	207	219	242	257	154	116	102	80	79	83	88
Nominal GDP (CFAF billions)	6,079	6,455	7,103	7,669	8,256	8,747	9,341	9,982	10,698	11,428	12,211	13,042	13,778	14,534	15,351
Tax revenue (CFAF billions)	426	478	530	588	660	722	798	883	976	1,076	1,176	1,285	1,403	1,519	1,644
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

N'Djamena, July 13, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington DC, 20431

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. On April 13, 2018, the Executive Board completed the first review under the program and approved the immediate disbursement of SDR 35.05 million, bringing total disbursements under the arrangement to SDR 70.1 million.

Despite low oil revenues, a difficult socio-economic situation, and security challenges, Chad continues to make progress under its ECF-supported program. Non-oil GDP contracted for a third consecutive year in 2017, but signs of stabilization, especially in the fiscal area, have manifested since the second half of the year. Economic activity, in both oil and non-oil sectors, is expected to recover in 2018, helped by a pick-up in oil production and in aggregate demand.

Stabilization in the fiscal area stems in large part from the government's determination to keep the reform momentum, including to raise non-oil revenue and maintain spending discipline. In addition, the following factors were key in supporting the stabilization: (i) the financial support of development partners; (ii) the debt rescheduling agreement with Glencore; and (iii) the successful rollover of domestic public debt. These developments have helped to improve the liquidity position of the Treasury, enabling the government to pay wages on time and clear some domestic arrears. Nevertheless, the government is aware that it is necessary to keep the pace of reforms to continue to firmly stabilize the country's fiscal and financial situation, as well as to ensure the effective resumption of growth in the non-oil sector.

Program implementation is broadly on track. All but one performance criteria for end-December 2017 were met. The customs revenue target was missed by a small margin, as economic activity and imports remained weak. In the first quarter of 2018 customs revenue were robust though, exceeding the indicative target for March. The indicative target on the regularization of emergency spending procedures (DAO) has been missed at end-December 2017, despite strong efforts to increase the regularization in the fourth quarter. The end-March 2018 indicative targets for the regularization of DAO and for social spending were missed, primarily due to temporary coordination issues among the relevant agencies and civil servants strikes. The PC on the accumulation of external arrears was missed as the payment of maturities due in the second quarter of 2018 were not paid. While some of the arrears were subsequently paid, a portion remains outstanding, but the government will pay it as soon as possible.

The government has continued to make progress on structural reforms, with the implementation of all four structural benchmarks, including the finalization of the terms of reference for external consultants to review and prepare a reorganization plan for two public banks, the publication of the list of tax and customs exemptions, and the ratification of the United Nations Convention against Corruption (UNCAC). These actions demonstrate the government's commitment to strengthening financial sector stability and improving governance, including by enhancing fiscal and oil sector transparency. Furthermore, the government is committed to hire external consultants by end-July to review and prepare a reorganization plan for two public banks and adopt by end-October 2018 a clearance strategy of domestic arrears based on the audit results which started in June. The audit of transfers and subsidies to identify potential areas for saving (due at end-March 2018) will be launched before the end of the year.

The government's economic reform strategy remains focused on stabilizing the economy and supporting a resumption in non-oil growth. Creating fiscal space through domestic revenue mobilization, increasing investment and social spending, and improving public financial management, notably by strictly limiting the use of DAOs, are key tenets. With adequate policies and reforms and the improvement in oil prices, we expect that non-oil GDP will recover.

The finalization of the restructuring agreement of the Glencore debt is an integral part of our stabilization and recovery strategy. Under the new terms of the contract signed on June 28, sufficient financing will be generated for the program and debt vulnerabilities have firmly declined. In addition, the agreement includes contingencies to limit the effect of lower oil revenues on the fiscal position and debt sustainability, and the economy will benefit more from oil revenue. The government is pushing forward to fulfill all the conditions precedent in the signed contract as soon as possible so that the contract will enter into effect.

The government will continue to maintain a tight spending envelop commensurate with available resources. Spending in 2018 will continue to be guided by the approved budget. The 2019 budget will be designed consistently with the parameters agreed under the program. The government will ensure that higher spending associated with the cost of the elections are fully consistent with the program supported by the Fund.

Structural reforms to diversify the economy and its competitiveness, strengthen the private sector, and steps to improve governance and fight corruption, including through the effective implementation of the UNCAC, are equally important. These goals are also enshrined in our National Development Plan 2017-21. With determined implementation efforts and the continued technical and financial support from our partners, we are confident to achieve the goal of progressively lifting economic growth and reducing poverty.

The attached memorandum of economic and financial policies (MEFP) supplements that of March 2018. 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 performance criteria, indicative targets, and benchmarks up to March 2019.

Based on program performance, the government requests that the Executive Board of the IMF approve the completion of the second review under the ECF-supported program. The government also requests waivers for missing the PCs on customs revenue and external arrears accumulation since they were missed by small margins.

The government believes that the measures and policies set forth therein will serve to achieve the established objectives. We stand ready to take any additional measures that may prove necessary. We will consult with the IMF on the adoption of such measures and before making changes to the policies set out in the MEFP in accordance with the Fund's policies on consultations. We will provide timely information needed to monitor the economic situation and implementation of policies relevant to the program, as agreed under the accompanying Technical Memorandum of Understanding (TMU), or at the Fund's request.

In keeping with our longstanding commitment to transparency, we agree to the publication of the staff report, this letter of intent, the MEFP, and the TMU on the IMF's website.

Very truly yours,

/s/
Issa Mahamat Abdelmamout
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. The crisis that began in 2014 has had far reaching economic, financial, and social effects on Chad. While the crisis was precipitated by the oil price shock, the burden of external commercial debt has severely aggravated its financial and social effect as it necessitated deep and unsustainable fiscal contraction. In addition, the tense security situation in the Lake Chad region and Chad's active involvement in peace keeping efforts in the region has added significant pressures on the budget and the economy more generally.

2. In June 2017, the government of Chad requested a new program under the ECF arrangement to support the its 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 and the first review of the ECF was approved by the Board on April 13, 2018. 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 and better mobilizing non-oil revenue, and (iii) limit reliance on domestic financing to help alleviate pressure on domestic banks.

3. After more than two years of sharp economic contraction, signs of stabilization started to appear at the end of 2017 and the beginning of 2018. Support from international partners, the agreement to reschedule the Glencore debt and the successful rollover of domestic 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 recognizes the need to remain focused on implementing reforms to further stabilize the fiscal and financial situation in the country, and ensure that economic growth in the non-oil sector rebounds.

4. A new constitution launching the fourth republic for Chad came into effect on May 4, 2018. In preparation of the new constitution, the inclusive Forum was held March 19-27, to study and recommend institutional and political reforms based on campaign promises by the president in 2016. The new constitution moves Chad to a full presidential system, without a prime minister and extends the term of the president to six years, with a limit of two terms. The president expressed a strong commitment to fight corruption and to improve the administration efficiency following the approval of the new constitution by the National Assembly. Parliamentary elections originally planned for November are likely to be postponed given the time needed to secure the financing and prepare for the elections.

5. This memorandum is an update and a supplement to that of March 2018. 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 particularly for 2018 and the medium term.

RECENT ECONOMIC DEVELOPMENTS AND IMPLEMENTATION OF THE 2017 ECF ARRANGEMENT

A. Recent Economic Developments

6. **Economic activity is estimated to have contracted by about 3 percent in 2017, but signs of stabilization started to appear at end 2017 and early 2018**. Oil production sharply declined in 2017 following technical problems faced by the second largest oil producer in Chad. While non-oil activity remains weak it appears to have started to stabilize in the second half of the year as government spending was broadly in line with the budget. Economic activity is expected to start to recover in 2018 thanks mainly to a pick-up in oil production and higher government spending. Deflationary pressures seem to have abated in the last few months of 2017 and the first two months of 2018, although demand remains relatively weak including because cross border trade continues to be disrupted by security concerns.

7. **Fiscal performance in 2017 turned out to be better than expected due to the government's strong efforts to control spending and increase non-oil revenues especially at the end of the year**. The last month of 2017 was marked by a strong performance of non-oil revenues (about CFAF 55 billion compared to the monthly average in 2017 of about CFAF 35 billion, some of which is expected to be temporary increase) as well as the regularization of some old tax arrears (for about CFAF 20 billion). The spending was globally under control except for the wage bill that overshot in the first half of the year. Nonetheless, the government took strong measures in the context of the revised 2017 budget to cut bonuses and benefits which helped reduce the average monthly wage bill from about CFAF 32 billion in the first half of the year to about CFAF 30 billion in the second half. This has helped the government direct more resources to other priority areas.

8. **The government started to repay domestic arrears in the second half of 2017**. After increasing to about CFAF 270 billion in the first quarter of 2017, the stock of domestic arrears declined significantly, reaching about CFAF 195 billion at end-December 2017, much lower than initially assessed. In addition, the government repaid about CFAF 13 billion in domestic arrears not recorded within the so-called "Reste-à-Payer" at Treasury, to help support the resumption of economic activity.

9. **Oil revenues increased in 2017 despite lower production**. Higher oil prices and a rebound of oil tax revenues offset the impact of lower oil production and exports that were due to technical problems faced by the second largest oil operator resulting in an increase of oil revenues by around 17 percent relative to 2016.

10. **The first three months of 2018 were marked by a pick-up in non-oil revenues and a considerable reduction in the wage bill in spite of a rather fragile social and economic**

situation. Non-oil revenue performance was encouraging, with tax revenue exceeding expectation. This reflects strong efforts to secure revenues, including (i) channeling revenues through commercial banks (in which the Treasury opened four different accounts for tax, customs, land and non-tax revenues) rather than directly to the Treasury and (ii) reforms to improve VAT collection notably by increasing the threshold above which companies are considered large and handling VAT collection through a dedicated unit. The decline of the wage bill reflects further cuts in bonuses and benefits in the 2018 budget as well as efforts to update the payroll file. Domestic treasury bills and bonds rollover rate during the first 5 months of 2018 has been broadly in line with program objective (around 90 percent), although through shorter maturities.

11. The government made considerable progress in clearing its arrears to external creditors. In particular, the government signed an agreement in principle with the Libyan Foreign Bank to clear arrears (which includes repayment of outstanding principal of $17.3 million in 3 instalments in 2018, and of interest of $4.2 million over four installments – one in 2018 and three in 2019) and reschedule upcoming maturities with 18 months grace period. The government also cleared all outstanding arrears to the Islamic Development Bank. As a result, external arrears declined from $102 million at end-2017 to $55 million at end March 2018. The government has reached out to the authorities of the Republic of Congo, Equatorial Guinea, and India to discuss payments plans for outstanding arrears.

12. In spite of this progress, temporary external arrears accumulated in the first two quarters of 2018. The arrears accumulated primarily because of coordination weaknesses in the debt management and reporting system, aggravated by staff turnover, which resulted in payment orders not being sent to the Treasury on time and a failure by the office of the Paymaster General to inform the Debt Directorate promptly about missed payments.

13. The liquidity position of the banking sector is still under stress. While banks remain solvent, the economic recession and the fiscal constraints have contributed to their vulnerabilities. Credit to the private sector and deposits continued their downward trend during the first quarter of 2018 (declining by 1.3 percent and 0.7 percent respectively in March 2018 (y-o-y) and by 0.9 percent and 2.5 percent relative to December 2017). At end-March 2018, overdue loans accounted for 30 percent of gross loans, against 28 percent in December. The interim emergency liquidity facility introduced by the BEAC has helped prevent further liquidity position deterioration for banks that rolled over government domestic securities. BEAC refinancing still accounts for 16.8 percent of bank liquidity on average, and is much larger for some banks at end-March. However, despite their difficult liquidity situation, Chadian banks remain adequately capitalized with a capital adequacy ratio of 19.1 percent at end-March 2018.

14. The government has resolved the large arrears accumulated by the cotton public enterprise (CotonTchad) over the past few years and privatized it. Privatization of CotonTchad aims to improve the competitiveness of the cotton sector. This public enterprise had been accumulating arrears to banks for many years which has undermined the position of banks as well as its ability to effectively support the production of cotton. Against this background, the government decided to clear the enterprise's arrears to banks which led to an increase in the government domestic debt by about CFAF 54 billion (about 0.9 percent of GDP to be repaid over the next 5 years). Following the clearance of these arrears, 60 percent of the enterprise was privatized to OLAM, a global leading agri-business company for about CFAF 9.8 billion (35 percent is owned by the state and 5 percent by farmers).

B. Program Implementation

15. Despite the continued difficult environment in 2017, the government has demonstrated a strong determination to implement the program. All but one performance criteria at end-December were met, and only one indicative target was not met. The continuous zero ceiling on new external arrears of the government and non-financial public enterprises has been missed.

- The ceiling on non-oil primary balance (NOPB) for end-December has been met with a large margin. The deficit stood at CFAF 183 billion compared to the quantitative performance criterion of CFAF 221 billion set in the program. This result was achieved primarily because of the good performance of non-oil revenues at the end of year in addition to the government's efforts to contain current expenditure, mainly, public investment and transfers and subsidies relative to the budget.

- The floor on customs revenue has been missed by a small margin (CFAF 108 billion versus a target of CFAF 110 billion). Despite still weak economic activity and imports, the government strengthened its customs collection efforts to help achieve the target.

- 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, as net domestic government financing excluding BEAC was below the program ceiling adjusted to take into account lower budgetary receipts. This reflects the government's efforts to reduce progressively its reliance on domestic market financing to alleviate liquidity pressures on banks.

- The criterion on domestic arrears has been met. The stock of domestic arrears reached CFAF 195 billion at end-December 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 as the government continues to resist pressures to access nonconcessional financing.

- The indicative target on poverty-reducing social spending has been met, taking into account the adjustor built in the program. 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, in spite of strong efforts to increase the regularization in the fourth quarter (from 49 percent at end-September to 64 percent at end-December) to meet the target of 90 percent.

16. The continuous zero ceiling on new external arrears of the government and non-financial public enterprises has been missed, as payments due to an official creditor in the second quarter were not made. During the second quarter of 2018, arrears accumulated to an official creditor for a small amount of US$0.74 million, some of which was subsequently paid. The emergence of this arrears is primarily due coordination problems within the administration.

17. Most indicative targets at end-March 2018 have been met. The non-oil primary deficit remained significantly below the program ceiling as non-oil revenues continue to outperform while all categories of domestically financed spending were low. The IT on custom revenue was also met with a margin, thanks to sustained efforts by the government to improve custom administration and limit fraud. The IT on net domestic financing from the BEAC was met as government deposits at the BEAC increased, and the IT on net domestic financing from banks was also met as the rollover of public securities was broadly in line with the program. Repayment of domestic arrears was less than projected but met the adjusted target. However, the IT on the regularization of DAO was missed by a large margin primarily because of temporary coordination issues among the relevant agencies, as was the IT on poverty reducing social spending because of liquidity constraints and civil servants strikes.

18. The government continued to make progress on the structural reform agenda in line with program objectives. The final Glencore debt restructuring agreement was signed in June (prior action) and all 4 structural benchmarks were implemented on time. The terms of reference for external consultants to review and prepare a reorganization plan for two public banks were finalized, the United Nations Convention Against Corruption was ratified, and the list of tax and customs exemptions was published on the Ministry of Finance website. In addition, to enhance transparency in the oil sector, the government continues to publish quarterly notes on the oil sector, in line with the template agreed with IMF staff. The audit of domestic arrears which was due by end-October 2017 was launched in June. The audit of transfers and subsidies to identify potential areas for saving (due at end-March 2018) is expected to be launched before the end of the year.

C. Glencore Debt Restructuring

19. The government signed the final agreement to restructure the Glencore debt. The restructuring is set to restore debt sustainability and generate the necessary financing for the program. The final agreement, in line with the agreement in principal that was reached on February, includes a significant extension of maturity, a large reduction in restructuring fees, and lower interest rate. Specific contingencies are included to provide protection to Chad in case of lower oil receipts. Debt service payment will now be made on a quarterly basis, including additional debt service (amortization and interest) through the cash sweep mechanism if average year-to-date oil prices are higher than the baseline set in the new contract. A floor on the applicable LIBOR of 1 percent for the whole contract period has been agreed between the parties and added to the new contract, along with an adjustment in waiver on the applicable collateral to exclude military assets, and an agreement to outsource (to a company other than Glencore) the financial accounting related to the government oil exports, operating cost, and debt service to Glencore.

ECONOMIC AND FINANCIAL POLICIES FOR THE REMAINDER OF THE PROGRAM

20. 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.

A. Fiscal Policy in 2018 and the Medium-Term

21. 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. With adequate policies and reforms and the improvement in oil prices 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.

22. Fiscal policy for the remainder of 2018 should continue to focus on maintaining spending discipline and on improving non-oil revenue mobilization while reducing reliance on domestic bank financing. The government will build on the measures introduced early this year to further strengthen non-oil revenue collection, and ensure the wage bill is sustainable.

23. The government is determined to improve the management of the wage bill and keep it within the budget envelop. While the Government recognizes the importance of the wage bill for the livelihood of public sector employees, it also fully understands that keeping it at a sustainable level is necessary to allow the government to effectively implement fiscal policy and meet the developments and social spending needs of all Chadians. As such the government has already taken measures to reduce bonuses and benefits earlier this year. These measures have led to a significant reduction in wage bill in the first four months of 2018, but they also intensified social tension and led to resumptions of strikes by civil servants who are demanding that the cuts be rescinded. While discussions are ongoing with labor unions, the government is committed to keep strong control over the wage bill and improve its management. In particular, the government intends to continue its efforts to: (i) further eliminate ghost workers, civil servants that reached retirement age, and those that are under age; (ii) update the payroll file following the audit of the payroll and further improve workers' information with comprehensive data for public employees to ensure benefits and bonuses are only paid to rightful employees; (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.

24. The government will continue to maintain a tight spending envelop commensurate with available resources. Spending in 2018 will be guided by the approved budget. For 2019, the government is committed to design a budget consistent with the parameters agreed under the program. Given that parliamentary elections are likely to take place in 2019, the government will ensure that higher spending associated with the cost of the elections are fully consistent with the program supported by the Fund. In addition, if necessary the government will increase social and security spending (where needs are large), only if adequate resources are available in a way consistent with the program. The efforts to increase non-oil tax revenues in percent of non-oil GDP will be sustained, so will the efforts to control the wage bill (to reduce its share in government spending) and increase the share of other spending in non-oil GDP, particularly investment spending.

25. With regard to domestic financing, the government will continue its budget financing strategy of limiting 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, the new debt associated with the clearance of CotonTchad arrears, and Convention de prêt 60 villas), it will aim to repay at least 10 percent of maturing treasuries depending on resource availability. It will aim to use additional budgetary revenues to further reduce domestic debt in 2018 and 2019 consistent with program targets and objectives. 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.

26. The government considers the payment of domestic arrears as a priority and aims to reduce the stock of recognized arrears by at least the amount set under the program. The government firmly believes that the payment of arrears is key to the recovery of the non-oil sector and will therefore aim to pay more domestic arrears than programmed especially if additional resources are available. Payments of yet to be validated arrears will await the result of the audit of domestic arrears and will be guided by the strategy described in section C below.

27. 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. These measures (notably channeling tax revenues through banks) have started to show some satisfactory results, and new measures are planned before the end of the year to modernize the excise duties collection and better secure revenues. In addition, expiring exemptions (notable in the construction and hotel sectors) will not be renewed, and personal income tax scale has been reformed to enhance its progressive nature. In addition, the government will aim to progressively reduce exemptions in the energy sector starting 2019. Ongoing efforts to improve the efficiency of customs collections (like enhanced efforts to limit fraud with the introduction of a call-free number) are also expected to improve revenue performance. 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.

28. 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 until external debt vulnerabilities are firmly reduced. 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). Given the scarcity of concessional financing, the government considers that some nonconcessional financing will be necessary to finance economically profitable projects. The government is committed to consult with IMF staff before contracting such debt which it would only seek on an exceptional basis for specific highly profitable projects after the risk rating improves from 'in debt distress'.

B. Tax and Customs Reforms and Policies

29. The government will continue to pursue measures to improve tax and customs revenues.

- Non-oil tax revenues. The government expects that the measure implemented in January 2018 that require taxes to be paid through the banking system (so called "bancarisation des recettes") will reduce leakages and boost non-oil tax revenues collection. To build on the early success of these measures, the government is considering ways for better taxation of financial services and information and communication technologies. It has also requested an IMF TA to ensure the efficiency of the recent reform at the tax administration.

- Customs revenues. The government welcomes the results of recent IMF technical assistance missions, and will follow up on their recommendations. The government will continue to (i) focus on improving the control of transit operations, (ii) enhance the control of the value of imports, (iii) strengthen the control of customs exemptions and (iv) reinforce the control ex-post of the use of goods that benefitted from exemptions. In addition, in line with the workshop organized with the Fiscal Affairs Department and the Cameroonian authorities in Yaoundé, the government will better follow customs performance, enhance the collaboration between tax and customs administrations and pursue the computerization of customs offices.

30. 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. 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 has started to implement recommendations of the audit of 47 tax conventions, aiming to reduce the scope for discretionary extension of exemptions and eliminate inefficient exemptions. On this basis, the government will identify exemptions for removal or amendment if those are expired or have not been implemented correctly (proposed new structural benchmark). This would help generate a meaningful increase in revenue. Requests for new and renewal of 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 VAT, and the property tax. The government understands that revenue from the VAT, which stands at about 1 percent of non-oil GDP, is the lowest in Africa. The government is therefore developing a plan with timebound measures to improve VAT collection (proposed new structural benchmark). This plan will include among others measures to (i) set-up a VAT refund mechanism, the absence of which has partly been responsible for the weak performance of the VAT and (ii) reduce VAT exemptions. In addition, the government will aim to ensure that companies that collect VAT transfer the revenues to the tax administration and to improve collaboration between the customs and the tax administrations through the integration of DGI database and the customs computer system (ASYCUDA). In addition, efforts are underway to strengthen the collection of property tax, as the government sees a significant potential gain from improvements in this area 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. Building up the creation of a dedicated Direction in charge mainly of land and property tax ("Direction Générale des Domaines"), within the General Tax Directorate, the government intends to launch a census to update and improve the land registry.

C. Structural Reforms on Public Financial Management

31. 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, including with further TA missions and long-term resident experts within the Budget and Treasury Directorate.

32. 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, 70, 75, and 80 percent of DAO after the second, third, and fourth quarter of 2018 respectively. This objective will be monitored through an indicative target (Table 1). Should the regularization of DAO be insufficient, the government will consider introducing a nominal limit on the use of DAO.

- More broadly, the expenditure chain should be better applied. The four phases of the expenditure chain (commitment, validation, authorization of payment order, and cash payment) are now implemented and monitored through the computerized system (CID).

33. Beyond the repayment of recognized arrears, the government is firmly determined to implement a comprehensive strategy to clear other 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 195 billion by end-December 2017) which are reported in the "Reste à Payer" 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.

- The government is committed to adopt a clearance strategy of domestic arrears by end-October 2018 (existing structural benchmark) based on the audit results. 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.

34. 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.

35. Strengthening public debt recording and monitoring capacity remains an important objective of the reform agenda. The government is cognizant of its weak public debt management, monitoring and reporting, which led to recent misreporting of information on debt service to the IMF. To further improve public debt management, the government intends to draw on the 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. In addition, with a view to ensure that external debt service is paid on time and is adequately reported to the Fund, the ministry of finance will ensure that all the relevant officials meet on a monthly basis (with the participation of the IMF resident representative) to take stock of previous payments and plan for forthcoming ones.

36. 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

37. The ongoing reform of the regional monetary policy framework represents an opportunity to develop the interbank market and improve banks access to refinancing, but carries some risks that should be carefully monitored. In general, the removal of existing ceilings on the use of government securities and the introduction of competitive bidding for the BEAC's open market operations is expected to improve the overall access of Chadian banks to BEAC refinancing. However, some banks risk further shortage of eligible collateral, due to the introduction of a new haircut system or the lifting of reserve requirement exemption, scheduled for July. This may further exacerbate the liquidity stress of these banks. Nonetheless, with the expected improvement in economic conditions in the country and the government's effort to pay domestic arrears and reduce domestic debt, the liquidity position of banks is likely to improve as their deposits begin to recover, and they extend credit that could be eligible for refinance at the BEAC.

38. With regard to the public banks, the government started to implement its strategy to strengthen their position. Reforms aim to ensure that these banks play their proper financial intermediation role, including deposit collection, proper allocation of resources to economic sectors and monitoring of risks related to credit, liquidity and solvency. In this regard, the terms of reference for the review of public banks' strategy and the adoption of a reorganization plan, were finalized, in coordination with the COBAC and with support from IMF staff. The external consultant is expected will be hired by end-July 2018 (existing structural benchmark) with a view to completing and sharing the report on the review and the reorganization plan by end-January 2019 to the IMF staff and the COBAC (existing structural benchmark). With regard to the newly established state-owned "Banque de L'habitat", the government is aware of the need to set safeguards for a better risk assessment and management to limit potential contingent liabilities for the state. Concerning the BAC, a small non-operational bank, The Chadian and Sudanese authorities (the two shareholders) decided to recapitalize the bank and presented its strategic plan to the COBAC. The government aims to build on this plan to ensure that the bank has proper resources and a viable business plan. It was also decided to expand the BAC's activity to conventional intermediation in addition to Islamic finance.

E. Other Structural Reforms

39. **The government is keen on implementing the 2017-21 National Development Plan (NDP) to improve the economy's competitiveness**. While the NDP represents an opportunity for Chad to overcome its development bottlenecks, its implementation is expected to be challenging. In this regard, the government decided to set-up a single committee in charge of the NDP monitoring with the purpose to improve the transparency of the monitoring framework and to facilitate implementation.

40. **Improving governance is a key element of the government's strategy to revive the private sector**. In this regard, the government is committed to implement the United Nations Convention against Corruption (UNCAC), which was recently ratified by the National Assembly. Becoming party to the Convention represents an initial step to advance the fight against corruption. Notably, the government is committed to identify areas to improve the effectiveness of the legislation in criminalizing acts of corruption in line with the UNCAC. The government is also considering ways for a strong implementation of asset declaration obligations set forth in the Constitution for example by adopting implementing legislation in line with international best practices. Going forward, the government will evaluate options for reinforcing domestic capacity of institutions in charge of detection, investigation, prosecution, and adjudication of cases of corruption.

MONITORING THE IMPLEMENTATION OF THE PROGRAM

41. 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.

42. 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 third review will be based on end-June 2018 test dates, and the fourth review on end-December 2018. 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-June 2018 QPC	End-Sept 2018 IT	End-Dec 2018 QPC	End-Mar 2019 IT	End-June 2019 Proj.
1. Floor on non-oil primary budget balance (NOPB)	-125	-175	-218	-80	-125
2. Floor on customs revenue	45	85	118	25	50
3. Ceiling on net domestic government financing excluding BEAC	-5	-15	-55	-5	-10
4. Ceiling on net government financing from the BEAC	70	35	35	110	120
5. Ceiling on the stock of domestic payment arrears by the government	170	155	150	145	130
6. Ceiling on new external arrears of the government and non-financial public enterprises	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
	IT	**IT**	**IT**	**IT**	**IT**
8. Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO)	70	75	80	50	70
9. Floor for poverty-reducing social spending	107	160	214	58	116
Memo item:					
10. Ceiling on new domestic payment arrears by the government	*0*	*0*	*0*	*0*	*0*
11. External concessional borrowing (US$ million)	*52*	*103*	*155*	*…*	*…*
12. Oil Revenue	*161*	*239*	*318*	*78*	*156*
13. Grants	*45*	*114*	*150*	*0*	*28*

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-June 2018 is 170 (reflecting the actual end-December 2017 stock of domestic arrears of CFAF 195 billion). Starting end-March 2019, the target will be adjusted to reflect actual end-December 2018 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
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-June 2018
2. Hire external consultants to review and prepare a reorganization plan for two public banks	End-July 2018
3. Adopt a clearance strategy of domestic arrears based on the audit results	End-October 2018
4. Develop an action plan with timebound measure to improve VAT collection	End-December 2018
5. Deliver report of external consultants on the review and reorganization plan for two public banks	End-January, 2019
6. Based on the audit of 47 tax conventions, remove exemptions not in line with legal texts and ensure that others are adequately implemented.	End-February 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 July 13, 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

[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).

program monitoring, these include: Société Tchadienne des Eaux (STE), Société Nationale d'Electricité (SNE), Société des télécommunications du Tchad (SOTEL), Société Tchadienne des Postes et de l'Epargne (STPE), 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.

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[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 and includes prepaid interest. 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-December 2017, the stock of recognized expenditure payment arrears was at CFAF 195 billion based on information in the Table "Reste à Payer" (prepared by the Treasury). The ceiling set for end-March 2019 onwards would be adjusted to reflect the end-December 2018 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: 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 excluding BEAC 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. The non-oil primary balance can be adjusted downward by the same amount of budget grants provided to finance the parliamentary elections. 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			2019	
	End-Jun.	End-Sep.	End-Dec.	End-Mar.	End-Jun.
	(in CFAF Billion)				
Net Oil Revenue[1]	161	239	318	78	156
Budget Grants	45	114	150	0	28
Budget Loans	0	26	26	0	0
Exception Receipt	0	0	0	0	0
Total	205	380	494	78	184

[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, quarterly, starting end-June 2018 (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.

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

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

- Develop an action plan with timebound measure to improve VAT collection by end-December 2018. This should include at least timebound steps to set-up of a VAT refund mechanism and a plan to reduce VAT exemptions.

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

- Based on the audit of 47 tax conventions, remove exemptions not in line with legal texts and ensure that others are adequately implemented by end February 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.

CHAD

July 16, 2018

SECOND REVIEW OF THE PROGRAM UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
David Owen and Yan Sun (IMF) and Paloma Anos-Casero (IDA)

Prepared by the staffs of the International Monetary Fund and the International Development Association

Following the restructuring of the debt to Glencore and the progress made in clearing external arrears, debt vulnerabilities declined significantly and the external risk rating has been upgraded to high. The Debt Sustainability Analysis[1] (DSA) shows that all debt burden indicators, except the debt-service-to-revenue ratio which has minor and temporary breaches, are below their respective thresholds in the baseline from 2018 onwards. The debt-service-to-revenue ratio, falls below the threshold in 2019 and remains so throughout the projection period, except for minor breaches in 2020 and 2021. Overall, total public debt vulnerabilities are elevated although the present value (PV) of the public debt-to-GDP ratio remains on a downward trajectory. The fixed primary balance scenario, which keeps the primary deficit-to-GDP ratio unchanged from 2017, shows the 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 March 2018, outstanding public and publicly guaranteed (PPG) external debt stood at nearly US$2.86 billion (26 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 the rising debt service burden by reducing revenues available to repay oil sales advances.

Text Table 1. Chad: External Debt Stock 2014-End-March 2018 /1

	2014	2015	2016	2017	2018 end-March
Total (Millions of US$)	3.8	2.7	2.6	2.8	2.9
(Billions of CFA francs)	2010	1617	1622	1572	1540
(Percent of GDP)	29	25	27	27	26
Billions of CFA francs					
Multilateral	735	375	390	385	405
IMF	11	38	77	96	122
World Bank/IDA	397	113	110	101	99
African Development Fund/Bank	181	69	56	56	55
Others	146	155	147	133	129
Bilateral	334	366	370	419	396
Paris Club official debt	11	2	…	25	24
Non-Paris Club official debt	323	364	370	394	372
of which: China, People's Republic	129	144	156	132	132
Libya	140	158	164	150	127
India	21	27	30	27	27
Commercial 2/	941	875	862	768	740
Share of Total (percent)					
Multilateral	37	23	24	24	26
Bilateral	17	23	23	27	26
Commercial 2/	47	54	53	49	48

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.

2. **Debt relief, following the achievement of 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 to 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). At end-2017 about US$102 million (1 percent of GDP) remained outstanding, mainly to bilateral creditors (Text Table 2). The authorities have since reduced this stock to US$55 million by paying the amount owed to the Islamic Development Bank and through a rescheduling agreement with Libya. The authorities are making an effort to address remaining arrears. In early 2018, temporary arrears accumulated, but a portion was repaid after relatively short delays.

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

	2017	2018 (end-April)
Multilateral	**6.7**	**0.2**
Islamic Development Bank	6.5	0.0
European Investment Bank	0.2	0.2
International Fund for Agriculture Development		
Bilateral	**92.0**	**51.7**
Libya	40.3	0.0
India	10.2	10.2
Congo[1]	37.9	37.9
Equatorial Guinea	3.5	3.5
Commercial	**3.2**	**3.2**
Mega International Commercial Bank[2]	3.2	3.2
Total	**101.9**	**55.1**

[1] In CFAF
[2] Commercial bank from Taiwan Province of China.

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 grace period of 4 years and maturity of 14 years (Text Table 3). In April 2018, domestic public debt rose by about 1 percent of GDP (CFAF 55 billion) as the government

cleared the arrears of the cotton public enterprise to commercial banks. This will likely be more than fully offset by the ongoing efforts to reduce existing debt to banks.

Glencore Debt Restructuring

6. The authorities have signed the final debt restructuring agreement with Glencore in June 2018 which will enter into effect as soon as all remaining standard procedural requirements in the agreement are satisfied shortly. The restructuring reestablishes debt sustainability and alleviates budgetary pressures. The agreement includes a significantly longer maturity, lower interest rate and fees, and contingency mechanisms to adjust debt service depending on oil revenues – which help maintain debt sustainability under different price and production scenarios (see below for further discussion).

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

	2014	2015	2016	2017p
Total (Billions of CFA francs)	**708.9**	**1185.0**	**1482.2**	**1445.6**
(Percent of GDP)	**10.3**	**18.3**	**24.8**	**25.2**
Share of Total (in percent)				
Central Bank financing	31.4	38.4	33.3	33.2
Statutory advances [1]	*26.5*	*23.6*	*18.9*	...
Exceptional advance [1]		*11.8*	*11.5*	...
Consolidated debt	*4.9*	*2.9*	*3.0*	...
Commercial banks' loans	19.4	7.3	3.3	3.6
2011 Bond[2]	7.6	2.3	0.0	0.0
2013 Bond[2]	10.2	4.6	3.7	1.2
Treasury Bonds[3]		11.8	21.2	21.8
BDEAC	1.7	1.7	3.2	3.4
Republic of Congo	4.9	3.0	2.4	2.4
Equatorial Guinea	2.1	1.3	1.0	1.0
Cameroon			2.0	2.1
Domestic arrears[4]	7.3	16.9	12.8	13.5
Others[5]	12.4	7.4	5.9	6.1
Memo items:				
Treasury Bills	*3.9*	*7.1*	*11.2*	*11.7*

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.

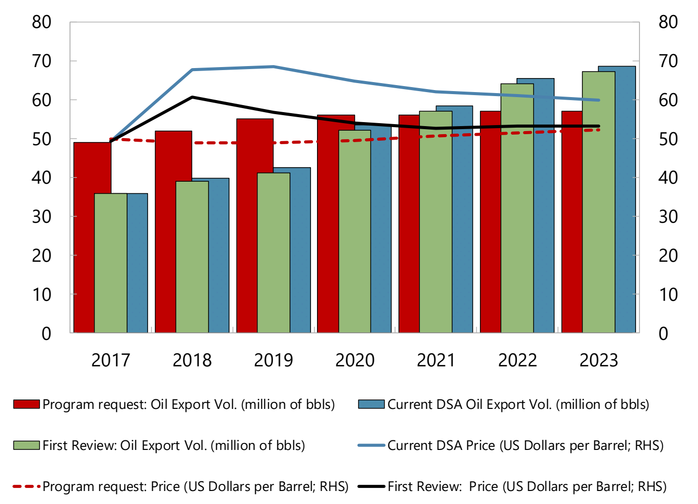
[5]Legal commitments, Standing payment orders, and accounting arrears.

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 an upwardly revised WEO oil price projection (April 2018), a gradual recovery in oil production, conservative interest rate (LIBOR) projections, 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 program request 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 program request DSA projections up to 2020 (but slightly higher than at the first review), 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 both the program request and first review DSAs projections reflecting a significant decline in the discount applied to Chad oil in the past year and higher WEO world oil price projections, leading also to slightly higher GDP growth.

Text Figure 1. Chad: Changes in Oil Projections



- **Fiscal policy.** It is assumed that the authorities remain committed to strengthen the fiscal position, including by maintaining the tight spending control, and improving non-oil revenue mobilization.

- **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 and a start of modest payment of yet to be audited arrears.

- **Current account.** The current account deficit is now smaller in the medium-term than under the first review DSA mainly reflecting higher oil prices.

8. Risks to the outlook. The outlook is subject to a number of risks, largely downside in nature, including 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 Glencore debt restructuring agreement dampen the impact of fluctuations in oil prices on the fiscal position.

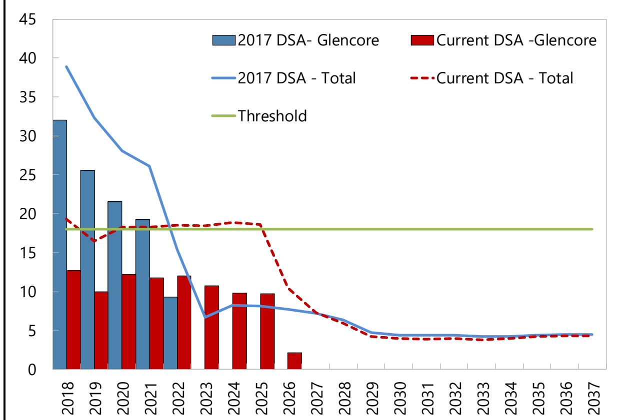
Text Table 4. Chad: DSA Assumptions

	2017	2018	2019	2020	2021	2022
			(Percentage Change)			
Real Growth						
Program request	0.6	2.4	3.1	3.9	3.6	3.7
First Review	-3.1	3.5	2.8	6.8	4.8	4.6
Current DSA	-3.1	3.5	3.6	6.9	4.8	4.7
GDP deflator in US dollar terms						
Program request	-4.1	1.5	2.3	3.2	2.7	2.3
First Review	1.0	12.4	3.6	4.1	3.7	3.6
Current DSA	1.0	8.7	2.1	4.1	3.4	3.6
			(Percent of GDP)			
Budget Balance						
Program request	3.3	2.7	2.1	2.3	2.1	2.4
First Review	0.6	2.1	0.9	1.7	1.5	2.3
Current DSA	1.5	2.8	1.8	2.9	2.6	3.3
Net FDI						
Program request	3.2	3.4	3.7	4.0	4.0	3.6
First Review	3.7	4.0	4.4	4.6	4.7	3.5
Current DSA	3.7	4.0	4.3	4.5	4.6	3.5
Non-Interest Current Account Balance						
Program request	-0.8	-1.9	-2.5	-2.7	-3.3	-2.7
First Review	-4.2	-3.6	-4.8	-4.2	-4.3	-4.0
Current DSA	-4.6	-0.3	-1.9	-2.2	-3.4	-3.8

EXTERNAL DSA

9. The Glencore debt restructuring has led to a significant improvement in the debt dynamics, particularly for the debt service-to-revenue ratio. The impact of the restructuring of the Glencore debt on debt dynamics was assessed in detail at the time of the first review DSA. The restructuring reduces significantly the debt service to revenue ratio which was mainly responsible for the debt difficulties Chad has faced recently. The ratio drops considerably over the next four years compared to the pre-Glencore restructuring (see Text Figure 2). The main changes relative to the first review DSA is that the current DSA shows that (i) the debt service to revenue ratio is above the threshold in 2018 because during the restructuring negotiations the authorities delayed a cargo shipment due to Glencore (that is intended primarily to service the debt) in December 2017 to 2018; and (ii) after falling below threshold in 2019 to 16.5 percent (around half of the pre-restructuring ratio), it increases slightly over the medium term, marginally breaching the threshold before falling significantly because the adjustment mechanism in the new Glencore agreement requires the authorities to pay down debt faster when oil prices are higher than the contract baseline price. Under the new oil prices scenario, the cash sweep mechanism is triggered throughout the projection period and until 2026. This includes the payment of additional amortization and additional interest, and results in faster repayment of the debt which leads to a faster decline in the PV of debt (relative to the previous projection).

Text Figure 2. Chad: Debt Service-To-Revenue
(In percent)



10. All other external debt burden indicators are significantly below their respective thresholds under the baseline. The PV of public and publicly guaranteed external debt as a share of GDP declines gradually from 25.1 percent at end-2017 to under 10 percent by 2025 (Figure 1; Table 1). The PV of debt-to-revenue ratio is 8.7 percentage points below the 200 percent threshold mark in 2018 and declines over the medium-term. And the PV of debt to exports, and debt service to export measures remain comfortably below threshold over the span of the forecast horizon.

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.

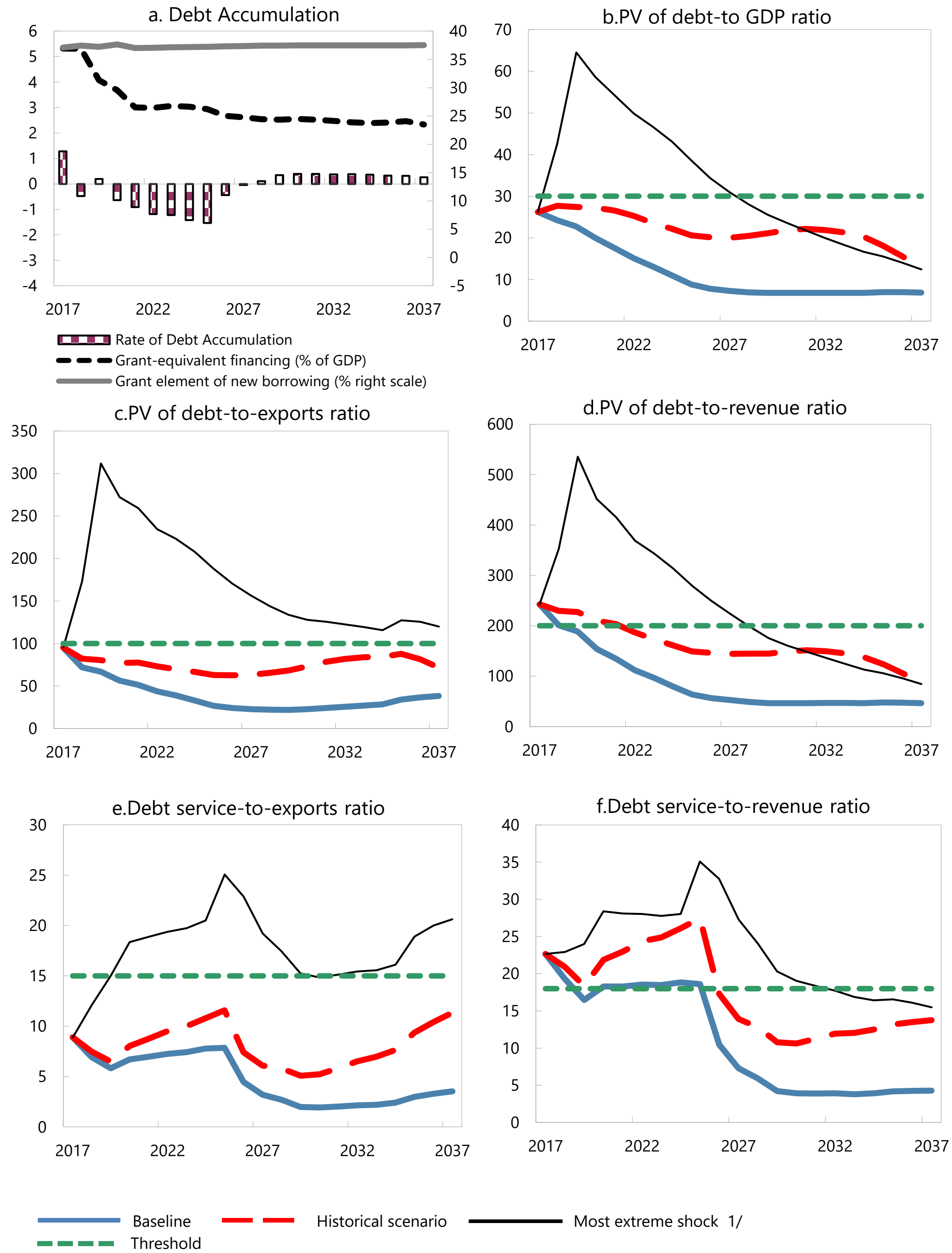
PUBLIC DSA

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 50.3 percent, which is about 12.1 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 2020 and eventually stabilizing at about 17 percent into the long-term. The fixed primary balance scenario follows a similar trajectory but remains above the baseline, underscoring the need to maintain prudent fiscal policies (Figure 2).

CONCLUSION

13. Chad's external debt is assessed to be at high risk of distress 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 terms. The external debt trajectory remains sensitive to a number of shocks including on exports and to fiscal slippages. While progress has been made in clearing external arrears, temporary arrears continued to arise in the first half of 2018 suggesting that some difficulties in managing external debt remain. Chad's external debt is therefore assessed to be at high risk of debt distress. Additionally, total public debt vulnerabilities remain elevated, which reinforces the need to maintain prudent fiscal policy including on external and domestic borrowing. While progress has been made recently to reduce the stock of external and domestic arrears, much more attention is needed going forward to clear all the remaining arrears. Finally, effective inter-agency coordination to strengthen the capacity to record and monitor public debt is very important to better manage public debt. The authorities broadly agreed with staff's assessment of debt sustainability in Chad and have expressed their commitment to further reduce debt vulnerabilities going forward.

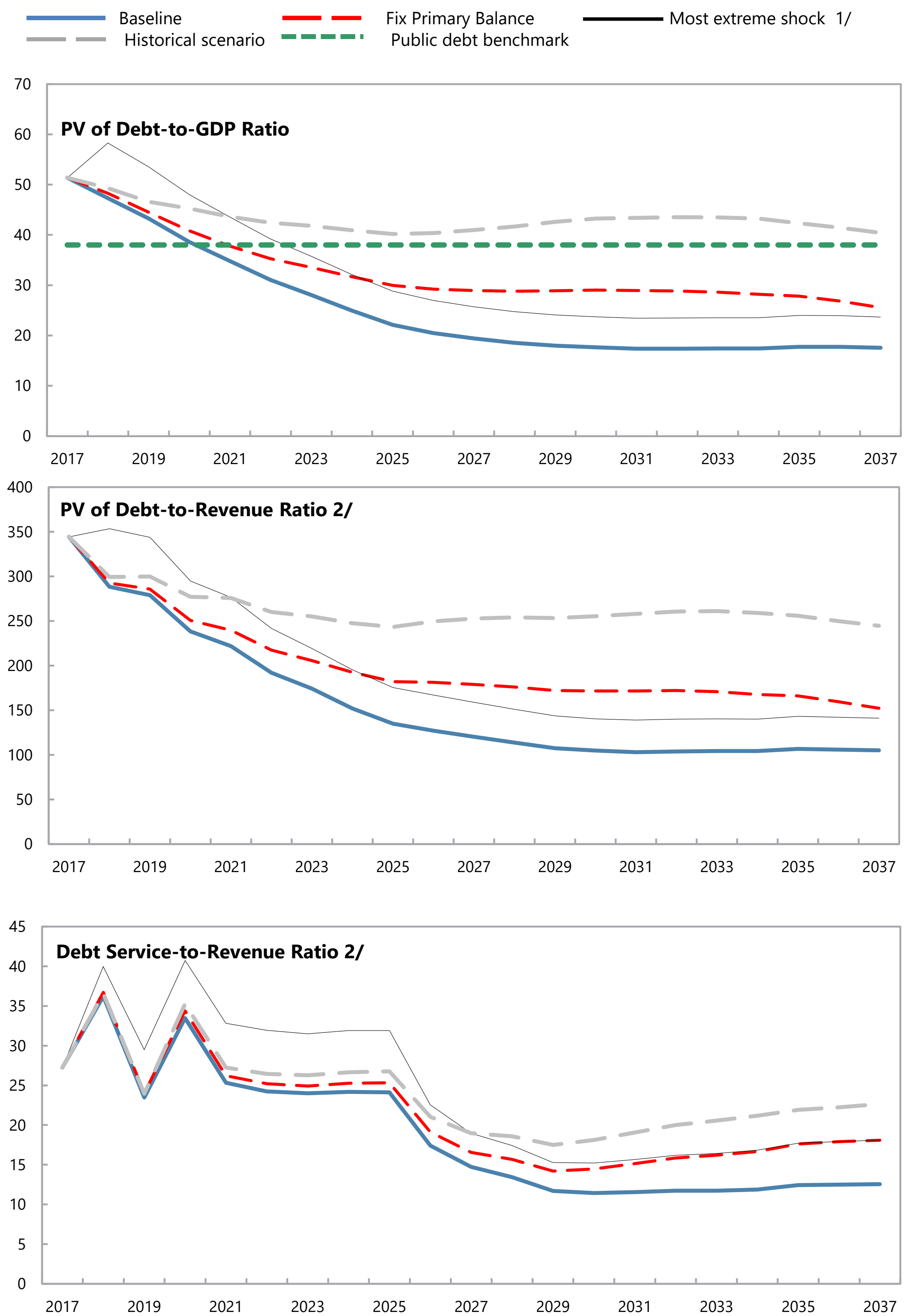
Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2017–37 1/



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 6/ Average	Standard 6/ Deviation	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**			**27.3**	**26.2**	**24.9**	**22.2**	**19.7**	**17.2**		**9.2**	**9.2**	
of which: public and publicly guaranteed (PPG)	29.1	25.0	27.1			27.3	26.2	24.9	22.2	19.7	17.2		9.2	9.2	
Change in external debt	8.0	-4.1	2.2			0.2	-1.2	-1.3	-2.7	-2.5	-2.5		-0.5	-0.1	
Identified net debt-creating flows	2.2	16.7	8.9			2.9	-1.1	-0.4	-1.7	-1.0	-0.2		-0.2	3.5	
Non-interest current account deficit	**8.2**	**12.5**	**7.2**	**5.3**	**6.3**	**4.6**	**3.1**	**4.6**	**3.6**	**4.0**	**3.5**		**1.9**	**4.6**	2.5
Deficit in balance of goods and services	12.5	16.3	15.0			13.9	10.6	10.5	8.8	8.8	8.0		4.7	8.7	
Exports	31.4	26.5	24.4			27.5	33.7	34.1	35.3	34.2	34.5		31.7	17.9	
Imports	43.9	42.9	39.4			41.4	44.3	44.5	44.1	43.0	42.5		36.4	26.6	
Net current transfers (negative = inflow)	-7.9	-7.1	-7.7	-6.1	1.5	-9.6	-9.5	-8.1	-7.6	-6.6	-6.4		-5.1	-4.1	-4.8
of which: official	-4.4	-3.0	-2.9			-3.6	-4.3	-3.0	-2.6	-1.9	-1.9		-1.5	-1.6	
Other current account flows (negative = net inflow)	3.6	3.2	-0.2			0.2	1.9	2.3	2.3	1.8	2.0		2.3	0.0	
Net FDI (negative = inflow)	**-5.2**	**-5.1**	**-2.4**	**-4.3**	**1.9**	**-3.7**	**-4.3**	**-5.0**	**-4.5**	**-4.6**	**-3.5**		**-2.0**	**-1.0**	-1.7
Endogenous debt dynamics 2/	**-0.8**	**9.3**	**4.2**			**2.0**	**0.2**	**0.0**	**-0.7**	**-0.3**	**-0.3**		**-0.2**	**-0.1**	
Contribution from nominal interest rate	0.7	1.2	2.1			1.1	1.0	0.9	0.8	0.7	0.6		0.1	0.1	
Contribution from real GDP growth	-1.4	-0.7	1.7			0.9	-0.9	-0.9	-1.5	-1.0	-0.8		-0.4	-0.2	
Contribution from price and exchange rate changes	-0.2	8.8	0.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**5.7**	**-20.8**	**-6.7**			**-2.7**	**-0.1**	**-0.8**	**-1.0**	**-1.5**	**-2.2**		**-0.3**	**-3.7**	
of which: exceptional financing	-0.1	-0.8	-1.1			-1.0	-1.8	-1.1	-0.7	-0.3	-0.3		-0.2	-0.1	
PV of external debt 4/	...	...	26.9			26.2	24.3	22.8	20.0	17.6	15.1		7.3	6.9	
In percent of exports	...	...	110.4			95.3	72.0	66.8	56.6	51.3	43.8		22.9	38.3	
PV of PPG external debt	**...**	**...**	**26.9**			**26.2**	**24.3**	**22.8**	**20.0**	**17.6**	**15.1**		**7.3**	**6.9**	
In percent of exports	**...**	**...**	**110.4**			**95.3**	**72.0**	**66.8**	**56.6**	**51.3**	**43.8**		**22.9**	**38.3**	
In percent of government revenues	**...**	**...**	**279.5**			**242.6**	**201.3**	**188.9**	**153.9**	**134.6**	**112.0**		**52.4**	**46.5**	
Debt service-to-exports ratio (in percent)	**15.6**	**9.5**	**16.7**			**8.9**	**6.9**	**5.8**	**6.7**	**7.0**	**7.3**		**3.2**	**3.5**	
PPG debt service-to-exports ratio (in percent)	**15.6**	**9.5**	**16.7**			**8.9**	**6.9**	**5.8**	**6.7**	**7.0**	**7.3**		**3.2**	**3.5**	
PPG debt service-to-revenue ratio (in percent)	**29.9**	**24.0**	**42.2**			**22.6**	**19.3**	**16.5**	**18.3**	**18.3**	**18.5**		**7.3**	**4.3**	
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		0.2	1.5	
Non-interest current account deficit that stabilizes debt ratio	0.2	16.6	5.0			4.4	4.2	5.9	6.3	6.5	6.0		2.5	4.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.9	1.8	-6.4	4.1	5.3	-3.1	3.5	3.6	6.9	4.8	4.6	3.4	3.8	2.8	2.9
GDP deflator in US dollar terms (change in percent)	0.8	-23.2	-1.5	-0.1	12.5	1.0	8.7	2.1	4.1	3.4	3.6	3.8	2.9	2.9	2.8
Effective interest rate (percent) 5/	3.6	3.3	7.6	2.7	2.1	4.1	4.3	3.5	3.7	3.3	3.2	3.7	1.3	1.3	1.5
Growth of exports of G&S (US dollar terms, in percent)	1.3	-33.9	-15.3	-1.7	19.6	10.4	37.8	7.0	15.4	5.0	9.5	14.2	5.3	-0.7	1.4
Growth of imports of G&S (US dollar terms, in percent)	9.8	-23.6	-15.3	1.9	14.1	2.9	20.3	6.3	10.2	5.7	7.1	8.8	4.2	1.4	2.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	37.1	37.4	37.3	37.6	37.0	37.1	37.3	37.4	37.6	37.4
Government revenues (excluding grants, in percent of GDP)	16.4	10.5	9.6			10.8	12.0	12.0	13.0	13.0	13.5		13.9	14.7	14.3
Aid flows (in Billions of US dollars) 7/	0.4	0.4	0.3			0.6	0.6	0.5	0.5	0.4	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	0.7	
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/	...	...	...			5.3	5.3	4.1	3.7	3.0	3.0		2.6	2.3	2.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			72.2	77.0	79.8	82.6	82.9	83.3		81.1	80.8	80.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.0	10.9	10.1			9.9	11.1	11.8	13.1	14.2	15.4		21.4	36.1	
Nominal dollar GDP growth	7.8	-21.8	-7.8			-2.2	12.6	5.8	11.3	8.4	8.4	7.4	6.8	5.8	5.9
PV of PPG external debt (in Billions of US dollars)			2.6			2.7	2.7	2.7	2.6	2.5	2.3		1.6	2.5	
(PVt-PVt-1)/GDPt-1 (in percent)						**1.3**	-0.5	0.2	-0.6	-0.9	-1.2	-0.3	0.0	0.3	-0.1
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	26.9			26.2	24.3	22.8	20.0	17.6	15.1		7.3	6.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	110.4			95.3	72.0	66.8	56.6	51.3	43.8		22.9	38.3	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	16.7			8.9	6.9	5.8	6.7	7.0	7.3		3.2	3.5	

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	25	23	22	19	17	14	**7**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	25	28	29	30	29	28	**24**	15
A2. New public sector loans on less favorable terms in 2017-2037 2/	25	23	23	20	18	16	**9**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	25	24	24	21	18	16	**8**	8
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	25	32	44	39	36	33	**21**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	25	28	32	28	24	21	**11**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	25	27	29	26	23	21	**12**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	25	41	62	56	52	48	**30**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	25	32	30	26	23	20	**10**	9
PV of debt-to-exports ratio								
Baseline	91	68	64	54	48	41	**23**	38
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	91	83	85	84	86	81	**75**	84
A2. New public sector loans on less favorable terms in 2017-2037 2/	91	69	66	56	52	45	**30**	60
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	91	68	64	54	49	41	**23**	38
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	91	167	304	265	252	229	**156**	120
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	91	68	64	54	49	41	**23**	38
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	91	80	86	74	68	60	**37**	42
B5. Combination of B1-B4 using one-half standard deviation shocks	91	159	261	228	218	198	**137**	98
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	91	68	64	54	49	41	**23**	38
PV of debt-to-revenue ratio								
Baseline	232	191	180	146	127	105	**52**	46
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	232	232	241	229	225	207	**172**	102
A2. New public sector loans on less favorable terms in 2017-2037 2/	232	193	187	153	136	115	**68**	73
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	232	199	199	161	140	116	**58**	51
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	232	266	361	303	277	245	**150**	61
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	232	236	264	213	186	154	**76**	68
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	232	224	243	200	179	154	**86**	51
B5. Combination of B1-B4 using one-half standard deviation shocks	232	339	517	435	400	355	**219**	84
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	232	262	250	202	176	146	**72**	64

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

(Percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
Debt service-to-exports ratio								
Baseline	9	7	6	7	7	7	**3**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	9	7	6	8	9	10	**6**	11
A2. New public sector loans on less favorable terms in 2017-2037 2/	9	7	6	7	7	7	**3**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	9	7	6	7	7	7	**3**	4
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	9	12	15	18	19	19	**19**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	9	7	6	7	7	7	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	9	7	6	7	7	8	**5**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	9	11	12	15	15	16	**17**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	9	7	6	7	7	7	**3**	4
Debt service-to-revenue ratio								
Baseline	23	19	16	18	18	19	**7**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	23	21	18	22	23	24	**14**	14
A2. New public sector loans on less favorable terms in 2017-2037 2/	23	19	16	18	19	19	**7**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	23	20	18	20	20	20	**8**	5
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	23	19	18	21	21	21	**18**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	23	24	24	27	27	27	**11**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	23	19	17	19	19	19	**11**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	23	23	24	28	28	28	**27**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	23	27	23	25	25	26	**10**	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	51.7			52.5	49.2	45.4	40.8	36.9	33.1	43.0	21.4	19.9	19.8
of which: foreign-currency denominated	29.1	25.0	27.1			27.3	26.2	24.9	22.2	19.7	17.2		9.2	9.2	
Change in public sector debt	8.8	3.9	8.5			0.8	-3.3	-3.8	-4.6	-3.9	-3.8		-1.1	-0.2	
Identified debt-creating flows	0.1	5.4	3.9			-2.6	-3.9	-4.0	-6.1	-4.9	-5.5		-4.1	-0.8	
Primary deficit 6/	2.6	3.0	-0.4	0.9	3.9	-1.2	-2.8	-1.8	-2.9	-2.6	-3.4	-2.4	-2.8	0.0	-1.9
Revenue and grants	18.4	14.0	12.6			14.9	16.4	15.5	16.2	15.7	16.2		16.1	16.7	
of which: grants	2.0	3.4	2.9			4.1	4.4	3.5	3.2	2.6	2.6		2.3	2.0	
Primary (noninterest) expenditure	21.0	17.0	12.2			13.7	13.6	13.8	13.3	13.1	12.8		13.3	16.7	
Automatic debt dynamics	1.9	3.0	4.8			0.4	-0.5	-1.8	-2.9	-2.0	-1.8		-1.1	-0.7	
Contribution from interest rate/growth differential	-1.0	-2.6	5.0			4.2	0.9	-1.7	-2.6	-1.8	-1.6		-1.1	-0.7	
of which: contribution from average real interest rate	1.0	-1.9	2.0			2.5	2.7	0.0	0.3	0.1	0.0		-0.2	-0.2	
of which: contribution from real GDP growth	-2.0	-0.7	3.0			1.7	-1.8	-1.7	-2.9	-1.9	-1.6		-0.8	-0.5	
Contribution from real exchange rate depreciation	2.9	5.6	-0.3			-3.8	-1.3	-0.1	-0.3	-0.2	-0.2		...	...	
Other identified debt-creating flows	-4.4	-0.7	-0.5			-1.8	-0.6	-0.4	-0.3	-0.3	-0.3		-0.2	-0.1	
Privatization receipts (negative)	-4.0	-0.4	0.0			-1.3	-0.1	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	4.6			3.4	0.6	0.2	1.5	1.0	1.7		3.0	0.7	
Other Sustainability Indicators															
PV of public sector debt	...	...	51.5			51.4	47.3	43.3	38.6	34.8	31.0		19.4	17.6	
of which: foreign-currency denominated	...	...	26.9			26.2	24.3	22.8	20.0	17.6	15.1		7.3	6.9	
of which: external	...	...	26.9			26.2	24.3	22.8	20.0	17.6	15.1		7.3	6.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	8.4	8.2	6.2			5.8	5.9	5.2	5.3	4.0	3.1		2.0	4.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	410.2			344.4	288.3	279.0	238.3	221.8	192.0		120.4	105.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	535.1			475.3	392.6	359.1	297.4	266.7	229.5		140.0	119.2	
of which: external 3/	...	...	279.5			242.6	201.3	188.9	153.9	134.6	112.0		52.4	46.5	
Debt service-to-revenue and grants ratio (in percent) 4/	31.6	33.6	41.7			27.3	36.2	23.5	33.5	25.3	24.2		14.7	12.5	
Debt service-to-revenue ratio (in percent) 4/	35.3	44.6	54.4			37.6	49.3	30.2	41.8	30.4	29.0		17.1	14.2	
Primary deficit that stabilizes the debt-to-GDP ratio	-6.2	-0.9	-8.9			-2.0	0.4	2.1	1.7	1.3	0.4		-1.7	0.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.9	1.8	-6.4	4.1	5.3	-3.1	3.5	3.6	6.9	4.8	4.6	3.4	3.8	2.8	2.9
Average nominal interest rate on forex debt (in percent)	3.6	3.3	7.6	2.7	2.1	4.1	4.3	3.5	3.7	3.3	3.2	3.7	1.3	1.3	1.5
Average real interest rate on domestic debt (in percent)	5.1	-1.5	-1.3	1.7	3.4	2.2	1.6	-0.6	-0.5	-0.4	-0.9	0.2	-0.7	-0.4	-0.5
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	8.9	4.5	5.2	4.1	3.2	2.0	4.7	5.4	3.5	4.8
Grant element of new external borrowing (in percent)	...	...	...	...	...	37.1	37.4	37.3	37.6	37.0	37.1	37.3	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	51	47	43	39	35	31	19	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	51	49	47	45	44	42	41	40
A2. Primary balance is unchanged from 2017	51	48	45	41	38	35	29	26
A3. Permanently lower GDP growth 1/	51	48	45	41	38	35	29	48
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	51	50	49	45	41	38	30	37
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	51	52	52	47	43	39	27	25
B3. Combination of B1-B2 using one half standard deviation shocks	51	52	51	47	43	39	29	30
B4. One-time 30 percent real depreciation in 2018	51	58	54	48	44	39	26	24
B5. 10 percent of GDP increase in other debt-creating flows in 2018	51	54	49	45	41	37	25	24
PV of Debt-to-Revenue Ratio 2/								
Baseline	344	288	279	238	222	192	120	105
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	344	299	300	277	276	260	253	245
A2. Primary balance is unchanged from 2017	344	293	286	251	240	217	179	152
A3. Permanently lower GDP growth 1/	344	290	285	249	238	213	173	278
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	344	299	307	269	259	232	182	216
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	344	315	333	288	272	241	167	148
B3. Combination of B1-B2 using one half standard deviation shocks	344	312	327	285	271	242	178	180
B4. One-time 30 percent real depreciation in 2018	344	353	344	295	276	242	159	141
B5. 10 percent of GDP increase in other debt-creating flows in 2018	344	325	318	274	259	228	156	141
Debt Service-to-Revenue Ratio 2/								
Baseline	27	36	23	33	25	24	15	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	27	37	24	35	27	26	19	23
A2. Primary balance is unchanged from 2017	27	37	24	34	26	25	17	18
A3. Permanently lower GDP growth 1/	27	37	24	35	27	26	17	22
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	27	38	26	37	28	27	18	20
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	27	37	24	36	27	26	19	17
B3. Combination of B1-B2 using one half standard deviation shocks	27	37	25	36	28	26	19	18
B4. One-time 30 percent real depreciation in 2018	27	40	29	41	33	32	19	18
B5. 10 percent of GDP increase in other debt-creating flows in 2018	27	37	25	35	27	25	18	16

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.

CHAD

July 25, 2018

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW — SUPPLEMENTARY INFORMATION, AND SUPPLEMENTARY LETTER OF INTENT

Approved By
Dominique Desruelle and Yan Sun

Prepared by the African Department in consultation with SPR and LEG

1. **This supplement provides an update on Chad's external arrears since the issuance of the staff report for the second review under the ECF arrangement.** It updates the nonobservance of the performance criterion (PC) on the non-accumulation of external arrears. The additional information does not change the thrust of the staff appraisal.

2. **The amount of new external arrears that accumulated since the Board concluded the first review under the ECF arrangement is $7.740 million (an amount of $0.74 million was reported in the staff report).** These arrears accumulated in the past ten days for a very short duration and the vast majority ($7.615 million) was paid already. The authorities expect to pay the remaining amount, owed to Angola, shortly. Given the relatively small amount of the arrears, staff continues to support the authorities' request for a waiver of nonobservance of this PC.

3. **A supplementary letter of intent** is attached to this supplement.

Supplementary Letter of Intent

N'Djamena, July 25, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington DC, 20431

Madame Managing Director,

Further to the Chadian authorities' Letter of Intent dated July 13, 2018, we have communicated to staff that the amount of new external arrears that accumulated since the Board concluded the first review under the ECF arrangement is $7.740 million - and not $0.74 million as reported in the staff report and the Memorandum of Economic and Financial Policies.

Very truly yours,

/s/
Issa Mahamat Abdelmamout
Minister of Finance and Budget

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

July 27, 2018

The Chadian authorities are thankful to the Executive Board, Management and staff for the Fund's continued support to their reform agenda set forth in their economic program supported by the Extended Credit Facility (ECF). Despite a difficult environment characterized by low oil revenues, a difficult socio-economic situation and security challenges, the ECF-supported program has remained on track. Since the completion of the first review, the authorities have made progress in pursuing fiscal consolidation, addressing domestic and external arrears, mitigating liquidity pressures in the banking system. In addition, they reached a debt restructuring agreement in principle with Glencore on June 28, 2018, which helped improve the country's fiscal position and debt sustainability prospects. In light of this progress and their strong and continued commitment to the objectives of the ECF-supported program, the authorities request the completion of the second review of the arrangement.

I. Performance under the ECF arrangement

The staff report provides a helpful account of recent economic developments, emphasizing notably the emerging signs of economic stabilization. The authorities remain committed to ensuring satisfactory program performance. All but one performance criteria at end- December 2017 were met, and only one indicative target was not met. The continuous zero ceiling on new external arrears of the government and non-financial public enterprises has been missed. Most indicative targets at end-March 2018 have been met while those related to the regularization of emergency expenditures procedures (DAO) and poverty reducing social spending were missed notably because of coordination problems, liquidity constraints, and civil servants strikes.

On the fiscal front, performance in 2017 turned out to be better than expected due to the government's strong efforts to control spending and increase non-oil revenues. Collection of non-oil revenues improved in the first quarter of 2018 as efforts to boost domestic revenue and strengthen cash management continued. Total expenditures in the first quarter of 2018 were in line with program targets reflecting adjustment measures undertaken by the government. The government took steps to repay domestic arrears in the second half of 2017, reducing significantly the stock of domestic arrears.

Likewise, significant progress has been made in clearing external arrears, with outstanding external arrears being reduced almost by half in the first four months of 2018. Notwithstanding this progress, a small amount of external arrears accumulated in the first half of 2018, primarily because of various features of fragility, including coordination challenges and weaknesses in the debt management and reporting system exacerbated by staff turnover in the related administrations. These arrears have since been cleared and the authorities are determined to avoid the recurrence of new arrears, with Fund staff's assistance. They will continue to take steps to further strengthen debt management and look forward to Fund's continued support in this regard.

In the banking sector, the government started to implement its strategy to strengthen the position of public banks. Reforms also aim to ensure that these banks play their financial intermediation role in an effective manner, including through deposit collection, and efficient allocation of resources to economic sectors. In this regard, the terms of reference for the review of public banks' strategy and the preparation of a reorganization plan were finalized, in coordination with the Banking Commission, COBAC, and with support from IMF staff. The report on the reorganization plan is expected to be finalized by end-January 2019.

Progress has also been made on other aspects of the structural reform agenda including with a view to improving governance and oil sector transparency. The United Nations Convention Against Corruption (UNCAC) was ratified, and the list of tax and customs exemptions was published on the Ministry of Finance website. In addition, the government continued to publish quarterly notes on the oil sector, in line with the template agreed with IMF staff. The audit of domestic arrears which was due by end-October 2017 was launched in June. The audit of transfers and subsidies to identify potential areas for saving is expected to be launched before the end of the year.

II. Policies for the remainder of 2018 and the medium-term

With the expected increase in oil production over the medium-term, higher FDI notably in the oil sector, and lower external debt service following the Glencore agreement, risks to the program have significantly declined and Chad's international reserves should improve further, thereby contributing to the regional external stability. Looking ahead, economic activity is expected to start to recover in 2018, reflecting notably projected favorable developments in the oil sector, increased investment spending, and progress in clearance of domestic arrears.

On their part, the authorities will continue their efforts to stabilize the economy and support the resumption in non-oil growth, while pursuing the implementation of the National Development Plan. Fiscal policy will remain the cornerstone of the program. The authorities will build on the measures introduced early this year to further strengthen non-oil revenue collection and contain current spending. Oil revenue is expected to increase in 2018 owing notably to the projected increase in production. At the same time, the government will aim to limit recourse to domestic financing, while working to further reduce the stock of recognized arrears in line with program objectives.

The authorities will maintain a prudent fiscal policy over the medium term. The efforts to increase non-oil tax revenues will be sustained, so will be the efforts to control the wage bill and increase the share of other expenditure in non-oil GDP, particularly social and investment spending. The authorities will pursue their dialogue with social partners, with the aim of preserving social cohesion and securing adequate support for reform implementation.

The government will continue to pursue measures to improve tax and customs revenues and strengthen public financial management. Building on recent tax and custom reform measures that have contributed to boosting revenue, the authorities will continue taking additional revenue-enhancing steps. In particular, a unit dedicated to property tax collection will be created in the tax administration while the customs administration will aim to better control transit operations and import valuation. The authorities will also strive to streamline tax exemptions to broaden the tax base, while introducing improvements to tax collection procedures and strengthening collaboration between tax and customs administrations. With regard to public financial management, efforts will be pursued to further improve the expenditure chain and meet the target for the regularization of DAO. In parallel, care will be taken to monitor and report public spending on a regular basis.

The banking system which dominates the financial sector in Chad plays a pivotal role in the national economy. Cognizant of this reality, the authorities are making relentless efforts to address vulnerabilities in the sector in close collaboration with the BEAC and COBAC. These include resolving payment arrears to commercial banks with a view to alleviating liquidity pressures facing them. The authorities have also stepped up efforts and financial reforms to review the institutional and operational frameworks as well as the financial position and strategy of some of the largest public banks. Moreover, strengthening the financial sector calls for an improved monetary transmission mechanism. In this connection, the development of a vibrant interbank market is considered to be critical and to this end the ongoing reform of the monetary policy framework conducted by BEAC is much anticipated.

III. Conclusion

The Chadian authorities have demonstrated their continued commitment to the ECF- supported program. While they have faced a number of hurdles in advancing their reform agenda largely because of the country's fragility, performance under the program has remained broadly on track. Going forward, the authorities have renewed their commitment to program objectives and plan to continue their reform efforts to achieve in coordination with regional authorities, notably BEAC and COBAC. In this endeavor, they look forward to Fund's policy advice and technical assistance as well as the support from the country's development partners.