INTERNATIONAL MONETARY FUND

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CHAD

July 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHAD

In the context of the Article IV Consultation and fourth review under the Extended Credit Facility, 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 3, 2019, following discussions that ended on April 1, 2019, 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 June 18, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and THE International Development Association (IDA).
- A **Statement by the Executive Director** for Chad.

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

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*
Selected Issues

*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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Press Release No. 19/267
FOR IMMEDIATE RELEASE
July 3, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Completes Fourth Review under the Extended Credit Facility (ECF) for Chad, Approves US$38.9 Million Disbursement and Concludes 2019 Article IV Consultation

- Performance under the ECF-supported program has been broadly satisfactory with continued improvement in the fiscal position and progress in implementing structural reforms in spite recent delays.
- Overall economic activity strengthened in 2018 but further reform efforts are needed to support the recovery in the non-oil sector and improve social conditions.
- Chad's program is supported by the implementation of policies and reforms by the regional institutions which are critical to its success.

On July 3, 2019, the Executive Board of the International Monetary Fund (IMF) completed the fourth review of Chad's economic and financial program supported by an Extended Credit Facility (ECF) arrangement. Completion of the review enables the disbursement of SDR 28.04 million (about US$38.9 million), bringing total disbursements under the arrangement to SDR 168.24 million (about US$233.1 million).

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$310.8 million or 160 percent of Chad's quota). The ECF-supported program aims to help Chad restore macroeconomic stability, lay the foundation for robust and inclusive growth, and contribute to the regional effort to restore and preserve external stability for the Central African Economic and Monetary Union (CEMAC).

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

"Performance under the ECF-supported program has been broadly satisfactory, reflecting strong commitment by the authorities despite a challenging environment including security concerns and a difficult social situation. All end-December 2018 performance criteria and most end-March indicative targets were met. Progress is underway on the structural reform agenda, despite some delays.

"Moving forward, it is essential that efforts continue to create fiscal space for increased social spending and public investment, and to reduce domestic debt and clear arrears. Key actions in this regard include continued fiscal prudence, increasing domestic revenue mobilization, particularly by reducing exemptions, and strengthening public financial management. Pursuing these policies, accompanied by continued structural reform implementation, will help further stabilize the fiscal position, energize non-oil growth, and reduce banking sector vulnerabilities.

"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."

The Executive Board also concluded the 2019 Article IV Consultation with Chad.

Chad is a low-income fragile country that depends heavily on oil revenues. In recent years, it has been heavily impacted by an oil price shock and security tensions which intensified recently. Significant progress has been made under the 2017 ECF arrangement to help restore debt sustainability and fiscal stability. However, the economic, financial, and social situation is still very difficult, and the recovery in the non-oil economy has not taken strong hold as the economy continues to deal with legacies from the crisis and long-standing structural weaknesses.

Executive Board Assessment[1]

Executive Directors commended the authorities' continued commitment to the reform program supported by the IMF despite a challenging environment marked by fragility and significant development challenges. Notwithstanding the broadly favorable outlook, Directors noted the significant downside risks, including from the deterioration in the security situation and large drops in oil prices. In this context, they underscored the need to maintain fiscal discipline, while implementing reforms to address long-standing structural impediments to non-oil activity and achieve higher and more inclusive growth.

Directors commended the authorities for maintaining prudent fiscal policy. However, in light of high risk of debt distress, they emphasized the importance of increasing non-oil revenue, including by reducing costly exemptions and improving VAT collection, and maintaining spending discipline. This would help to ensure debt sustainability and create space for the much needed social and infrastructure spending. To reduce vulnerability to oil price fluctuations, Directors encouraged the authorities to consider a simple price-smoothing mechanism. They noted that strengthening public financial management and clearance of domestic arrears also needs to remain a priority.

Directors noted that vulnerabilities in the financial sector remain elevated, reflecting the tight sovereign-bank nexus. They encouraged curtailing the public banks' financing of the budget, reducing the high levels of non-performing loans and improving banking sector liquidity.

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

Directors encouraged the authorities to accelerate the pace of structural reforms to promote private sector development, diversify the economy and boost competitiveness. They emphasized the need for efforts to improve the business climate, enhance the fight against corruption, strengthen public financial management, and deepen financial inclusion. Directors noted that these efforts should be supported by well-targeted and coordinated capacity development activities, taking into account the authorities' absorptive capacity. To ensure the effectiveness of the provided technical assistance many Directors supported the authorities' call for long-term resident experts.

Directors noted that Chad's program continues to be supported by the implementation of policies and reforms by the regional institutions, which are critical to the program's success. These comprise the policy assurances provided in the December 2018 Letter of Policy Support, which were implemented as planned, and the assurance on NFA accumulation in 2019 presented in the updated letter of June 2019 and discussed in the June 2019 union-wide staff report. Completion of the fifth review will be conditional on the implementation of the updated policy assurance.

Table 1. Chad: Selected Economic and Financial Indicators, 2017-2023

	2017	2018	2019	2020	2021	2022	2023
	Prel.		Projections				
	(Annual percentage change, unless otherwise indicated)						
Real economy							
GDP at constant prices	-2.4	2.4	2.4	5.5	4.8	5.3	4.1
Oil GDP[1]	-11.2	12.7	4.0	16.7	8.2	10.6	4.4
Non-oil GDP	-0.5	0.5	2.0	3.0	4.0	4.0	4.0
GDP deflator	-0.8	2.3	2.6	2.9	3.0	2.9	1.7
Consumer price index (annual average)[2]	-0.9	4.0	3.0	3.0	3.0	3.0	3.0
Oil prices							
Brent (US$/barrel)[3]	54.4	71.1	61.8	61.5	60.8	60.4	60.6
Chadian price (US$/barrel)[4]	49.4	65.1	58.8	58.5	56.8	56.4	56.6
Oil production for exportation (millions of barrels)	36.0	42.2	45.2	53.9	58.9	65.9	69.1
Exchange rate CFAF per US$ (period average)	580.9	555.2	…	…	…	…	…
Money and credit							
Net foreign assets	0.5	11.7	10.5	10.2	11.6	7.1	10.3
Net domestic assets	-4.7	-7.2	0.6	-1.1	-4.6	1.0	-3.5
Of which: net claims on central government	-4.4	-7.8	5.7	-2.9	-5.7	-0.8	-4.5
Of which: credit to private sector	-1.7	0.7	0.9	1.7	1.1	1.8	1.0
Broad money	-4.3	4.5	11.0	9.1	7.0	8.1	6.8
Velocity (non-oil GDP/broad money)[5]	5.3	5.2	5.0	4.8	4.8	4.7	4.7
External sector (valued in US dollar)							
Exports of goods and services, f.o.b.	15.4	37.6	-1.8	16.0	6.0	10.2	5.7
Imports of goods and services, f.o.b.	5.3	15.3	3.1	10.6	6.4	8.8	4.9
Export volume	-10.8	11.6	7.2	15.7	7.8	10.1	4.5
Import volume	5.6	12.4	2.4	10.4	5.4	7.7	3.8
Overall balance of payments (percent of GDP)	-1.1	1.9	1.0	1.0	1.2	-0.1	0.4
Current account balance, including official transfers (percent of GDP)	-6.6	-3.4	-6.5	-5.9	-6.4	-6.3	-5.9
Terms of trade	29.7	20.2	-9.0	0.2	-2.5	-1.1	0.2

Table 1. Chad: Selected Economic and Financial Indicators, 2017-2023 (concluded)

External debt (percent of GDP)[6]	25.1	25.1	24.6	22.2	19.7	17.3	15.3
NPV of external debt (percent of exports of goods and services)	94.1	62.9	65.5	55.3	50.1	42.8	37.6
	(Percent of non-oil GDP, unless otherwise indicated)						
Government finance							
Revenue and grants	17.1	18.3	18.9	20.9	21.5	22.3	23.2
Of which: oil revenue [7]	4.1	6.7	6.9	8.1	8.8	9.4	9.8
Of which: non-oil revenue	8.7	8.1	8.8	9.4	9.8	10.0	10.4
Expenditure	18.0	16.5	18.9	18.6	19.0	18.7	18.5
Current	13.7	12.0	12.7	12.4	12.3	11.9	11.5
Capital	4.4	4.5	6.2	6.2	6.7	6.8	7.1
Non-oil primary balance (commitment basis, excl. grants)[8]	-3.8	-4.2	-4.8	-3.8	-3.8	-3.5	-2.9
Overall fiscal balance (incl. grants, commitments basis)	-0.9	1.9	0.0	2.3	2.5	3.6	4.6
CEMAC reference fiscal balance (in percent of GDP)[9]	0.5	-0.8	-2.0	-0.4	0.1	0.9	1.6
Total debt (in percent of GDP)[6]	49.7	48.2	43.8	39.0	34.9	31.2	28.1
Of which: domestic debt	24.6	23.1	19.2	16.8	15.2	13.9	12.8
Memorandum items:							
Nominal GDP (billions of CFA francs)	5,855	6,136	6,446	6,997	7,552	8,181	8,659
Of which: non-oil GDP	4,830	4,970	5,212	5,515	5,900	6,299	6,732
Nominal GDP (billions of US$)	10.1	11.1	11.2	12.3	13.4	14.6	15.5

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

[1]2017 oil GDP growth was revised to reflect final 2016 and 2017 oil GDP data. It also reflects oil production used for local consumption.

[2]2017 inflation rate reflects the authorities' data using the year 2014 as a base year.

[3]WEO projections for Brent crude oil price.

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

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

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

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

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

[9]The CEMAC reference fiscal balance is calculated as the overall fiscal balance 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

INTERNATIONAL MONETARY FUND

CHAD

June 18, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

KEY ISSUES

Context. Chad is a low-income fragile country that depends heavily on oil revenues. In recent years, it has been heavily impacted by an oil price shock and security tensions which intensified recently with a rise in terrorists attacks and rebel movements. Significant progress has been made under the 2017 ECF arrangement to help restore debt sustainability and fiscal stability. However, the economic, financial, and social situation is still very difficult, and the recovery in the non-oil economy has not taken strong hold yet as the economy continues to deal with legacies from the crisis and long-standing structural weaknesses.

Program status. The program is broadly on track. While all end-December 2018 performance criteria were met, there was a slowdown in program implementation early this year. Out of the six structural benchmarks for the period up to end-March 2019 two were implemented on time, one was partially implemented, one was implemented with a slight delay and two are still pending. The program is supported by CEMAC wide efforts to maintain an appropriate monetary policy stance, build up regional reserves, and promote financial sector stability.

Key policy recommendations. Article IV discussions focused on policy priorities to deal with legacies from the crisis and the longstanding structural weaknesses. Reducing government domestic debt and domestic arrears would address key impediments to growth that persist from the crisis. Sustained efforts are needed to increase non-oil revenues, improve the efficiency and quality of public spending, and reduce the vulnerability of the fiscal position to oil price fluctuations. This would help create fiscal space to increase spending in the infrastructure and social sectors while maintaining a sound fiscal position. To create conditions for strong and inclusive economic growth, the authorities should address a host of structural factors in particular to improve the business climate, build up human and physical infrastructure, address governance issues, reduce banking sector vulnerabilities, and increase financial inclusion.

Staff views. Staff supports the completion of the fourth review under the ECF arrangement given Chad's continued strong commitment to the program in spite of significant challenges. Completion of the fourth review will result in the disbursement of SDR 28.04 million. The

Fund arrangement remains instrumental to catalyze donor support and address Chad's protracted balance of payment needs. The main downside risks to the program include rising insecurity, a significant drop in oil price, an overshooting in spending particularly the wage bill, and further deterioration in the position of public banks. The upside risks mostly consist of higher oil revenues.

Approved By
David Owen and Yan Sun

Discussions took place in N'Djamena (March 18-April 1, 2019), during the Spring Meetings and through video conferences. The staff team comprised Mr. Bakhache (head), Ms. Sharma, Messrs. Ben Hassine and Delepierre (all AFR), Mr. Green (SPR), Mr. Ntamatungiro (Resident Representative) and Mr. Topeur (local economist). Meetings were held with the Minister of Finance and Budget, Minister of Economy and Development Planning, Minister of Justice, Minister of Petrol, Energy and Mines, Government Secretary general, National Director of the BEAC, Director General of the oil public enterprise (SHT), and representatives of international development partners. Outreach events were conducted with the National Assembly, representatives of various ministries including Education and Health, trade unions, the banking sector, the private sector, academia and the media. Ms. Pilouzoue supported the preparation of the staff report.

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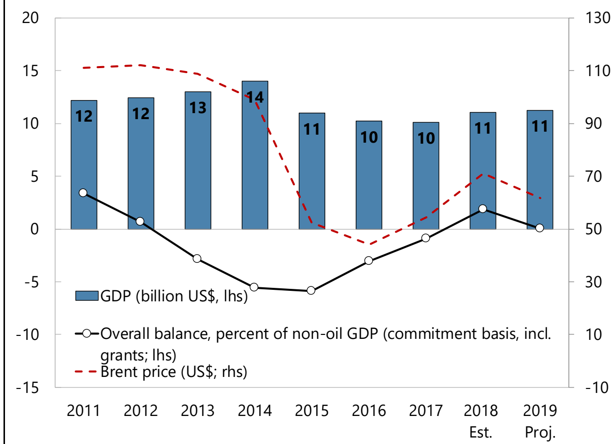
APPENDIX

BACKGROUND

1. **Significant progress has been made in stabilizing the economy and reducing risks after the 2014-15 oil price shock.** The shock, coupled with security tensions in the region, had a severe and lasting impact on the already fragile Chadian economy. The decline in oil GDP and dramatic spending cuts led to a significant reduction in GDP (Text Figure 1). Under the ECF arrangement (approved in June 2017 for 160 percent of quota or SDR 224.32 million) and with donor financial support, the deterioration in the fiscal position was stemmed, the economy bottomed out in 2017, and signs of stabilization emerged.

Text Figure 1. Chad: GDP, Oil Price and Fiscal Balance, 2011–19



Sources: Chadian authorities, and IMF staff calculations.

2. **Nonetheless, the economic, financial, and social situation remains very difficult reflecting significant fragilities** (Box 1)**.** Chad is one of the poorest countries in the world with a very low Human Development Index, and low state capacity. The recent increase in security tensions particularly in the Lake Chad Basin and along the border regions has intensified the authorities' concerns over security threats and further weighed on their ability to adequately address the development challenges of the country. The humanitarian crisis has also worsened with additional flows of refugees to Chad which hosts the largest number of refugees per capita in Africa. While social conditions improved in the past decade, they remain very poor. As a result, there are constant social tensions that magnify the urgency for the government to meet the large development needs of the population. These tensions have been particularly acute after the sharp cuts in spending of recent years and the consequent recession. In recent months, these tensions have somewhat eased with the implementation of an October 2018 agreement with trade unions that ended long strikes.

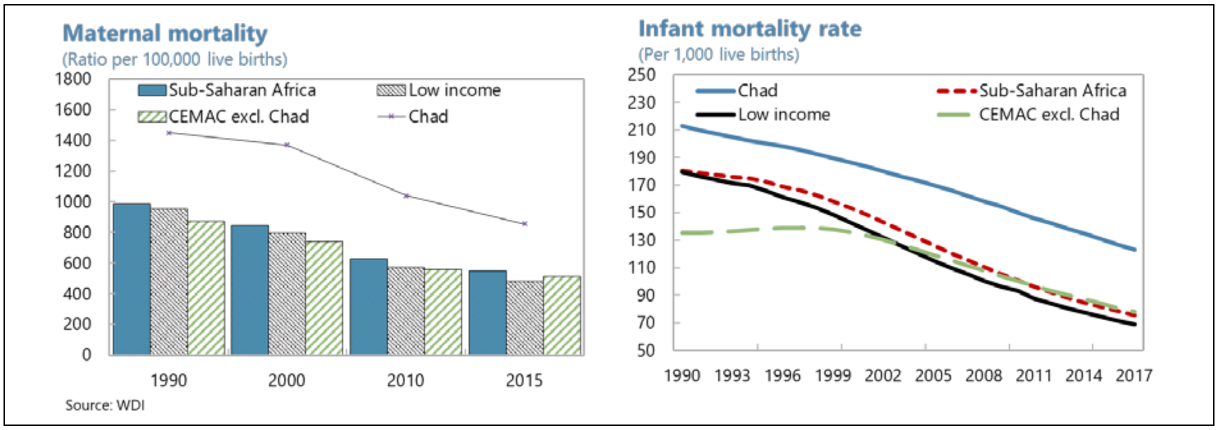
3. **While the recent restructuring of the Glencore debt contract has provided a mechanism to cushion the fiscal impact of a reduction in oil revenue, dependence on oil remains high.** Much of the impact of the decline in oil price in late 2018/early 2019 was contained because of lower Glencore debt service. Nonetheless, because of still low non-oil revenue, very limited room for spending cuts, and limited buffers at the regional central bank, the fiscal position remains highly vulnerable to lower oil revenues. This is compounded by the continued weaknesses in the non-oil economy including the banking sector.

4. **The political situation has been broadly stable**. The adoption of the new constitution in May 2018 moved Chad to a full presidential system and consolidated the powers of the president. Parliamentary elections have been postponed several times since 2016 including because of uncertainty regarding financing and logistical delays and are now expected to take place later this

year or in early 2020. Disagreement with the opposition regarding the elections, the worsened security situation, and the social tensions could affect political stability moving forward.

Box 1. Chad's Fragility

Chad is a low-income country with significant development challenges, facing multi-dimensional fragility including insecurity, weak governance, and a tense social situation. With a GDP per capita that collapsed to $812 in 2017, poverty rate of 45 percent, and Human Development Index positioning Chad at 186 out of 189 countries, Chad's development indicators lag those of its peers.



Deadly terrorist activities are still prevalent particularly in the Lake Chad region. While the last attack in N'djamena occurred in 2015, Boko Haram has since launched several attacks in the Lake Chad area including earlier this year, killing and injuring people. This, along with insecurity in neighboring countries has escalated tensions and sent more refugees into Chad, which added to the humanitarian crisis. In addition, since August 2018, there have been attacks by armed groups near the Libya border which threatened stability in the country and required substantial military resources to deter. Chad remains actively engaged in peace keeping efforts in the region, including in the context of the G5 Sahel countries.

Chad's fragility also comes from weak capacity and governance. Capacity remains very weak, as shown by protracted PFM issues. The high turnover among mid and high-level officials complicates reform implementation and absorption capacity. Chad's governance indicators are among the weakest in the region.

5. **Chad has demonstrated leadership in implementing policies that support the stability of the Central African Economic and Monetary Community (CEMAC) financial and monetary arrangement, especially the recovery of the regional central bank's (BEAC) reserves**. In addition to fiscal prudence, to help ensure adequate repatriation of export receipts Chad has provided all the contracts and agreements with oil companies to the relevant committees and secretariat of the region. The CEMAC regional economic situation is showing signs of improvement, but full implementation of the agreed fiscal consolidation path by the four countries already with Fund-supported programs and the conclusion of program discussions with the Republic of Congo and Equatorial Guinea would support a further recovery in the BEAC's net foreign asset position.

6. **Traction of previous policy advice has been broadly satisfactory**. Policy priorities have evolved since the 2016 Article IV consultation, in particular to focus on restoring debt sustainability (achieved in 2018) and on addressing the aftermath of the 2014-5 oil price shock. However, many of the broad policy recommendations remain relevant including the need to raise non-oil revenue, address central government domestic arrears accumulation, improve public financial management (PFM), ensure the stability of the banking sector, and foster inclusive growth. While the crisis led to a deterioration in initial conditions in all these areas (large accumulation of domestic arrears, drop in non-oil revenue, weakening of banks), progress is underway on all of them, broadly in line with the program (Annex I).

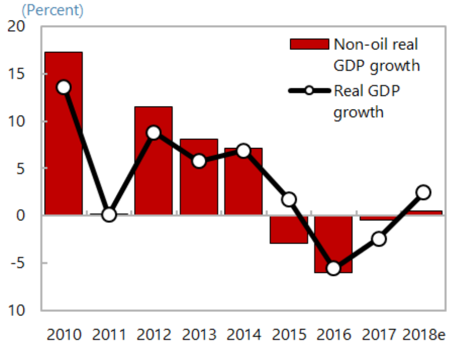
RECENT DEVELOPMENTS

7. **While oil production rebounded in 2018 broadly in line with projections, the non-oil economic recovery was slower than expected.** Non-oil GDP growth is estimated at 0.5 percent, 0.5 percent lower than projected. This primarily reflects lower foreign-financed investment, wage bill, and arrears payment than originally projected. Inflation picked up in 2018 to 4 percent mainly due to higher water utility rates in May 2018 and higher prices in the services sectors. Preliminary indications suggest that the recovery continued in early 2019, with domestic demand supported by the increase in the wage bill—following the agreement with the labor unions that came into effect in January—and indications of strong agricultural production. The latter was also reflected in the decline in food inflation (from 4.5 percent y-o-y in December to 2.7 percent in March 2019).

Figure 1. Chad: Recent Economic Developments

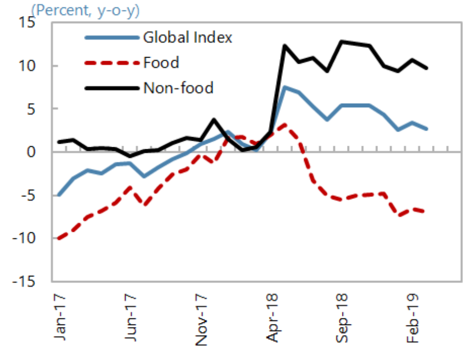
After three years of decline, non-oil GDP growth is projected to have recovered in 2018...

Chad: GDP Growth, 2010-18
(Percent)



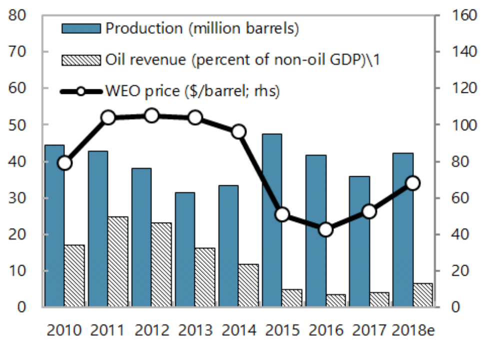
... while deflationary pressures began to ease.

Chad: CPI, 2015M1-2018M10
(Percent, y-o-y)



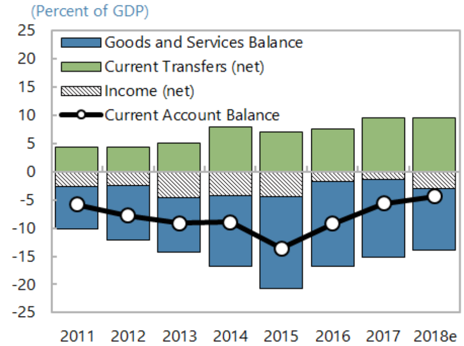
Recovery in oil production and price is supporting an increase in oil revenue...

Chad: Oil Revenue and Production, 2010-18



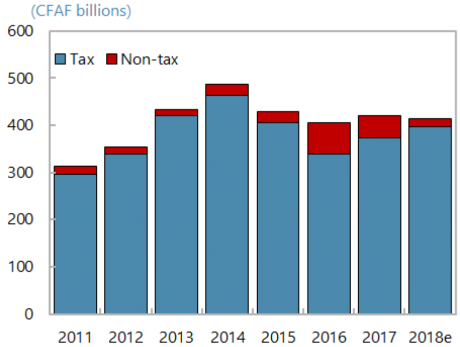
... and helping improve the current account balance in 2018.

Chad: Current Account Balance, 2010-18
(Percent of GDP)



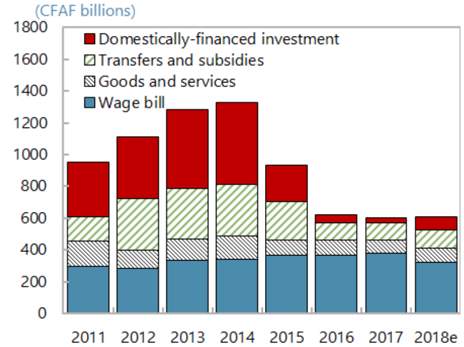
Non-oil revenue mobilization stalled...

Chad: Non-oil Revenue, 2011-18
(CFAF billions)



... and public investment is slowly recovering.

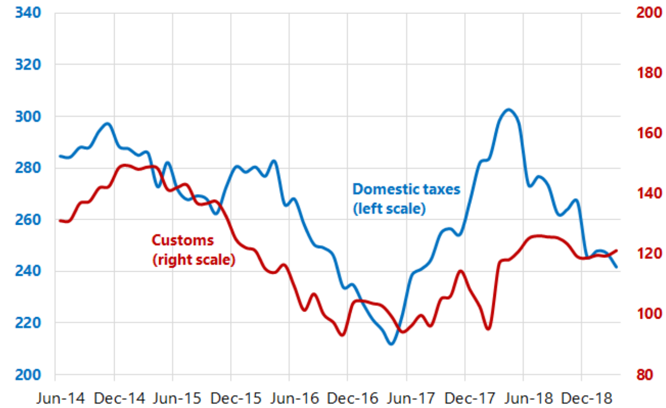
Chad: Primary Spending Composition, 2011-18
(CFAF billions)



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

8. Fiscal developments in 2018 were marked by spending discipline broadly in line with the budget, but also weak non-oil revenue performance. The wage bill was firmly reduced and other domestically financed expenditures were executed broadly in line with the budget, except for social spending. On the revenues side, non-oil revenue declined by CFA 18 billion due to the weak performance in the second half of the year (Text Figure 2). Oil revenue increased from CFAF 200 billion in 2017 to CFAF 335 billion in 2018, reflecting higher oil production and prices and higher than anticipated oil tax revenues. Domestic arrears repayment was lower than projected as clearance stalled in the fourth quarter, as most of the budget support was disbursed at the very end of December. These developments resulted in a significant increase in government deposits at the BEAC, by CFAF 130 billion or about 2.6 percent of non-oil GDP.

Text Figure 2. Chad: Non-oil Revenue, 2014–18
(12 months cumulative; CFAF billion)



Sources: Chadian authorities, and IMF staff calculations.

9. The authorities made considerable progress in clearing external arrears and have paid external debt obligations in a timely manner. The repayment of the Libyan loan was in line with the agreement-in-principle signed with the Libyan Foreign Bank in May 2018, which paves the way to rescheduling the remaining debt of $272 million. About $63 million of arrears remain outstanding, particularly to the Republic of Congo (about $55 million). Good faith efforts are underway to address all outstanding arrears, including active discussions with Angola, Equatorial Guinea, the Republic of Congo, the European Investment Bank (EIB), and Mega Bank, a foreign commercial bank.[1]

10. The debt sustainability analysis (DSA) shows that Chad's debt vulnerabilities have declined significantly since the beginning of the Fund-supported program even though it remains at high risk of external debt distress. All but one external debt indicators are below their respective thresholds under the baseline. Elevated risk of overall debt distress reflects the relatively low revenue base in Chad, and a low debt-carrying capacity, primarily due to slow-moving factors like weak institutional capacity, very low remittances, and low import coverage of foreign exchange reserves.

[1] Chad signed an agreement to negotiate a debt restructuring with Angola in February and has held technical meetings with Angolan counterparts since. There were exchanges with Congo and Equatorial Guinea at the margins of the recent CEMAC Summit and discussions are underway with Mega Bank. The authorities believe that no arrears exist with the EIB; the arrears reflect an accounting error on their part. The authorities have contacted the EIB to verify.

11. The banking sector's vulnerabilities remain elevated in large part reflecting the tight bank-sovereign nexus and the slow non-oil economic recovery. By December 2018 deposits had stabilized (y-o-y) following a sharp decline in 2017. Credit slightly increased by 0.6 percent, but overdue loans reached 31.4 percent (against 28 percent in 2017). Banking sector liquidity is showing some signs of improvement as the BEAC refinancing declined from CFAF 199 billion in December 2017 to CFAF 160 billion in December 2018 and all advances at penalty rate were paid. Initial indications show an increase of deposit and stabilization of credits in the first quarter of 2019.

12. The external position improved in 2018 due to higher oil export proceeds. The current account deficit for 2018 declined to 3.4 percent of GDP compared to 6.6 percent in 2017, reflecting an increase in oil exports. The current account improvement more than offset lower than expected capital grants, allowing Chad's NFA position at the regional central bank to improve to around CFAF-138 billion at end-2018 (from about CFAF -257 billion at end-2017)

13. The BEAC and COBAC have pursued the implementation of their policy commitments. With regard to existing policy assurances, the BEAC submitted new foreign exchange regulations to the UMAC ministerial committee and operationalized the new monetary policy framework by end-2018. In addition, the end-2018 regional policy assurance on NFAs was exceeded

PROGRAM PERFORMANCE

14. All performance criteria (PC) at end-December 2018 were met (Text Table 1)**.** The ceilings on non-oil primary balance (NOPB) was met in large part due to spending discipline particularly on the wage bill. Customs revenue target was met despite still weak economic activity and imports. The PCs on net domestic government financing from both the BEAC and the banking sector have been met. The former reflects an increase in deposits at the BEAC. The latter is due to the rollover of domestic securities broadly in line with the program. Recognized domestic arrears payments were in line with the end-December adjusted PC. The continuous zero ceilings on new external arrears and nonconcessional borrowing were met.

Text Table 1. Chad: Performance Criteria and Indicative Targets up to End-December 2018

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

	End-Dec. 2018 PCs				End-March. 2019 ITs			
	PC	PC w/ adjustor	Actual	Status	IT	IT w/ adjustor	Actual	Status
Performance Criteria								
Floor on non-oil primary budget balance	-218		-211	met	-80		-76	met
Floor on customs revenue	118		124	met	25		29	met
Ceiling on net domestic government financing excluding BEAC	-55		-58	met	-20		-33	met
Ceiling on net government financing from the BEAC	35		-74	met	110		70	met
Ceiling on the stock of domestic payment arrears by the government	150	163	160	met	150	160	167	not met
Ceiling on new external arrears of the government and non-financial public enterprises[2]	0		0	[met]	0		0	met
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)	80		65	not met	50		22	not met
Floor for poverty-reducing social spending	214	205	182	not met	57	50	42	not met
Memo item:								
Emergency spending procedures-DAO (Percent of primary spending)	...		...		22		38	
New domestic payment arrears by the government	*0*		...		*0*		...	
External concessional borrowing (US$ million)	*155*		*200*		*27*		*23*	
Oil Revenue	*318*		*335*		*90*		*78*	
Grants	*150*		*119*		*0*		*0*	

Sources: Chadian authorities; and IMF staff estimations
1. Quantitative indicators and adjustors are defined in the TMU.
2. To be respected continuously.

15. The end-December ITs on social spending and regularization of emergency spending procedures (DAO) were missed. The former was missed because (i) the reduction in the wage bill disproportionately impacted the education and health ministries that have a large share of the civil service and (ii) budgetary allocations to these ministers were under-executed due to weak procurement practices. The latter was missed in large part because of the large volume of DAO relative to the capacity at the ministry of finance to regularize them.

16. Structural reform implementation has slowed down (Text Table 2). Out of six structural benchmarks (SBs) for the period up to end-March 2019:

- Two were met on time. These are the publication of the oil sector note and adoption of the VAT action plan;

- One was implemented with a slight delay. The decree to limit the use of DAO (end-December 2018 SB) was adopted in January 2019 reflecting a delay in approval of budget implementation procedures;

- One was partially implemented. The needed actions for the removal of tax exemptions based on the audit of 47 conventions have been partially taken. Also, decisions to remove some exemptions were faced with legal challenges; and

- Two are still pending. These are reports on the review and reorganization plans for the two public banks and the preparation and adoption of the domestic arrears' clearance strategy. Progress is underway on the first one (prior action), and the domestic arrears clearance strategy is awaiting the conclusion of the audit of unverified arrears which started later than expected (modified SB).

Text Table 2. Chad: Structural Benchmarks for the Program under the ECF Arrangement Status as of End-April 2019

Measures	Due Dates	Status
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-December 2018	Met
2. Develop an action plan with timebound measure to improve VAT collection.	End-December 2018	Met
3. Adopt a decreee to limit the use of emergency spending procedures	End-December 2018	Not met, implemented with delay
4. 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	Not met, partially implemented
5. Deliver report of external consultants on the review and reorganization plan for two public banks.	End-February 2019	Not met
6. Adopt a clearance strategy of domestic arrears based on the audit results.	End-March 2019	Not met
7. Publish a semi-annual note which lists all new exemptions (including renewal and extension of exemptions).	Semi-annual, starting end-July 2019	…

Sources: Chadian authorities and IMF staff.

17. Most end-march ITs have been met. In particular, the NOPB, the floor on customs revenue and the ceiling on BEAC and non-BEAC financing were met. However, the adjusted IT on the floor of domestic arrears was missed by a small margin (about CFAF 7 billion). The adjusted IT on social spending and the IT on the regularization of DAO were also missed. The authorities have since taken corrective measures to ensure that the end-June targets for both indicators are met. Preliminary data shows that social spending has actually increased since March and reached over CFAF 86 billion in early June to partly offset the low execution in the first quarter. In addition, the authorities are committed to accelerate the payment of newly committed spending which reached a total of CFAF 38 billion to meet end June target. The authorities have also put in place a high-level committee to monitor social spending and identify specific social programs that should be prioritized; this commission is operationalized and will meet once month going forward. The authorities also have a plan to pay CFAF 30 billion in domestic arrears.

OUTLOOK AND RISKS

18. The economic outlook for Chad is broadly favorable as oil production rises, but the non-oil economy is projected to recover slower than previously projected (Text Table 3). Oil production is expected to continue to increase in 2019 before jumping to higher levels in 2020 as new extraction technologies are implemented and new fields start to produce.[2] The non-oil economic recovery is expected to be slower than originally projected due to the persistent impact of legacies from the crisis (see below). The projected 2 percent growth in 2019 reflects an increase in government spending especially public investment and domestic arrears payment. In addition, following the 2018 privatization of the cotton public enterprise, the cotton sector's contribution to growth is expected to increase starting in 2020. On the fiscal side, primary spending has been revised up slightly 2021 onwards (Text Table 3), reflecting part of the higher oil revenue projections and the need to raise the level of spending to ensure better provision of public services.

[2] The downward revision to 2018 and 2019 oil growth compared to the third ECF review is due to base effects from higher oil production figures in 2017 and 2018.

Text Table 3. Chad: Medium-Term Projections

	2017	2018		2019		2020		2021		2022	
	Prel.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.
Real GDP growth (percent)	-2.4	3.5	2.4	4.6	2.4	6.1	5.5	4.9	4.8	5.4	5.4
Oil	-11.2	15.2	12.7	12.7	4.0	16.8	16.7	8.2	8.2	10.6	10.6
Non-oil	-0.5	1.5	0.5	3.0	2.0	3.8	3.0	4.0	4.0	4.0	4.0
Current account balance, including official transfers (percent of GDP)	-6.6	-4.2	-3.4	-5.5	-6.5	-4.9	-5.9	-4.9	-6.2	-4.9	-4.9
(Percent of non-oil GDP, unless otherwise indicated)											
Government revenue and grants	17.1	19.4	18.3	18.9	18.9	20.0	20.9	19.7	21.5	19.8	22.2
Oil revenue[1]	4.1	6.3	6.7	6.8	6.9	7.5	8.1	7.2	8.8	7.1	9.4
Non-oil revenue	8.7	8.3	8.1	8.8	8.8	9.2	9.4	9.6	9.8	9.9	10.0
Grants	4.3	4.8	3.5	3.3	3.2	3.4	3.3	2.8	2.9	2.8	2.8
Total expenditure (commitments basis)	18.0	18.3	16.5	18.7	18.9	18.4	18.6	18.0	19.0	17.4	18.7
Current expenditure (except. interests)	11.7	10.5	10.6	11.1	11.3	10.7	11.0	10.4	11.1	10.0	10.8
Investment	4.4	5.5	4.5	6.1	6.2	6.1	6.2	6.3	6.7	6.3	6.8
of which: Domestically financed investment	*0.7*	*1.7*	*1.7*	*2.2*	*2.3*	*2.2*	*2.2*	*2.2*	*2.6*	*2.2*	*2.7*
Overall fiscal balance (commitment basis)	-0.9	1.1	1.9	0.2	0.0	1.6	2.3	1.7	2.5	2.4	3.5
Non-oil primary balance (commitment basis, excl. grants)	-3.8	-3.8	-4.2	-4.5	-4.8	-3.7	-3.8	-3.0	-3.8	-2.3	-3.5
Memorandum item:											
Chadian crude oil price (US$/barrel)	49.4	66.2	65.1	67.3	58.8	63.4	58.5	60.8	56.8	59.0	56.4

Sources: Chadian authorities; and IMF staff calculations.

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

19. **The current account deficit is projected to substantially widen in 2019 due to lower oil prices and sustained oil production-related imports.** The current account deficit is expected to widen to 6.5 percent of GDP in 2019 with a modest improvement in 2020-21. Despite higher export volumes, the higher current account deficit in 2019 is largely due to a lower oil price assumption. Several oil investment projects are expected to increase both imports of capital goods and concomitant FDI over the medium term. The large FDI inflows and a recovery of capital grants should underwrite most of the current account decline in 2019, likely allowing net foreign assets (NFA) to improve to CFA -94 billion.

20. **The external position is expected to improve gradually over the medium term.** Oil production is expected to rise through 2025, supplemented by an expansion in cotton exports. Imports are expected to rise moderately, reflecting higher domestic demand and planned increases in oil capital expenditures. At the same time FDI is expected to increase and external debt amortization to fall. With a lower current account deficit and strong financing, Chad's NFA position at the BEAC is estimated to turn positive around 2020.

21. **The outlook is subject to a number of risks** (Table 9). The main domestic risks include a worsening of the security situation, loss of fiscal discipline including overshooting of the wage bill, and further deterioration in the position of banks. In addition, a slowdown in the reform momentum could lead to slower non-oil GDP growth and lower non-oil revenue. External risks include primarily a surprise on oil prices, but here the risks are skewed to the upside with current oil prices above the budgeted price. In addition, larger than projected donor support could materialize (particularly from the World Bank), which would help strengthen the NFA position. Also, on the positive side, profit tax revenues from the largest oil operator could be larger than projected in the medium term, as the company starts to record more profits. A rise in oil revenue may however precipitate a slowdown in the reform momentum which could eventually aggravate the vulnerability to oil revenue fluctuations.

POLICY DISCUSSIONS

22. After years of crisis management-focused policy making, the Article IV discussions took a longer-term perspective with a focus on how to move to a more pro-active approach to policy, building on the progress made under the ECF arrangement. The objective is to lay the path towards fiscal and financial resilience and a stronger inclusive recovery. Discussions centered around three main themes: (i) building fiscal resilience to deal with short and medium-term vulnerabilities while raising social spending; (ii) fostering sustainable and inclusive growth; and (iii) strengthening banking sector stability and its contribution to growth.

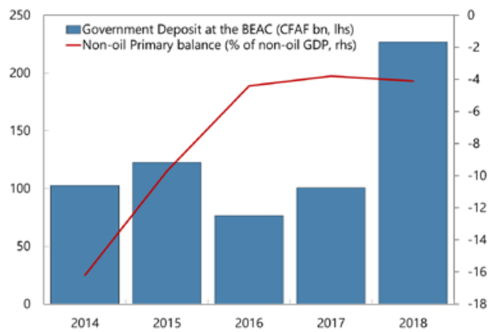
23. Policy discussions and recommendations recognized Chad's fragility and significant capacity developments (CD) needs (Annex II). Key aspects included taking account of institutional and capacity constraints, the tense security situation, and fragile social conditions. Improving CD absorption of technical assistance are critical for the success of reforms. In this regard, CD priorities are streamlined and focus on key program objectives particularly; (i) non-oil revenue mobilization; (ii) better oil revenue projections and management; (iii) tax policy; (iv) public financial management (PFM); and (v) debt management. Technical assistance will continue to be provided to improve statistics, and staff will continue to support the authorities' anti-corruption efforts. Support for banking sector stability was provided primarily through TA to the BEAC. Given the high administrative turnover, reliance on long-term experts could have greater impact with knowledge transfer and institutional capacity development in a fragile country like Chad. There is also great need to strengthen the management of reforms and the coordination of technical assistance provided by various donors.

A. Policy Theme I: Building Fiscal Resilience

24. Following the 2014-15 oil price shock, Chad is emerging from a crisis which required debt restructuring and substantial fiscal adjustment. The Fund-supported program has aimed, *inter alia*, to put a halt to the precipitous decline in spending and reestablish debt sustainability, especially after the sharp internal adjustment severely weakened the economy. With the recent improvement in the fiscal position, emphasis should be placed on addressing short term vulnerabilities while building resilience over the medium term (Text Figure 3).

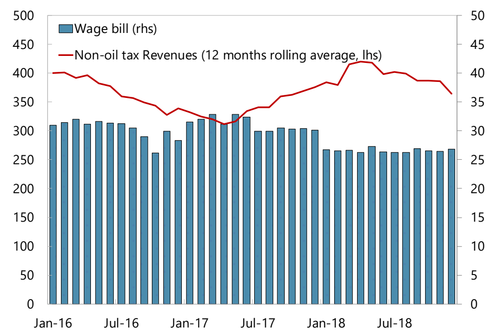
Text Figure 3. Chad: Selected Fiscal Indicators
(Billion CFAF)

Chad's fiscal and liquidity position improved…



Sources: Chadian authorities; and IMF staff calculations.

… due to better non-oil revenue and the reduction in the wage bill.



Sources: Chadian authorities; and IMF staff calculations.

Addressing Short-term Challenges

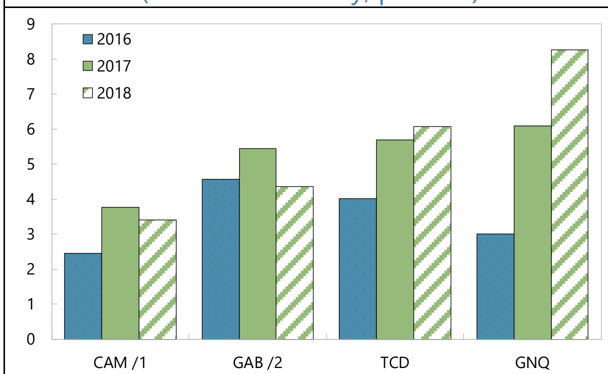
25. Fiscal policy in the remainder of 2019 will be guided by the need to improve non-oil revenue mobilization, maintain spending prudence, and reduce government domestic debt including to contain pressure on banks.

- On the revenue side, non-oil revenues projections for 2019 have been revised down slightly reflecting lower than expected outcome in 2018 and lower nominal growth. The authorities have taken measures within the 2019 budget to increase non-oil tax revenues that include: (i) reforming the granting of tax exemptions to prevent automatic renewal and centralizing the granting of exemptions at the ministry of finance, assess their impact on revenue, and prohibit granting of tax exemptions on VAT, (ii) strengthening tax administration notably for personal income tax and corporate income, and (iii) revising the ceiling for the application of the VAT "régime réel" (MEFP ¶21). In May 2019, the authorities have exempted on a temporary basis a few imported basic food items from customs and tax duties to help alleviate pressures on the poor. This is not expected to have a major impact on revenues. While the conservative baseline oil prices are lower than projected at the time of the third ECF arrangement review, the initiation of payment of oil tax revenue by the largest oil producer in 2019 and beyond is expected to help prevent a decline in total oil revenue. If oil prices remain at current levels, oil revenues should see further buoyancy.

- On the spending side, the authorities are committed to execute spending in line with the program objectives, and the budget envelope for social spending was increased to 34 percent of primary spending in 2019. Payment of recognized arrears is now set at CFAF 60 billion (a CFAF 10 billion increase relative to the third review). Concerning the amount of CFAF 33 billion allocated in the budget to parliamentary election preparation, given the remaining uncertainty regarding the precise date for the election, the authorities agreed that any amount not spent on elections in 2019 will be transferred to the 2020 budget (MEFP ¶22). Finally, recognizing the increase in security tensions, pressure on military spending are already visible in the first quarter and are likely to persist.

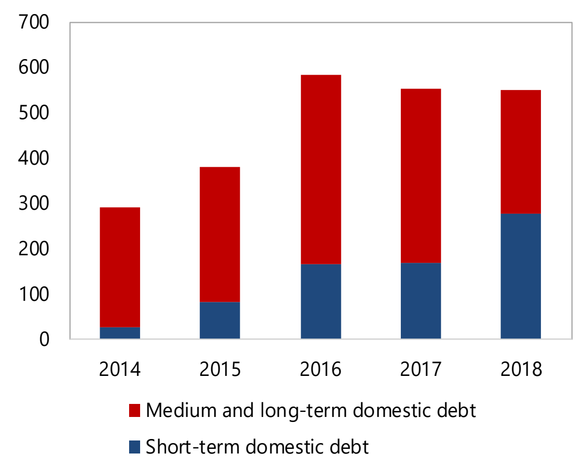
- Policies regarding domestic financing will aim to reduce public banks' exposure to the government and avoid the bunching of maturities (Text Figures 4 and 5). This will include limiting the rollover of maturing securities to at most 85 percent under the baseline and using additional budgetary resources to further reduce government domestic debt. The structure of government domestic debt has recently shifted toward short term maturities (T-bills), which raised refinancing risks and increased the cost of borrowing. The Treasury should enhance its communication with banks to better explain the improvement in the fiscal position with a view to incentivize banks to provide debt with longer maturity and lower interest rate.

Text Figure 4. CEMAC: Average interest rate on Domestic Debt, 2016M1–2018M6
(52-week maturity, percent)



Source: BEAC.
1/ Only one issuance 52-week maturity for Cameroon in 2018.
2/ Only one issuance 52-week maturity for Gabon in 2018, and two in 2017.

Text Figure 5. Chad: Domestic Debt, 2014–18
(CFAF billion)



Medium-term Challenges

26. The authorities and staff agreed that strong non-oil revenue mobilization is needed to help generate the necessary fiscal space to confront the significant public spending needs. Under the program, the authorities target an increase in non-oil tax revenue to about 8.7 percent of non-oil GDP by 2020. Further efforts are necessary to reduce Chad's tax gap (i.e., the difference between tax potential and actual tax to GDP ratio) and increasing its tax potential (Text figure 6). [3] Efforts in this regard should focus on widening the tax base, reforming the VAT collection system, and improving customs compliance.

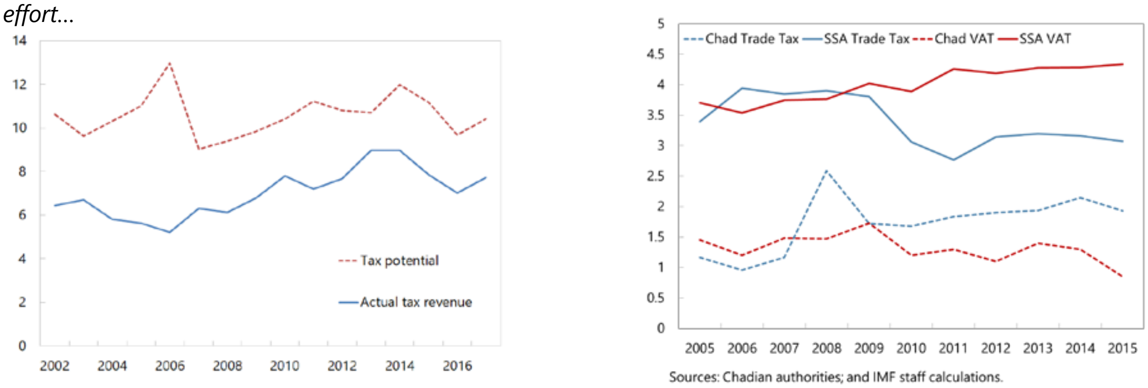
27. Controlling tax exemptions is critical to widen the tax base. Chad has generally relied on granting large exemptions in order to incentivize economic activity and to try to offset the effect of

[3] For more details, see Annex III of Country Report No. 17/246.

a difficult business environment. However, numerous studies and TA reports have found that widespread and sometime uncontrolled exemptions are incompatible with the mobilization of a substantial and stable base of tax revenue[4] and are not an appropriate tool to attract private investment (which instead require structural reforms to improve the business climate). As such, while the reality on the ground may necessitate extending limited new exemptions, the authorities should not renew expiring exemptions on existing activities nor extend existing exemptions particularly in oil production and refining activities. In addition, the authorities should continue to adjust and remove exemptions which are not in line with legal texts (new SB), based on the 2017 audit of 47 exemptions. To shed transparency on exemptions, the authorities have committed to periodically publish a list of newly extended and renewed exemptions (existing SB).

Text Figure 6. Chad: Non-oil Revenue Performance
(Percent of non-oil GDP)

Despite some improvement in tax potential and tax effort… *…Chad's non-oil revenue performance remains weak.*



Sources: Chadian authorities; and IMF staff calculations.

Sources: Chadian authorities; and IMF staff calculations.

28. Increasing revenues from VAT is essential. The authorities are aware that revenue from VAT is about 1 percent of non-oil GDP, among the lowest in Africa. They adopted a time-bound plan to strengthen the VAT regime in December 2018 which includes, *inter alia*, measures to (i) set-up a VAT refund mechanism and (ii) reduce VAT exemptions. A more determined implementation of measures introduced in January 2018 requiring taxes to be paid through the banking system (so called "bancarisation des recettes") as they have shown good results including because they limited the scope for corruption. In addition, based on a recent IMF TA report, the authorities plan to create a VAT taxpayer list with a view to publishing and integrating it in the computerized system and applying a 15 percent custom penalty rate to unregistered companies (new SB).

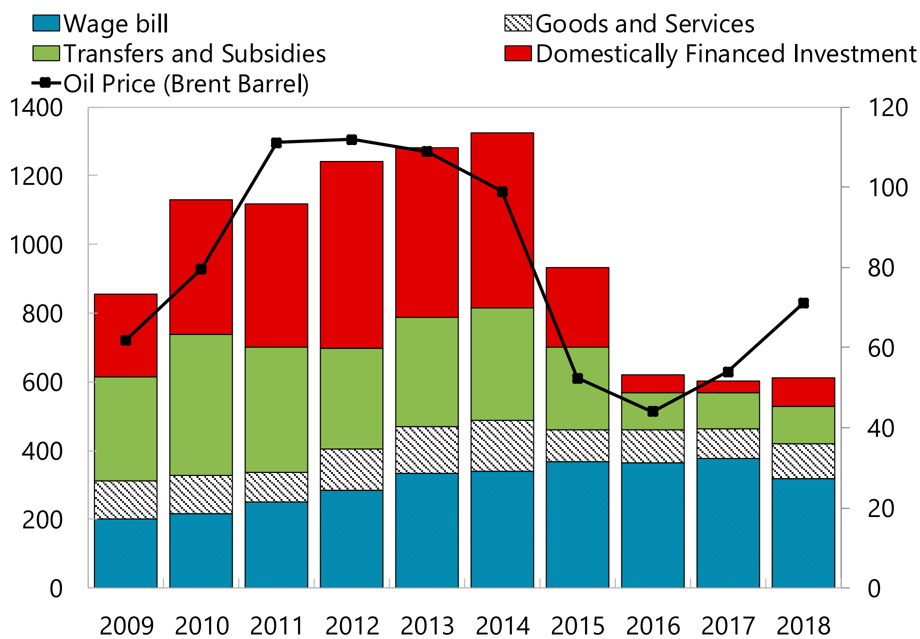
29. Continued efforts to increase customs revenues are critical to improve non-oil revenue mobilization. Notwithstanding some improvements, customs revenues remain low. Fund technical assistance has identified improvements in the control of the value of import and the control of transit operations as important measures to increase revenue. The former will require to update the database on the value of goods, ensure that the ASYCUDA system is adequately set up and that

[4] Tax Reform for a Way Out of the Crisis (IMF, 2017).

customs employees are properly trained. The latter will require primarily to account for delayed or missing containers on a daily basis.

30. Reducing reliance on oil revenues is another medium-term priority that would help reduce the procyclicality of fiscal policy and build resilience. The dramatic fiscal adjustment of 2015-17 suggest that Chad should consider introducing a simple price-smoothing mechanism to better safeguard stability in the face of highly volatile oil prices (Text Figure 7). For example, a price-smoothing mechanism, such as (5,1,2), would reduce significantly the impact of volatility in projected oil revenues on the budget (Text Figure 8).[5] Such a mechanism would also allow to build fiscal buffers. When actual (realized) revenues are higher than projected, the surplus is accumulated in a stabilization buffer. Conversely, when actual oil revenue is lower than the formula projected, the deficit is financed by drawing down resources previously accumulated in the stabilization buffer. Asymmetric implementation of the mechanism (i.e., implemented only when current price projection is higher than the smoothed price) would be recommended until Chad accumulates sufficient buffers to absorb the equivalent of the average price shock in the past ten years. Staff simulations suggests that sufficient buffers could be accumulated by 2025 (Annex III).

Text Figure 7. Chad: Oil Prices and Primary Spending
(CFAF billion)

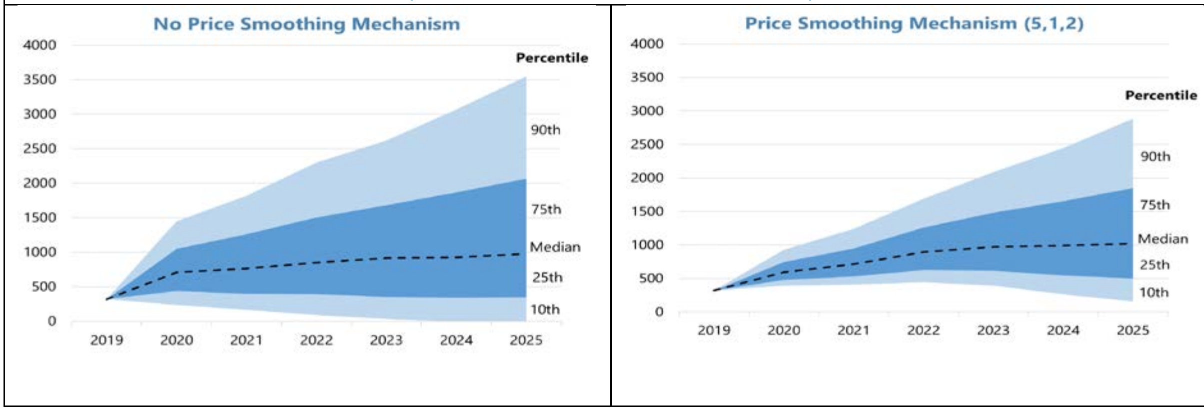


Sources: Chadian authorities; and IMF staff calculations.

[5] The (5,1,2) smoothing mechanism takes the moving average of the oil price over the past 5 years and the WEO price projections for the current and next two years. The proposed mechanism is in line with "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries-Analytic Frameworks and Applications" (IMF, 2012).

Text Figure 8. Chad: Impact of a Price Smoothing Mechanism on Volatility of Oil Revenue Projections

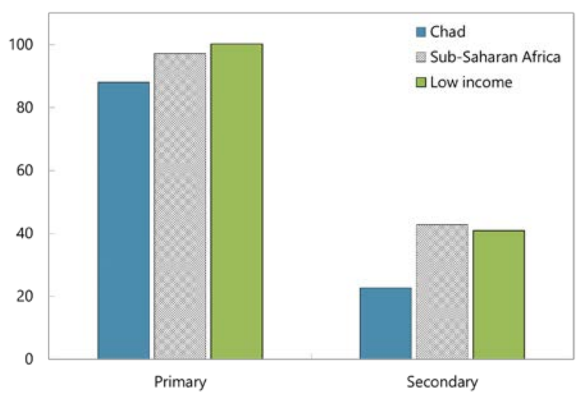
(Oil revenues, Million U.S. dollars)



31. Increasing social and growth-enhancing expenditure is critical for Chad. Development outcomes are weak and spending in key social sectors such as health and education is very low relative to peer countries, totaling just 4.3 percent of GDP compared with 7.2 percent on average in LIDCs[6] (Text Figures 9 and 10). Moreover, a sparsely populated country and relatively weak security conditions in some parts of the country make the delivery of social services costlier and more difficult, creating additional challenges in improving development outcomes. Importantly, improving Chad's low spending efficiency will help strengthen the economic and social impact of government spending.[7]

Text Figure 9. Chad: Education Enrollment

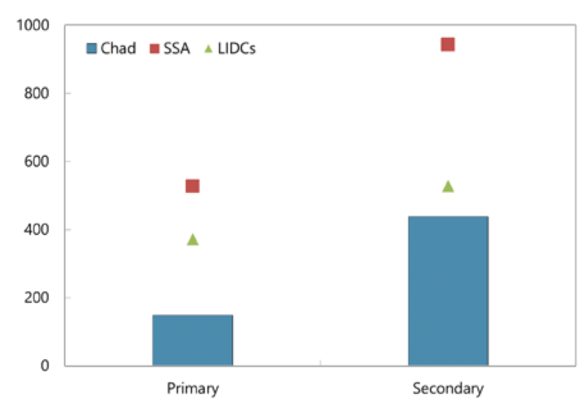
(Percent Gross)



Source: World Bank World Development Indicators.

Text Figure 10. Chad: Public Spending per Student

(PPP$ Adjusted, Latest Available)



Source: World Bank World Development Indicators.

32. Improving public financial management (PFM) is critical to effectively improve the design, the implementation, and monitoring of fiscal policy. Further efforts are needed to better control and monitor spending and prevent arrears accumulation including to build on the recent limited progress in cash flow projections, debt management, and reduction and regularization of

[6] Latest available comparable data available for 2015.

[7] See Chapter 3 of Selected Issues Paper on social spending in Chad.

DAO. Going forward, it will be important to comply with the CEMAC Directives to (i) prepare monthly cash flow projections in the context of the 2020 budget, which would be updated on a semi-annual basis, (ii) add information on investment plans to the 2020 budget, and (iii) initiate discussions on setting a single treasury account beginning with taking stock of all existing accounts in commercial banks.

Authorities' Views

33. The authorities reiterated their commitment to pursue a prudent fiscal policy and limit dependence on oil. They agreed with staff on short and medium-term priorities. They indicated that they aim to prepare budgets based on more conservative oil price projections than the WEO, but showed openness to consider a specific approach, although they indicated that significant time would be needed to assess different oil price smoothing mechanisms. With regard to non-oil revenue mobilization, they stressed the difficulties faced in implementing reforms on exemptions for example given the relatively slow activity in the non-oil sector and the need for tax incentives for investment. They also emphasized the need for more capacity development support to help them methodically improve PFM especially given the limited institutional capacity in the country and the high turnover of mid and high-level officials.

B. Policy Theme II: Fostering Sustainable and Inclusive Growth

34. Numerous constraints are preventing Chad from achieving a higher level of inclusive growth.[8] With the weak state of the non-oil economy and a fast-growing population, Chad needs strong and inclusive growth to meet its population needs. However, growth is hindered by (i) legacies from the crisis, notably large government domestic debt, large domestic arrears and fragile banking sector which continue to weigh on the recovery; and (ii) longstanding structural constraints that continue to hamper growth and economic diversification. This includes large infrastructure gaps with major challenges in the electricity sector notably low efficiency, high production cost and narrow distribution network, inefficient government spending, low human capital, poor business climate, weak governance, and inadequate access to financial services. Exogenous factors such as insecurity, geography and climate present an additional layer of complication to overcome the structural constraints.

35. Addressing the crisis legacies is critical to support the recovery. Key actions in this regard include:

- Developing and implementing a clear and transparent domestic arrears clearance strategy. Completing the audit of domestic arrears is critical in this regard. Next steps include finalizing the audit that had already started and initiating the audit of remaining arrears (prior action). Completion of the second audit (new SB) should enable the authorities to prepare and adopt a clearance strategy for the entire stock of verified arrears (new SB). The strategy must transparently explain the factors for prioritizing the clearance of arrears and its financing

[8] See Chapter 1 of Selected Issues Paper which discusses growth impediments in Chad.

(MEFP¶32). In the meantime, the authorities will continue to pay recognized domestic arrears in line with the program and refrain from repaying arrears not recorded at the Treasury.

- Reducing reliance on public banks' financing of the budget to help loosen the bank-sovereign nexus (section E) and restore financial stability. This is being achieved primarily through a lower overall rollover rate of public securities to 90 percent in 2018 and to 85 percent in 2019. Higher than expected revenues should be partly channeled to repay government domestic debt.

36. Overcoming constraints to economic diversification and inclusive growth requires efforts on several dimensions.[9] Improving Chad's economic potential will require reforms to address those weaknesses, notably in the following areas:

- **Improving the business climate.** Based on the World Bank's Doing Business Survey, paying taxes, starting a new business, getting electricity, trading across borders, and protecting minority investors are particularly problematic. In this regard, the authorities should streamline procedures for the creation of SMEs and improve access to financing for exporting companies, modernize tax administration, and reform regulation to facilitate investment in the electricity sector.

- **Closing the infrastructure gap.** Chad's level and quality of infrastructure are among the lowest in the world. This results in some of the lowest access to electricity and access to internet in the world, and very poor quality of transport infrastructure. The dividend from larger and more efficient capital spending in Chad would be very large, provided it is channeled to productive investments. Given Chad's debt vulnerabilities, concessional financing should be sought for such investment. However, the limited availability of such financing has been constraining the ability of the authorities to build up the necessary infrastructure. As such, further efforts are needed to identify projects that have significant economic and development yield that could attract investors with alternative financing arrangements that would not undermine debt sustainability or breach debt conditionality under the ECF.

- **Addressing governance issues.** Chad performs poorly on most governance and corruption measures relative to peers in sub-Saharan African, which is holding back inclusive growth. Staff estimates suggest that the growth payoff from improving governance and reducing corruption could be sizable**.** Increasing the level of governance (or reducing corruption) to the average of CEMAC countries could potentially raise GDP per capita growth in Chad by 0.6 percentage points. An improvement to the average of sub-Saharan Africa would have an even larger growth impact of between 2.1 and 2.3 percentage points. The authorities have made some progress in improving the anti-corruption framework by adopting the United Nations Convention against Corruption (UNCAC), a new penal code, and a new money laundering law. Efforts are needed to strengthen fiscal governance through greater transparency and PFM reforms, addressing

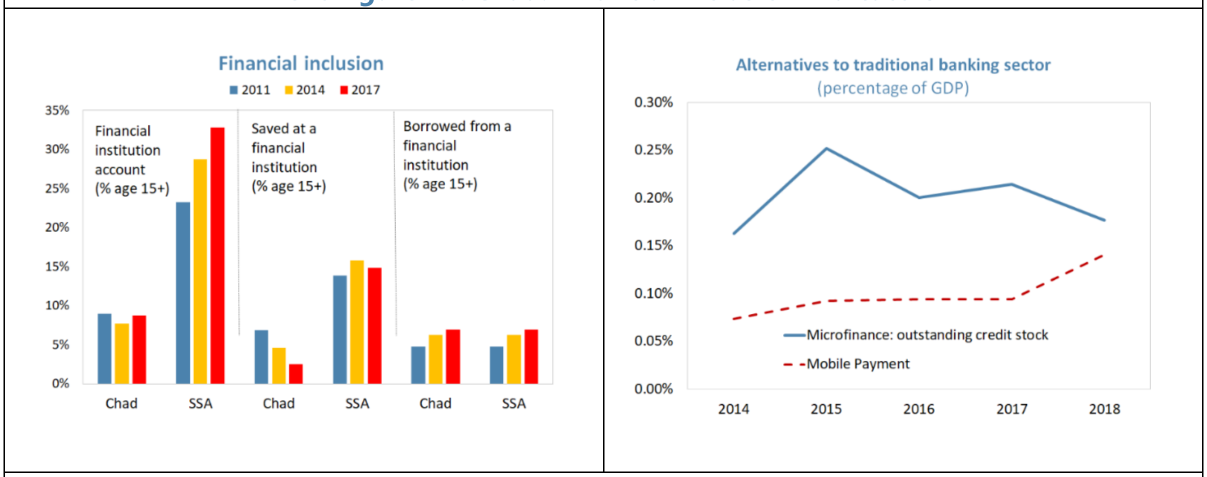
[9] See Chapter 2 of Selected Issues paper which elaborate key governance and corruption issues in Chad.

governance issues in public banks, and strengthening the anti-corruption framework and ensure its effective implementation.

- **Continuing to improve transparency of the oil sector.** The authorities should build on the recent progress (publication of oil contracts and of oil revenues, including those earmarked for debt servicing) by publishing more information including revenues paid locally and transfers to local communities and to ensure that all oil-related expenditures are reflected in the government budget including by making the subsidies (currently paid in the form of oil transfer) to the electricity company more transparent. Improving the management of oil revenues accruing from the export of government oil to an offshore account is also needed.

- **Promoting financial inclusion.** Financial inclusion is very limited in Chad; only 9 percent of Chadians have a bank account and the alternatives to banks intermediation, notably mobile banking and microfinance, are still at the embryonic stage (see Text Figure 11). In that respect efforts should concentrate on strengthening the resilience of the financial sector and improve transparency, enhance the regulatory system of microfinance institutions and mobile banking and promote financial awareness among the population.

Text Figure 11. Chad. Financial Inclusion Indicators



Source: Findex

Authorities' Views

37. The authorities recognize the importance of reenergizing the non-oil private sector and the importance of improving governance to diversify the economy. They pointed out that efforts to fight corruption are ongoing including with the increased activity of the Inspection General of the State that has the objective of promoting good governance and combatting corruption by scaling up oversight and audit of the use of public funds, the plan to develop an effective asset declaration framework and implement a new money laundering law. They mentioned the need for public investment in strategic sector notably electricity to foster growth, which in their view is constrained by the limited availability of concessional financing and the zero limit on nonconcessional borrowing under the Fund-supported program.

C. Policy Theme III: Strengthening Banking Sector Stability

38. The high dependence on oil and the tight sovereign-bank nexus has been a challenge for the banking sector (Annex V). The recent crisis has led to the build-up of vulnerabilities especially in the two large public banks, through the deterioration of liquidity positions and asset portfolio quality. Although the banking sector is small (total assets are about 20 percent of GDP), the two public banks represent around 45 percent of total assets, hold around 40 percent of total Government T-bills and T-bonds, and received around 92 percent of total BEAC refinancing to Chadian banks at end-2018. The tight sovereign-bank nexus exposes both the government and banks to important risks; the main risks facing the banking sector are those related to government debt and domestic arrears, while the government could face important potential contingent liabilities from the banking sector.

39. Despite some delays, the authorities are making progress toward addressing the banking system vulnerabilities. More rapid payment of government domestic debt and arrears is expected to help improve the banking system liquidity position and improve the ability of the private sector to pay its debt to banks. Concerning the two public banks, the authorities shared with IMF staff the preliminary reports of the external consultants on the review and the reorganization plans for the banks and plan to finalize them in line with the agreed terms of reference in June (prior action). The reorganization and funding plans for the two banks should be based on realistic assumptions and aim to sustainably improve their ability to effectively provide intermediation services. These plans are expected to be adopted by the relevant decision-making bodies in the two banks before end-September 2019 (new SB). In addition, the authorities are committed to address all weaknesses identified and improve the governance structure of the two banks. In the meantime, banks should continue to improve their liquidity position and to properly classify loans and provision accordingly. Those with high level of NPLs should adopt a clear strategy of increasing provisioning.

40. In addition to strengthening the position of public banks, improving the ability of the banking sector to contribute effectively to growth requires action on several fronts. The highest priority is to address the high level of NPLs. In addition to progress in clearing domestic arrears, a number of actions (to be taken in collaboration with the regional supervisory authorities) would help in this regard including: (i) increasing provisioning in banks with high NPLs, and (ii) facilitating extra-judicial resolution of overdue loans. To further ease the liquidity position of banks, in addition to the ongoing efforts by the BEAC and the COBAC to modernize the monetary policy framework and activate the inter-bank money market, the authorities should aim for a progressive reduction of government dependence on domestic banks refinancing.

Authorities' Views

41. **The authorities agreed on the need for taking actions to improve the banking sector resilience.** They highlighted the need to pursue two priority actions; (i) continue to clear domestic arrears, which will help banks with high NPLs ratios and (ii) keep paying down government domestic debt in line with program parameters, which will help banks facing liquidity tensions. In addition, the authorities reaffirm their will to implement the measures proposed to address vulnerabilities in the two public banks, once the audits are completed.

FINANCING, PROGRAM MODALITIES, AND RISKS

42. **The program is fully financed, with firm assurances in place for the next 12 months (Text Table 4).** Most of the budget support planned for 2019 is expected to be disbursed in the fourth quarter. Delays in disbursement of external support could affect the program through lower spending, increased net domestic financing, and lower NFA.

Text Table 4. Chad: Sources of Financing
($ million)

	2017	2018	2019	2020	2021	2022
Budget support	**143**	**262**	**117**	**109**	**65**	
Multilateral	86	203	82	...	...	
Bilateral	56	59	34	...	...	
IMF financing	**49**	**99**	**127**	**39**	**0**	
percent of quota	*25*	*50*	*65* [1]	*20*	*0*	

Sources: Chadian authorities and IMF staff.

[1] IMF disbursment for the 3rd review (25 percent of quota in Dec 2018) was received by the authorities in early 2019.

43. **Staff and the authorities reached understandings on modified PCs for end-June 2019, new PCs for December 2019, ITs for December 2019 and March 2020 and June 2020, structural benchmarks, and prior actions (Tables 1 and 2 of MEFP)**. The PC on net domestic financing excluding BEAC at end-June 2019 was revised to reflect a higher than expected stock of T-bills to be rolled over in the first half of the year. The PC on net domestic financing from the BEAC at end-June 2019 was also revised to reflect slightly lower oil and non-oil revenues in the first quarter of 2019, expected to be offset before end-2019. Two prior actions related to the review and reorganization of the two large public banks and the audit of domestic arrears were agreed to help make up for the delays in these areas (MEFP ¶32 and ¶32). The new SBs consist of creating and publishing a list of VAT taxpayer list, finalizing the second part of the audit of domestic arrears, adoption of a reorganization plans for the two public banks, and removal of exemptions not in line with legal texts. The SB on the adoption of a domestic arrears clearance strategy is reset to end-September, once the audit of unverified arrears is completed. The IT on the regularization of DAO, which remains an important PFM issue, will now be monitored through a memorandum item (see Table 1 of the MEFP). Given the difficulties in meeting this IT, the authorities will aim instead to limit

the use of DAO through the implementation of a decree in this regard (structural benchmark implemented in January 2019. Variation in external flows, including budget support and oil revenue, are accommodated through adjustors to domestic financing, the non-oil primary balance, and the payment of domestic arrears (TMU ¶23).

44. Risks to the program remain important. In addition to the risks to the outlook elaborated above, a slowdown in reform momentum risks undermining the ability to achieve program objectives. For example, further delays in domestic arrears clearance, addressing the vulnerabilities in the banking sector, and allocating adequate resources to social sectors could strain the ability of the private sector to recover. Also, given the significant pressure to finance needed spending, there is a risk that the authorities would resort to nonconcessional borrowing. Limited capacity could also slowdown the pace of reforms. The authorities' strong and demonstrated commitment to the program is an important risk mitigating factor.

45. Chad's capacity to repay the Fund remains adequate. Outstanding obligations to the IMF based on existing and prospective drawings would peak at 3.6 percent of GDP and 10.8 percent of exports of goods and services in 2019, while annual repayments will peak at 0.5 percent of GDP and 5.7 percent of tax revenue in 2025.

46. The BEAC has provided an updated policy assurance on end-December 2019 NFAs in support of CEMAC countries' Fund-supported programs.[10] In its updated letter of policy support, the BEAC presented a revised projection for the end-December 2019 NFA and also reiterated its commitment to implement an adequately tight monetary policy to achieve the NFA projections, while member states will implement adjustment policies in the context of IMF-supported programs. The NFA assurances provided by the BEAC are critical for the success of Chad's program and will help bolster the region's external sustainability.

47. The BEAC continues to implement the remaining recommendations of the 2017 safeguards assessment. BEAC's full transition to IFRS for FY 2019 is progressing broadly as planned, and efforts are being stepped up to accelerate the revisions to the secondary legal instruments for alignment with the BEAC Charter. The adoption of the revised secondary legislations was extended beyond the initial timeline (June 2018) to allow for further consultation with stakeholders, including IMF staff.

STAFF APPRAISAL

48. Chad is a low-income country with significant development challenges, facing multi-dimensional fragility including insecurity, weak governance, and a tense social situation. Fragility in Chad has a material effect on the conduct of economic policy and the ability of the authorities to maintain stability while supporting the economic recovery. Nonetheless, important

[10] CEMAC – Staff Report on the Common Policies in Support of Member Countries' Programs, June 2019.

progress has been made in restoring macro stability and improving the outlook after the devastating impact of the oil price shock of 2014-15.

49. Although the outlook is broadly favorable, the economic recovery is slower than expected. The non-oil economic recovery is expected to be slower than originally projected in 2019 and the medium term due to the persistent impact of legacies from the crisis and long-standing structural obstacles to diversification and inclusive non-oil growth. The external position is expected to improve gradually over the medium term.

50. The program is broadly on track and the authorities remain strongly committed to the reform agenda. All end-December 2018 performance criteria were met and notwithstanding some delays, progress is underway on the structural reform agenda. At end-March 2019, indicative targets on domestic arrears and poverty social spending were missed, but the authorities have made efforts to offset this underperformance and to meet end-June 2019 performance criteria.

51. Fiscal policy must remain focused on improving non-oil revenue mobilization and reducing government **domestic debt in 2019, while building resilience over the medium term**. Sustained efforts are needed to increase non-oil revenue and make up for the decline in the second half of 2018. In particular, the authorities should more firmly reduce exemptions and better manage the extension and renewal of exemptions to effectively widen the tax base. Reforms to the VAT in line with the action plan recently adopted are also essential in this regard. The authorities should also continue their effort to improve tax and customs administration to improve tax compliance.

52. Addressing the crisis legacies is critical to support the recovery. Two key components in this regard are domestic arrears clearance and reduction of debt owed to domestic banks. The authorities should clear arrears in line with the program objective, finalize the audit of domestic arrears and develop a clear and transparent clearance strategy. Reducing reliance on public banks' financing of the budget to help loosen the bank-sovereign nexus is also critical.

53. More emphasis on social spending is necessary in Chad to meet development goals. The authorities should ensure that the allocated resources to social sectors are spent and that security pressures do not lead to underspending in these areas. In addition, they should aim for a more efficient use of these resources to optimize their impact on social indicators.

54. The authorities should aim to reduce vulnerability to oil revenue fluctuations. Staff proposed a price-smoothing mechanism that should be first implemented asymmetrically until sufficient buffers are accumulated. Furthermore, the authorities should accelerate progress in cash flow projections, debt management, and regularization of DAO.

55. Overcoming constraints to economic diversification and inclusive growth requires efforts on several dimensions. Improving governance in all sectors of the economy including public financial management is particularly important. Strengthening the anti-corruption framework, improving the business climate including streamlining procedures for creating businesses, accessing financing, and reforming the electricity sector are also essential in this regard.

56. Despite some delays, the authorities are making progress in implementing their strategy to address public banks vulnerabilities. Banks' liquidity improved slightly in 2018 but vulnerabilities remain elevated. The authorities should sustain their efforts in implementing the agreed steps to review and reorganize public banks.

57. The favorable outlook for Chad and the program is subject to important risks A deterioration in the security situation presents a real risk especially as it may require an increase in security spending. In slowdown in the reform momentum including loss of spending discipline, continued low social spending, delays in the payment of domestic arrears and banking reforms could adversely affect the recovery in the non-oil economy. The usual risks associated with a large drop in oil prices continue to apply.

58. While Chad is one of the smaller economies in the CEMAC region, it has demonstrated leadership in implementing and advocating for policies that support the regional stability. Strong implementation of agreed fiscal consolidation path by the four countries already with Fund-supported programs and the conclusion of program discussions with Congo and Equatorial Guinea would support a further recovery in BEAC net foreign asset position.

59. Based on Chad's performance under the program and the adequate implementation of the regional policy assurances by the BEAC, staff recommends the completion of the fourth review under the ECF arrangement. Staff also support the authorities' request for modification of the net domestic government financing excluding BEAC and net government financing from the BEAC PCs. Staff proposes the completion of the financing assurances review. Staff proposes that completion of the fifth ECF arrangement review be conditional on the implementation of critical policy assurances on NFA accumulation at the union level, as established in the June 2019 union-wide background paper.

60. Staff recommends that the next Article IV consultation for Chad be held on the 24-month cycle.

Table 1. Chad: Selected Economic and Financial Indicators, 2017–23

	2017	2018		2019		2020		2021		2022		2023
	Prel.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)											
Real economy												
GDP at constant prices	-2.4	3.1	2.4	4.6	2.4	6.1	5.5	4.9	4.8	5.4	5.3	4.1
Oil GDP[1]	-11.2	15.2	12.7	12.7	4.0	16.8	16.7	8.2	8.2	10.6	10.6	4.4
Non-oil GDP	-0.5	1.0	0.5	3.0	2.0	3.8	3.0	4.0	4.0	4.0	4.0	4.0
GDP deflator	-0.8	2.3	2.3	2.7	2.6	2.9	2.9	3.0	3.0	2.9	2.9	1.7
Consumer price index (annual average)[2]	-0.9	2.5	4.0	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Oil prices												
Brent (US$/barrel)[3]	54.4	71.9	71.1	72.3	61.8	69.4	61.5	66.8	60.8	65.0	60.4	60.6
Chadian price (US$/barrel)[4]	49.4	66.2	65.1	67.3	58.8	63.4	58.5	60.8	56.8	59.0	56.4	56.6
Oil production for exportation (millions of barrels)	36.0	39.8	42.2	44.8	45.2	53.5	53.9	58.5	58.9	65.5	65.9	69.1
Exchange rate CFAF per US$ (period average)	580.9	...	555.2	...	...	...	...	...	...	...	...	...
Money and credit												
Net foreign assets	0.5	8.2	11.7	10.1	10.5	10.5	10.2	10.5	11.6	5.3	7.1	10.3
Net domestic assets	-4.7	-3.1	-7.2	-0.3	0.6	-1.7	-1.1	-3.7	-4.6	1.5	1.0	-3.5
Of which : net claims on central government	-4.4	-0.2	-7.8	1.1	5.7	-2.9	-2.9	-4.9	-5.7	0.2	-0.8	-4.5
Of which : credit to private sector	-1.7	0.8	0.7	1.3	0.9	1.2	1.7	1.2	1.1	1.3	1.8	1.0
Broad money	-4.3	5.0	4.5	9.8	11.0	8.8	9.1	6.8	7.0	6.9	8.1	6.8
Velocity (non-oil GDP/broad money)[5]	5.3	5.2	5.2	5.1	5.0	5.0	4.8	5.0	4.8	5.0	4.7	4.7
External sector (valued in US dollar)												
Exports of goods and services, f.o.b.	15.4	34.0	37.6	9.8	-1.8	11.9	16.0	5.0	6.0	8.6	10.2	5.7
Imports of goods and services, f.o.b.	5.3	17.4	15.3	6.8	3.1	8.5	10.6	6.3	6.4	10.7	8.8	4.9
Export volume	-10.8	7.5	11.6	10.0	7.2	16.2	15.7	7.8	7.8	10.3	10.1	4.5
Import volume	5.6	14.7	12.4	5.6	2.4	8.0	10.4	5.9	5.4	10.7	7.7	3.8
Overall balance of payments (percent of GDP)	-1.1	0.9	1.9	1.0	1.0	1.1	1.0	1.0	1.2	-0.3	-0.1	0.4
Current account balance, including official transfers (percent of GDP)	-6.6	-4.7	-3.4	-5.2	-6.5	-4.4	-5.9	-5.3	-6.4	-5.5	-6.3	-5.9
Terms of trade	29.7	21.8	20.2	-1.2	-9.0	-4.2	0.2	-3.0	-2.5	-1.5	-1.1	0.2
External debt (percent of GDP)[6]	25.1	26.9	25.1	25.4	24.6	22.8	22.2	20.3	19.7	17.8	17.3	15.3
NPV of external debt (percent of exports of goods and services)	94.1	69.8	62.9	64.5	65.5	56.2	55.3	51.2	50.1	44.3	42.8	37.6
	(Percent of non-oil GDP, unless otherwise indicated)											
Government finance												
Revenue and grants	17.1	18.9	18.3	18.9	18.9	20.0	20.9	19.7	21.5	19.8	22.3	23.2
Of which : oil revenue[7]	4.1	6.4	6.7	6.8	6.9	7.5	8.1	7.2	8.8	7.1	9.4	9.8
Of which : non-oil revenue	8.7	8.3	8.1	8.8	8.8	9.2	9.4	9.6	9.8	9.9	10.0	10.4
Expenditure	18.0	17.8	16.5	18.7	18.9	18.4	18.6	18.0	19.0	17.4	18.7	18.5
Current	13.7	12.3	12.0	12.6	12.7	12.3	12.4	11.7	12.3	11.1	11.9	11.5
Capital	4.4	5.5	4.5	6.1	6.2	6.1	6.2	6.3	6.7	6.3	6.8	7.1
Non-oil primary balance (commitment basis, excl. grants)[8]	-3.8	-3.8	-4.2	-4.5	-4.8	-3.7	-3.8	-3.0	-3.8	-2.3	-3.5	-2.9
Overall fiscal balance (incl. grants, commitments basis)	-0.9	1.1	1.9	0.2	0.0	1.6	2.3	1.7	2.5	2.4	3.6	4.6
CEMAC reference fiscal balance (in percent of GDP)[9]	0.5	-1.2	-0.8	-1.9	-2.0	-0.5	-0.4	0.4	0.1	1.1	0.9	1.6
Total debt (in percent of GDP)[6]	49.7	49.8	48.2	45.6	43.8	41.2	39.0	37.5	34.9	33.9	31.2	28.1
Of which : domestic debt	24.6	22.9	23.1	20.1	19.2	18.4	16.8	17.2	15.2	16.1	13.9	12.8
Memorandum items:												
Nominal GDP (billions of CFA francs)	5,855	6,062	6,136	6,514	6,446	7,109	6,997	7,676	7,552	8,319	8,181	8,659
Of which: non-oil GDP	4,830	4,995	4,970	5,290	5,212	5,637	5,515	6,035	5,900	6,449	6,299	6,732
Nominal GDP (billions of US$)	10.1	11.0	11.1	11.6	11.2	12.9	12.3	14.0	13.4	15.3	14.6	15.5

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

[1] 2017 oil GDP growth was revised to reflect final 2016 and 2017 oil GDP data. It also reflects oil production used for local consumption.

[2] 2017 inflation rate reflects the authorities' data using the year 2014 as a base year.

[3] WEO projections for Brent crude oil price.

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

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

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

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

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

[9] The CEMAC reference fiscal balance is calculated as the overall fiscal balance 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, 2017–23
(In billions of CFAF, unless otherwise indicated)

	2017	2018		2019		2020		2021		2022		2023
	Prel.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	Proj.
Total revenue and grants	826	944	910	1,000	985	1,130	1,151	1,186	1,268	1,275	1,402	1,559
Revenue	620	735	737	827	819	941	968	1,016	1,096	1,096	1,222	1,363
Oil[1]	200	320	335	359	362	420	449	434	517	455	591	661
Non-oil	420	414	403	468	457	521	519	582	579	641	632	702
Tax	373	397	372	441	421	493	481	551	539	602	589	656
Non-tax	47	18	31	26	35	28	38	30	40	39	43	46
Grants	206	210	173	173	167	189	183	170	171	178	179	196
Budget support	102	122	119	60	54	68	62	36	37	35	36	36
Project grants	103	88	53	113	113	121	121	135	135	143	143	160
Expenditure	871	887	818	989	984	1,038	1,025	1,086	1,121	1,123	1,178	1,249
Current	659	613	595	666	661	694	681	706	724	718	750	774
Wages and salaries	376	324	319	350	350	355	355	358	358	362	362	365
Goods and services	88	87	100	109	109	114	114	121	138	129	150	162
Transfers and subsidies	103	112	109	131	131	137	137	147	158	153	170	182
Interest	92	90	67	77	71	88	76	80	69	74	68	65
Domestic	34	27	29	22	23	30	27	29	27	27	25	25
External	58	63	38	55	48	58	49	51	42	47	43	39
Memo: Glencore loan (after restructuring)	*51*	*48*	*30*	*43*	*36*	*47*	*39*	*39*	*32*	*36*	*32*	*28*
Investment	212	274	223	323	323	344	344	380	397	405	428	475
Domestically financed	36	83	84	118	118	124	124	135	152	145	168	185
Foreign financed[2]	176	191	138	205	205	220	220	245	245	260	260	290
Overall balance (incl. grants, commitment)	-46	57	92	10	1	92	125	101	147	152	224	310
Non-oil primary balance (excl. grants, commitment)[3]	-183	-192	-211	-240	-251	-209	-211	-179	-227	-148	-218	-192
Float from previous year[4]	-80	-12	-12	-43	-49	-75	-75	-79	-79	-91	-91	-80
Float at end of period[4]	12	43	49	75	75	79	79	91	91	80	80	78
Var. of Arrears[5]	6	-60	-35	-50	-60	-35	-35	-35	-40	-15	-25	0
Repayment of other arrears[6]	-13	-54	-54	-10	-10	-10	-10	-20	-30	-45	-60	-90
Overall balance (incl. grants, cash)	-121	-26	40	-18	-43	51	85	58	89	81	128	218
Non-oil primary balance (excl. grants,cash)	-259	-275	-262	-268	-296	-250	-251	-222	-285	-219	-314	-284
Financing	122	25	-40	18	43	-51	-85	-57	-89	-81	-128	-218
Domestic financing	45	9	-73	14	18	-11	-43	-6	-35	-11	-58	-139
Bank financing	9	8	-80	56	119	-24	0	-24	-46	-65	-92	-170
Central Bank (BEAC)	-11	8	-74	56	119	-24	0	-24	-46	-65	-92	-170
Deposits	-24	-74	-129	12	46	-45	-21	-17	-40	-4	-30	-98
Advances (net)	-14	0	0	0	0	0	0	0	0	-48	-48	-48
IMF	27	83	55	44	73	20	21	-6	-6	-13	-14	-24
Commercial banks (deposits)	20	0	-6	0	0	0	0	0	0	0	0	0
Other financing (net), of which:	-37	-8	-2	-43	-102	13	-43	18	12	55	34	31
Amortization	*-71*	*-192*	*-169*	*-85*	*-109*	*-149*	*-145*	*-76*	*-73*	*-78*	*-68*	*-68*
Commercial banks loans	*11*	*54*	*59*	*0*	*0*	*10*	*10*	*10*	*10*	*15*	*15*	*10*
Non-bank loans (gross)[7]	*2*	*45*	*0*	*32*	*32*	*35*	*35*	*39*	*39*	*41*	*41*	*46*
Treasury bills (net)	*-6*	*85*	*108*	*-45*	*-54*	*-5*	*-45*	*-5*	*-12*	*18*	*-1*	*1*
Treasury Bonds (gross)	*27*	*0*	*0*	*56*	*28*	*122*	*102*	*50*	*48*	*58*	*47*	*41*
Privatization and other exceptional receipts	73	9	9	0	0	0	0	0	0	0	0	0
Foreign financing	77	17	33	4	25	-40	-41	-52	-54	-70	-71	-79
Loans (net)	30	-10	10	-23	-2	-65	-67	-77	-80	-95	-96	-105
Disbursements	159	85	111	73	73	64	64	72	72	76	76	85
Budget borrowings	88	26	26	13	13	0	0	0	0	0	0	0
Project loans	71	58	85	60	60	64	64	72	72	76	76	85
Amortization	-128	-95	-101	-96	-75	-129	-131	-148	-151	-171	-172	-190
Memo: Glencore loan (after restructuring)	-59	-40	-40	-35	-14	-64	-64	-77	-78	-93	-92	-95
Debt relief/rescheduling (HIPC)	30	27	27	27	27	25	26	25	25	25	26	26
External arrears[8]	17	0	-3	0	0	0	0	0	0	0	0	0
Financing Gap	-1	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:												
Non-oil GDP	4,830	4,995	4,970	5,290	5,212	5,637	5,515	6,035	5,900	6,449	6,299	6,732
Poverty-reducing social spending	202	214	182	241	241							
Bank deposits (including BEAC)	119	193	254	181	208	225	229	243	268	247	299	397
(In months of domestically-financed spending)	2.0	3.3	4.5	2.8	3.2	3.3	3.4	3.5	3.7	3.4	3.9	5.0
BEAC advances[9]	480	480	480	480	480	480	480	480	480	432	432	384

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, 2017–23

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

	2017	2018		2019		2020		2021		2022		2023
	Prel.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	Proj.
Total revenue and grants	17.1	18.9	18.3	18.9	18.9	20.0	20.9	19.7	21.5	19.8	22.3	23.2
Revenue	12.8	14.7	14.8	15.6	15.7	16.7	17.6	16.8	18.6	17.0	19.4	20.2
Oil[1]	4.1	6.4	6.7	6.8	6.9	7.5	8.1	7.2	8.8	7.1	9.4	9.8
Non-oil	8.7	8.3	8.1	8.8	8.8	9.2	9.4	9.6	9.8	9.9	10.0	10.4
Tax	7.7	7.9	7.5	8.3	8.1	8.7	8.7	9.1	9.1	9.3	9.3	9.7
Non-tax	1.0	0.4	0.6	0.5	0.7	0.5	0.7	0.5	0.7	0.6	0.7	0.7
Grants	4.3	4.2	3.5	3.3	3.2	3.4	3.3	2.8	2.9	3.4	3.4	3.8
Budget support	2.1	2.4	2.4	1.1	1.0	1.2	1.1	0.6	0.6	0.7	0.7	0.7
Project grants	2.1	1.8	1.1	2.1	2.2	2.1	2.2	2.2	2.3	2.7	2.7	3.1
Expenditure	18.0	17.8	16.5	18.7	18.9	18.4	18.6	18.0	19.0	17.4	18.7	18.5
Current	13.7	12.3	12.0	12.6	12.7	12.3	12.4	11.7	12.3	11.1	11.9	11.5
Wages and salaries	7.8	6.5	6.4	6.6	6.7	6.3	6.4	5.9	6.1	5.6	5.7	5.4
Goods and services	1.8	1.7	2.0	2.1	2.1	2.0	2.1	2.0	2.3	10.0	10.8	10.5
Transfers and subsidies	2.1	2.2	2.2	2.5	2.5	2.4	2.5	2.4	2.7	2.4	2.7	2.7
Interest	1.9	1.8	1.3	1.5	1.4	1.6	1.4	1.3	1.2	1.1	1.1	1.0
Domestic	0.7	0.5	0.6	0.4	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.4
External	1.2	1.3	0.8	1.0	0.9	1.0	0.9	0.8	0.7	0.7	0.7	0.6
Memo: Glencore loan (after restructuring)	*1.1*	*1.0*	*0.6*	*0.8*	*0.7*	*0.8*	*0.7*	*0.7*	*0.5*	*0.6*	*0.5*	*0.4*
Investment	4.4	5.5	4.5	6.1	6.2	6.1	6.2	6.3	6.7	6.3	6.8	7.1
Domestically financed	0.7	1.7	1.7	2.2	2.3	2.2	2.2	2.2	2.6	2.2	2.7	2.7
Foreign financed[2]	3.6	3.8	2.8	3.9	3.9	3.9	4.0	4.1	4.2	4.0	4.1	4.3
Overall balance (incl. grants, commitment)	-0.9	1.1	1.9	0.2	0.0	1.6	2.3	1.7	2.5	2.4	3.6	4.6
Non-oil primary balance (excl. grants, commitment)[3]	-3.8	-3.8	-4.2	-4.5	-4.8	-3.7	-3.8	-3.0	-3.8	-2.3	-3.5	-2.9
Float from previous year[4]	-1.6	-0.2	-0.2	-0.8	-0.9	-1.3	-1.4	-1.3	-1.3	-1.4	-1.4	-1.2
Float at end of period[4]	0.2	0.9	1.0	1.4	1.4	1.4	1.4	1.5	1.5	1.2	1.3	1.2
Var. of Arrears[5]	0.1	-1.2	-0.7	-0.9	-1.1	-0.6	-0.6	-0.6	-0.7	-0.2	-0.4	0.0
Repayment of other arrears[6]	-0.3	-1.1	-1.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.5	-0.7	-1.0	-1.3
Overall balance (incl. grants, cash)	-2.5	-0.5	0.8	-0.3	-0.8	0.9	1.5	1.0	1.5	1.3	2.0	3.2
Non-oil primary balance (excl. grants, cash)	-5.4	-5.5	-5.3	-5.1	-5.7	-4.4	-4.6	-3.7	-4.8	-3.4	-5.0	-4.2
Financing	2.5	0.5	-0.8	0.3	0.8	-0.9	-1.5	-0.9	-1.5	-1.3	-2.0	-3.2
Domestic financing	0.9	0.2	-1.5	0.3	0.3	-0.2	-0.8	-0.1	-0.6	-0.2	-0.9	-2.1
Bank financing	0.2	0.2	-1.6	1.1	2.3	-0.4	0.0	-0.4	-0.8	-1.0	-1.5	-2.5
Central Bank (BEAC)	-0.2	0.2	-1.5	1.1	2.3	-0.4	0.0	-0.4	-0.8	-1.0	-1.5	-2.5
Deposits	-0.5	-1.5	-2.6	0.2	0.9	-0.8	-0.4	-0.3	-0.7	-0.1	-0.5	-1.5
Advances (net)	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.7	-0.8	-0.7
IMF	0.6	1.7	1.1	0.8	1.4	0.4	0.4	-0.1	-0.1	-0.2	-0.2	-0.4
Commercial banks (deposits)	0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing (net)	-0.8	-0.2	0.0	-0.8	-1.9	0.2	-0.8	0.3	0.2	0.8	0.5	0.5
Privatization and other exceptional receipts	1.5	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	1.6	0.3	0.7	0.1	0.5	-0.7	-0.8	-0.9	-0.9	-1.1	-1.1	-1.2
Loans (net)	0.6	-0.2	0.2	-0.4	0.0	-1.1	-1.2	-1.3	-1.4	-1.5	-1.5	-1.6
Disbursements	3.3	1.7	2.2	1.4	1.4	1.1	1.2	1.2	1.2	1.2	1.2	1.3
Amortization	-2.7	-1.9	-2.0	-1.8	-1.4	-2.3	-2.4	-2.5	-2.6	-2.7	-2.7	-2.8
Memo: Glencore loan (after restructuring)	*-1.2*	*-0.8*	*-0.8*	*-0.7*	*-0.3*	*-1.1*	*-1.2*	*-1.3*	*-1.3*	*-1.4*	*-1.5*	*-1.4*
Debt relief/rescheduling (HIPC)	0.6	0.5	0.5	0.5	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.4
External arrears[7]	0.3	0.0	-0.1	0.0	0.0	0.0	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	0.0	0.0
Memorandum items:												
Non-oil GDP	4,830	4,995	4,970	5,290	5,212	5,637	5,515	6,035	5,900	6,449	6,299	6,732
Poverty-reducing social spending	4.2	4.3	3.7	4.6	4.6							
Bank deposits (including BEAC)	2.5	3.9	5.1	3.4	4.0	4.0	4.1	4.0	4.5	3.8	4.7	5.9
(In months of domestically-financed spending)	2.0	3.3	4.5	2.8	3.2	3.3	3.4	3.5	3.7	3.4	3.9	5.0
BEAC advances[8]	9.9	9.6	9.7	9.1	9.2	8.5	8.7	7.9	8.1	6.7	6.9	5.7

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, 2017–23

(In billions of CFAF, unless otherwise indicated)

	2017	2018		2019		2020		2021		2022		2023
	Prel.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	3rd Rev.	Proj.	Proj.
Current account, excl. budget grants	-442	-408	-327	-398	-470	-312	-416	-410	-482	-470	-514	-514
Trade balance	180	483	585	582	435	725	569	710	602	729	673	784
Exports, f.o.b.	1,436	1,855	1,931	2,072	1,943	2,301	2,250	2,401	2,371	2,593	2,605	2,745
Of which : oil	1,048	1,446	1,523	1,649	1,523	1,841	1,790	1,919	1,887	2,072	2,083	2,183
Imports, f.o.b.	-1,256	-1,372	-1,346	-1,490	-1,507	-1,576	-1,681	-1,692	-1,769	-1,864	-1,933	-1,961
Services (net)	-1,037	-1,130	-1,191	-1,220	-1,187	-1,333	-1,278	-1,385	-1,360	-1,524	-1,460	-1,582
Income (net)	-78	-186	-145	-201	-188	-234	-222	-244	-234	-211	-254	-258
Transfers (net)	493	426	424	441	470	530	515	510	511	536	527	542
Official (net)	149	108	108	112	112	168	160	141	140	146	146	152
Private (net)	344	318	317	329	358	363	355	369	370	390	381	390
Financial and capital account	231	312	297	390	470	388	488	489	573	486	550	599
Capital transfers	100	84	49	109	109	117	117	131	131	139	139	156
Foreign direct investment	211	268	256	332	397	321	453	391	495	383	537	554
Other medium and long term investment	-71	-50	-30	-56	-31	-98	-95	-82	-80	-97	-93	-102
Public sector (excl. budget support loans)	-58	-36	-16	-36	-15	-65	-67	-77	-80	-95	-96	-105
Private sector	-13	-14	-14	-21	-16	-33	-28	-5	0	-2	3	3
Short-term capital	-9	10	22	5	-5	47	13	48	26	60	-33	-9
Errors and omissions	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance	-211	-95	-30	-8	-1	75	72	79	91	16	36	86
Financing	-81	-171	-204	-135	-167	-120	-119	-104	-117	-42	-63	-113
Change in official reserves (decrease +)	-81	-171	-204	-135	-167	-120	-119	-104	-117	-42	-63	-113
Exceptional Financing	119	35	32	27	27	25	26	25	25	25	26	26
Debt relief (HIPC)	30	27	27	27	27	25	26	25	25	25	26	26
Other Exceptional Receipt	73	9	9	0	0	0	0	0	0	0	0	0
External arrears accumulation	17	0	-3	0	0	0	0	0	0	0	0	0
Financing gap	-173	-231	-201	-117	-140	-20	-21	0	0	0	-2	-1
Financing gap (percent of GDP)	*-2.9*	*-3.8*	*-3.3*	*-1.8*	*-2.2*	*-0.3*	*-0.3*	*0.0*	*0.0*	*0.0*	*0.0*	0.0
Expected financing (excl. IMF; incl. expected budget loans and grants)	145	148	146	73	67	0	0	0	0	0	0	0
Residual gap/IMF financing, *of which*	-27	-83	-55	-44	-73	-20	-21	0	0	0	-2	-1
IMF ECF	27	83	55	44	73	20	21	...	...	...	...	...
Memorandum items:												
Current account (incl. expected budget grants; percent of GDP)	-6.6	-4.7	-3.4	-5.2	-6.5	-4.4	-5.9	-5.3	-6.4	-5.6	-6.3	-5.9
Overall Balance of Payment (incl. expected budget support; percent of GDP)	-1.1	0.9	1.9	1.0	1.0	1.1	1.0	1.0	1.2	0.2	0.4	1.0
Exports (percent of GDP)	24.5	30.6	31.5	31.8	30.1	32.4	32.1	31.3	31.4	31.2	31.8	31.7
Of which : oil	17.9	23.9	24.8	25.3	23.6	25.9	25.6	25.0	25.0	24.9	25.5	25.2
Imports (percent of GDP)	-21.4	-22.6	-21.9	-22.9	-23.4	-22.2	-24.0	-22.0	-23.4	-22.4	-23.6	-22.6
FDI (percent of GDP)	3.6	4.4	4.2	5.1	6.2	4.5	6.5	5.1	6.6	4.6	6.6	6.4
Gross imputed reserves (billions of USD)	-0.2	0.1	0.2	0.4	0.5	0.6	0.7	0.8	0.9	0.8	1.0	1.2

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

Table 5. Chad: Monetary Survey, 2017–23
(In billions of CFAF, unless otherwise indicated)

	2017	2018	2019				2020				2021	2022	2023
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
	Prel.	Prel.	Proj.				Proj.				Proj.	Proj.	Proj.
Net foreign assets	-299.4	-193.0	-159.4	-135.8	-115.2	-93.6	-69.1	-44.7	-20.2	14.3	147.4	234.3	371.1
Central bank	-257.0	-138.0	-114.4	-90.8	-67.2	-43.6	-19.1	5.3	29.8	54.3	177.4	254.3	391.1
Foreign assets[1]	12.5	88.7	110.6	159.2	182.8	226.4	250.9	285.3	309.8	344.3	462.4	524.3	636.1
Foreign liabilities	-269.6	-226.7	-225.0	-250.0	-250.0	-270.0	-270.0	-280.0	-280.0	-290.0	-285.0	-270.0	-245.0
o/w. IMF financing[1]	-97.3	-154.2	-181.7	-204.2	-204.2	-226.7	-226.7	-226.7	-247.5	-247.5	-241.0	-227.4	-203.7
Commercial banks	-42.3	-55.0	-45.0	-45.0	-48.0	-50.0	-50.0	-50.0	-50.0	-40.0	-30.0	-20.0	-20.0
Net domestic assets	1207.1	1141.3	1089.4	1115.8	1105.2	1146.6	1089.1	1094.7	1090.2	1134.7	1082.2	1094.4	1048.5
Domestic credit	1308.1	1243.8	1249.4	1275.8	1265.2	1306.6	1249.1	1254.7	1250.2	1294.7	1242.2	1254.4	1208.5
Claims on the government (net)[1]	810.9	739.9	762.9	790.4	780.4	793.9	791.9	781.9	792.7	763.7	698.1	687.8	628.1
Treasury (net)	757.2	684.9	712.9	740.4	740.4	763.9	761.9	751.9	762.7	733.7	668.1	617.8	528.1
Banking sector	757.2	684.9	712.9	740.4	740.4	763.9	761.9	751.9	762.7	733.7	668.1	617.8	528.1
Central bank	584.5	512.0	553.9	581.4	581.4	631.0	618.9	608.9	619.7	630.8	585.2	494.9	325.2
Claims on general government	609.5	666.4	693.9	716.4	716.4	738.9	738.9	738.9	759.7	759.7	753.2	691.6	619.9
o/w. Advances[2]	479.9	479.9	479.9	479.9	479.9	479.9	479.9	479.9	479.9	479.9	479.9	431.9	383.9
o/w. IMF financing[1]	97.3	154.2	181.7	204.2	204.2	226.7	226.7	226.7	247.5	247.5	241.0	227.4	203.7
Liabilities to general government	-25.0	-154.4	-140.0	-135.0	-135.0	-107.9	-120.0	-130.0	-140.0	-128.9	-168.0	-196.7	-294.7
Commercial banks	172.7	172.9	159.0	159.0	159.0	132.9	143.0	143.0	143.0	102.9	82.9	122.9	202.9
Claims on general government	263.7	270.0	250.0	250.0	250.0	230.0	240.0	240.0	240.0	200.0	180.0	220.0	300.0
Liabilities to general government	-91.0	-97.1	-91.0	-91.0	-91.0	-97.1	-97.0	-97.0	-97.0	-97.1	-97.1	-97.1	-97.1
Other non-treasury	53.7	55.0	50.0	50.0	40.0	30.0	30.0	30.0	30.0	30.0	30.0	70.0	100.0
Credit to the economy	497.1	503.8	486.4	485.4	484.8	512.7	457.2	472.8	457.5	531.0	544.1	566.6	580.4
Other items (net)	-101.0	-102.5	-160.0	-160.0	-160.0	-160.0	-160.0	-160.0	-160.0	-160.0	-160.0	-160.0	-160.0
Money and quasi money	907.7	948.4	930.0	980.0	990.0	1053.0	1020.0	1050.0	1070.0	1149.0	1229.6	1328.8	1419.6
Currency outside banks	406.5	424.7	416.5	438.9	443.4	471.6	456.8	470.2	479.2	514.6	550.7	595.1	635.8
Demand deposits	404.0	422.1	413.9	436.1	440.6	468.6	453.9	467.3	476.2	511.3	547.2	591.4	631.8
Time and savings deposits	97.2	101.6	99.6	105.0	106.0	112.8	109.2	112.5	114.6	123.1	131.7	142.3	152.0
Memorandum items:													
Broad money (annual percentage change)	-4.3	4.5				11.0				9.1	7.0	8.1	6.8
Credit to the economy (annual percentage change)	-3.2	1.4				1.8				3.6	2.5	4.1	2.4
Credit to the economy (percent of GDP)	8.5	8.2				8.0				7.6	7.2	6.9	6.7
Credit to the economy (percent of non-oil GDP)	10.3	10.1				9.8				9.6	9.2	9.0	8.6
Velocity (non-oil GDP)	5.3	5.2				5.0				4.8	4.8	4.7	4.7
Velocity (total GDP)	6.4	6.5				6.1				6.1	6.1	6.2	6.1

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

[1] 2018 data does not include December 2018 IMF disbursement which showed up in the Treasury account on February 2019.

[2] Include statutory and exceptional advances.

Table 6. Chad: Financial Soundness Indicators, 2011–2018Q3
(Percent)

	2011	2012	2013	2014	2015	2016	2017	2018Q3
Capital Adequacy								
Regulatory capital / Risk-weighted assets	20.0	18.1	22.0	13.4	14.7	13.2	18.0	18.1
Asset Quality								
Gross credits in arrears/Gross banking loans	7.6	7.4	9.8	11.7	17.0	20.9	25.8	28.9
Provisions / Credits in arrears	89.0	64.5	65.3	68.3	56.1	52.4	…	…
Net credits in arrears/Gross banking loans	0.8	2.6	3.4	3.7	7.3	…	…	…
Profitability								
Return on assets	2.6	2.2	2.8	2.1	1.6	1.4	1.1	…
Return on equity	19.2	15.5	21.1	19.4	15.2	14.6	9.0	…
Liquidity								
Liquid assets / Total assets	29.9	31.8	28.6	30.8	26.0	23.1	27.5	18.8
Liquid assets / Short term liabilities	149.3	146.6	139.3	152.9	142.1	155.0	188.9	111.9

Sources: IMF Financial Soundness Indicators; COBAC.

Table 7. 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 8. Chad: Indicators of Capacity to Repay the IMF, 2019–33

(Percent)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Fund obligations based on existing credit (SDR millions)															
Principal	0.0	2.0	8.1	17.0	29.7	47.7	43.1	36.9	28.0	17.5	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Fund obligations based on existing and prospective credit (SDR millions)															
Principal	0.0	2.0	8.1	17.0	29.7	47.7	57.1	53.8	44.9	34.4	16.8	2.8	0.0	0.0	0.0
Charges and interest	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total obligations based on existing and prospective credit															
SDR millions	0.5	2.6	8.7	17.6	30.3	48.3	57.7	54.4	45.5	35.0	17.4	3.4	0.6	0.6	0.6
CFAF billions	0.4	2.1	7.0	14.1	24.2	38.7	46.2	43.5	36.4	28.0	14.0	2.7	0.5	0.5	0.5
Percent of exports of goods and services	0.0	0.1	0.3	0.5	0.8	1.3	1.4	1.3	1.0	0.7	0.4	0.1	0.0	0.0	0.0
Percent of debt service[1]	0.4	1.3	4.1	7.4	11.9	19.2	19.8	18.8	36.6	28.7	16.0	3.2	0.6	0.5	0.5
Percent of GDP	0.0	0.0	0.1	0.2	0.3	0.4	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0
Percent of tax revenue	0.1	0.4	1.3	2.4	3.7	5.3	5.7	4.8	3.6	2.5	1.2	0.2	0.0	0.0	0.0
Percent of quota	0.3	1.9	6.2	12.6	21.6	34.5	41.1	38.8	32.4	24.9	12.4	2.4	0.4	0.4	0.4
Outstanding IMF credit based on existing and prospective drawings															
SDR millions	286.1	312.2	304.1	287.0	257.4	209.7	152.6	98.8	54.0	19.6	2.8	0.0	0.0	0.0	0.0
CFAF billions	229.3	249.3	242.9	229.3	205.9	167.8	122.1	79.1	43.2	15.7	2.2	0.0	0.0	0.0	0.0
Percent of exports of goods and services	10.8	10.3	9.5	8.2	7.0	5.5	3.8	2.3	1.2	0.4	0.1	0.0	0.0	0.0	0.0
Percent of debt service[1]	240.1	160.9	144.2	121.0	101.5	83.4	52.3	34.2	43.4	16.1	2.6	0.0	0.0	0.0	0.0
Percent of GDP	3.6	3.6	3.2	2.8	2.4	1.8	1.2	0.7	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Percent of tax revenue	54.4	51.8	45.1	38.9	31.4	23.0	15.0	8.7	4.3	1.4	0.2	0.0	0.0	0.0	0.0
Percent of quota	204.1	222.7	216.9	204.7	183.6	149.5	108.8	70.5	38.5	14.0	2.0	0.0	0.0	0.0	0.0
Net use of IMF credit (SDR millions)	56.1	26.0	-8.1	-17.0	-29.7	-47.7	-57.1	-53.8	-44.9	-34.4	-16.8	-2.8	0.0	0.0	0.0
Disbursements	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	0.0
Repayments and repurchases	0.0	2.0	8.1	17.0	29.7	47.7	57.1	53.8	44.9	34.4	16.8	2.8	0.0	0.0	0.0
Memorandum items:															
Exports of goods and services (CFAF billions)	2,114	2,426	2,557	2,798	2,947	3,075	3,237	3,407	3,588	3,780	3,984	4,086	4,076	4,076	4,059
External Debt service (CFAF billions)[1]	96	155	168	190	203	201	233	232	100	97	87	84	85	90	98
Nominal GDP (CFAF billions)	6,446	6,997	7,552	8,181	8,659	9,240	9,867	10,568	11,281	12,045	12,860	13,582	14,332	15,150	15,977
Tax revenue (CFAF billions)	421	481	539	589	656	731	815	906	1,004	1,103	1,211	1,328	1,442	1,564	1,697
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.

Table 9. Chad: Risk Assessment Matrix

	Source of Risks/Time Frame/Relative Likelihood	Potential Impact	Recommended Policy Response
Domestic Risks	**Excess spending on the wage bill.** Social tension and election pressures could lead to expansion of the payroll/**Short to medium term/Medium**	**Medium** With limited borrowing options, further resort to arrears or borrowing from domestic banks could jeopardize non-oil growth and stability of banks.	Prioritizing efficient spending while protecting social sector spending remains critical to overcoming the legacies of the recent economic crisis.
	Insufficient social spending/Medium to long term/High	**Medium** Social tensions may spill over into disruptive events. In the long run, Chad's non-oil growth potential depends on greater investment in human capital.	Budgetary execution of social spending must improve. Government hiring should target health and education.
	Domestic and regional security threats/Short to medium term/ High	**High** Heightened security concerns entail greater security expenditure and risk distracting from economic policy priorities and intensify fiscal pressures.	Protect social spending and seek donor support.
	Deterioration of public banks situation/Near term/Medium	**High** Jeopardize stability of the banking sector and increase fiscal pressure due to contingent liabilities and less rollover of treasuries.	Adopt and implement restructuring plans based on the audit results.
External Risks	**Large swings in energy prices/Short to medium term/Medium**	**High** Chad's fiscal health and debt sustainability hinge on oil prices to a large degree. Risks to prices are broadly balanced, representing both upside and downside risk.	The Glencore debt contract provides some automatic stabilization. Further develop non-oil revenue sources and implement a price smoothing mechanism for fiscal policy.
	Intensification of security risks in parts of the Africa, Asia, Europe, and/or the Middle East/Short to medium term/High	**Medium** Broader security concerns could exacerbate already meaningful domestic and regional security risks and intensify fiscal pressures.	Protect social spending and seek donor support.
	Sharp tightening of global financial conditions/Short term/Medium	**Medium** Main impact through higher cost of Glencore debt following higher LIBOR. Regional monetary policy may tighten monetary conditions which would increase cost of domestic borrowing.	Avoid nonconcessional borrowing and reduce the amount and extend the maturity of domestic debt.

▪ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex I. Implementation of 2016 Article IV Recommendations

Recommendation	Implementation
Implement cash-based budget management procedures to avoid the accumulation of new arrears.	Cash based budgeting was implemented for a short period to limit arrears accumulation. Arrears accumulation however continued into 2017, but with the implementation of the new program both domestic and external arrears accumulation has been limited.
Target medium-term non-oil primary deficits consistent with fiscal and debt sustainability and expand fiscal space through non-oil revenue mobilization efforts.	The non-oil primary balance floor was missed in 2016, largely due to a shortfall in non-oil revenue. Under the aegis of the new program non-oil primary deficits have remained within targets. Non-oil revenue mobilization has improved but recently lagged.
Define and implement a comprehensive strategy for clearing domestic arrears and avoid further accumulation going forward.	The comprehensive strategy for clearing domestic arrears is planned to be completed later this year. The reform and stabilization program supported by the IMF is an essential part of the strategy to avoid further accumulation.
Strengthen public financial management, including investment planning and execution, and enhance oil revenue transparency and integrity.	The strengthening of public financial management remains an ongoing priority under the program, with some areas of progress but much remaining room for improvement. Oil revenue transparency and integrity has improved considerably over the past two years.
Closely monitor the health of the banking system given its high direct and indirect exposure to government operations.	Efforts to reduce the tight link between the banking system and sovereign credit risk have begun. Reliance on banks' financing has declined and progress is underway to clear domestic arrears which is expected to help improve banking system liquidity and reduce NPLs.
Foster inclusive growth and economic diversification by implementing the priorities of the upcoming 2016-2020 National Development Plan including improving the business environment and strengthening financial inclusion.	The National Development Plan was submitted in September 2017 and implementation has begun, but progress is uneven.

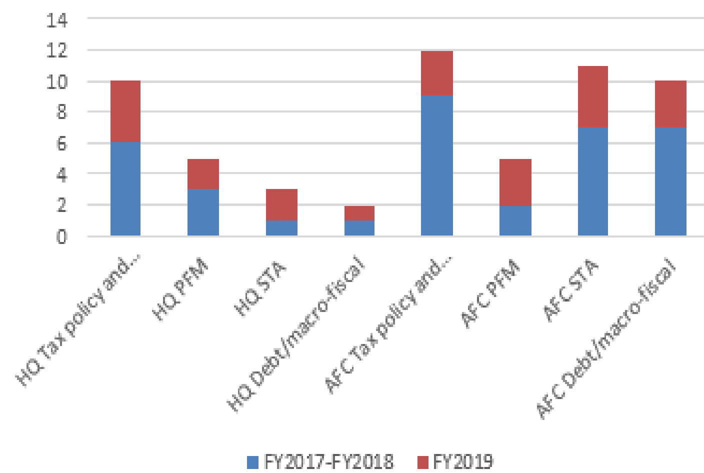
Annex II. Capacity Development in Chad

1. **Fund TA provided to Chad has been broadly tailored to its capacity and aimed at supporting the authorities' objectives under the ECF-supported program**. Chad is a fragile and poor country with weak institutional capacity and a high risk of debt distress, faced with volatile oil revenues, and major regional security and humanitarian challenges. The Fund-supported program, approved on June 30, 2017, aims at maintaining macroeconomic stability, achieving fiscal and debt sustainability, and strengthening the banking sector. Reforms are also aimed to create fiscal space to tackle the country's large developmental needs and to foster inclusive and sustained non-oil growth.

2. **Fund TA to Chad increased during FY2017-FY2019.** Some 60 visits were conducted by HQ functional departments (FAD, MCM and STA) and AFRITAC Centre (Figure 1 and Table 1). This is a significant increase relative to 39 visits effected during FY 2014-FY2016. The intensity of Fund TA however remained moderate and constrained by weak absorption capacity. Assistance was provided on: (i) tax policy as well as tax and customs administration, with a focus on non-oil revenue mobilization; (ii) public financial management (PFM), to strengthen budget formulation, execution, control and reporting; (iii) macroeconomic framework and macro-fiscal areas; (iv) debt management; and (v) statistics (national accounts, balance of payments and government finance). Support for banking sector stability was provided primarily through TA to the BEAC.

Figure 1. Chad: Fund-provided TA, FY2017-FY2019

(Number of Visits)



Source: IMF MTS

3. **Chad has benefitted from TA delivered by other partners.** The European Union (EU) has been supporting the action plan for the modernization of public finances (PAMFIP). The EU also has a fiscal governance project that provides support in areas like oil revenue transparency, PFM, and tax policy. The French development agency (AFD) has recruited a resident advisor for the Treasury for the reform of the accounting system. In early 2019, it launched a project for the computerization of the Treasury. AFD will also assist in establishing an improved functional architecture for IT systems of the Ministry of Finance and budget. The African Development Bank has financed the audit of domestic arrears. The World Bank is providing financial assistance to customs administration, and in December 2018, it launched a $35 million grant project for the mobilization and management of domestic resources (ProMoGRI).

4. **Performance has been uneven despite the increasing ownership of reforms.** The political will to implement reforms has increased following the adoption of the current ECF-supported program. Nevertheless, as evidenced by the 2017 PEFA report (completed in October

2018), progress has been uneven and slower than expected, due to capacity constraints and the high turnover of officials. Significant advances were noted on the public finance front, with the maintenance of a prudent expenditure policy, the computerization of the expenditure channel, the development of government security markets at the regional level, supporting the rollover of domestic government debt, and more transparency with the production and publication of a quarterly oil sector note, and of budget law documents and budget execution reports. The government adopted regulations in line with the regional CEMAC directives. There however were setbacks: (i) the Court of accounts ("*Cour des Comptes*") that had been in existence since January 2015 was reverted back in 2018 to a Chamber of accounts under the Supreme Court; (ii) the resort to emergency spending procedures (DAO) has intensified; (iii) VAT performance remains very low by regional standards; (iv) significant domestic arrears remain, despite clearance efforts since the second half of 2017, hindering non-oil private sector activity and the banking sector; and (v) the improvement in non-oil revenue performance recorded in early 2018 was not sustained.

5. Going forward Fund TA will continue to support ECF program reforms, building on strengthened ownership. In view of Chad's low absorption capacity, CD priorities will be streamlined, with improved TA coordination and greater resort to long-term experts. Fund TA will focus on (i) non-oil revenue mobilization, including the implementation of the end-2018 action plan to improve VAT collection; (ii) better oil revenue projections and management; (iii) tax policy (tax exemptions, tax simplification, property taxation); (iv) PFM, including the respect of the expenditure channel, notably the progressive elimination of DAO procedures, and public investment management; (v) debt management, including the implementation of the MTDMS, and the PPP regulatory framework; (vi) statistics (national accounts, including preparatory work for a rebase to 2008 SNA and improvement of quarterly statistics, government finance and balance of payments). In view of the severity of governance weakness, Fund staff will help address existing vulnerabilities, supporting the drafting of implementing regulations for the constitutional asset declaration requirement. Given the high administrative turnover, reliance on long-term experts could have greater impact with knowledge transfer and institutional capacity development in a fragile country like Chad. There is also great need to strengthen the management of reforms and the coordination of TA provided by various donors. The IMF is helping in updating the 2013 public finance reform strategy, to reflect the 2017 PEFA and the contributions of all donors.

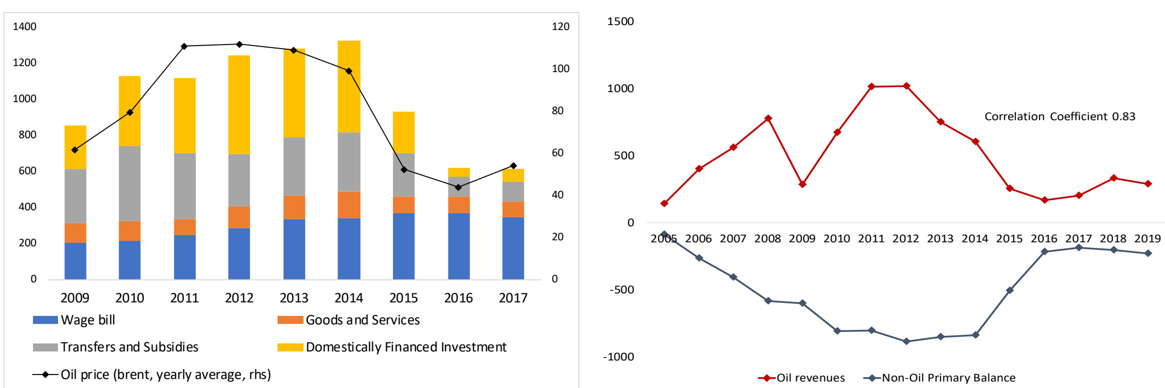
Table 1. Chad: Capacity Development in Support of Program Objectives and Conditionality		
Priority TA Areas	**Main activities planned**	**Objective/conditionality**
Tax and customs administrations By FAD and AFC (AFRITAC Centre)	Amend the organization chart of the Ministry of Finance, to enhance the effectiveness of tax and customs administrations	-Increase non-oil revenue
	Improve the VAT management and effectiveness	-Increase non-oil revenue -SB on the VAT action plan, and list of VAT taxpayers
	Reduce tax exemptions, assess tax expenditure	-Increase non-oil revenue -SB on removal of tax exemptions
Public Financial Management (PFM) By AFC	Budget preparation	-Improve budget allocations to priority sectors -Smooth effect of oil price volatility -IT on social expenditure
	Budget execution: Follow the expenditure chain, improve cash management	-Reduce emergency spending procedures -PC on domestic arrears -SB on domestic arrear clearance strategy
Debt Management By MCM/WB/AFC	Follow up on the MTDS produced in 2018	-Debt sustainability -PC on external arrears

Annex III. Oil Dependence and Considerations for a Price Smoothing Mechanism

In the context of heightened oil price volatility, this annex discusses the relevance of a potential oil price smoothing mechanism and its calibration for Chad. First, it provides some broad background on procyclicality of Chad's fiscal policy vis-a-vis oil prices and revenues. Second, through a probabilistic approach, it assesses the impact of different calibrations of the smoothing mechanism on the volatility of oil revenues. Third, it projects accumulation of savings under different mechanisms. Fourth, based on recent oil price volatility, it provides some estimates of what adequate buffers could be and assesses the time needed to accumulate these buffers under different mechanisms. This annex focuses on macroeconomic and fiscal considerations and does not discuss intuitional and regulatory frameworks necessary to implement a smoothing mechanism.

1. Since it started to produce oil, Chad became increasingly dependent on oil prices and revenues, leading to a procyclical fiscal policy. Chad became an oil producer and exporter in 2003. Oil revenues increased from zero in the early 2000s to a peak of about 18 percent of GDP in 2011, then collapsed to 4 percent of GDP on average since 2014. Since oil production began, with a few exceptions the fiscal balance has been volatile reflecting a high correlation between oil revenues and government expenditure (Figure 1).

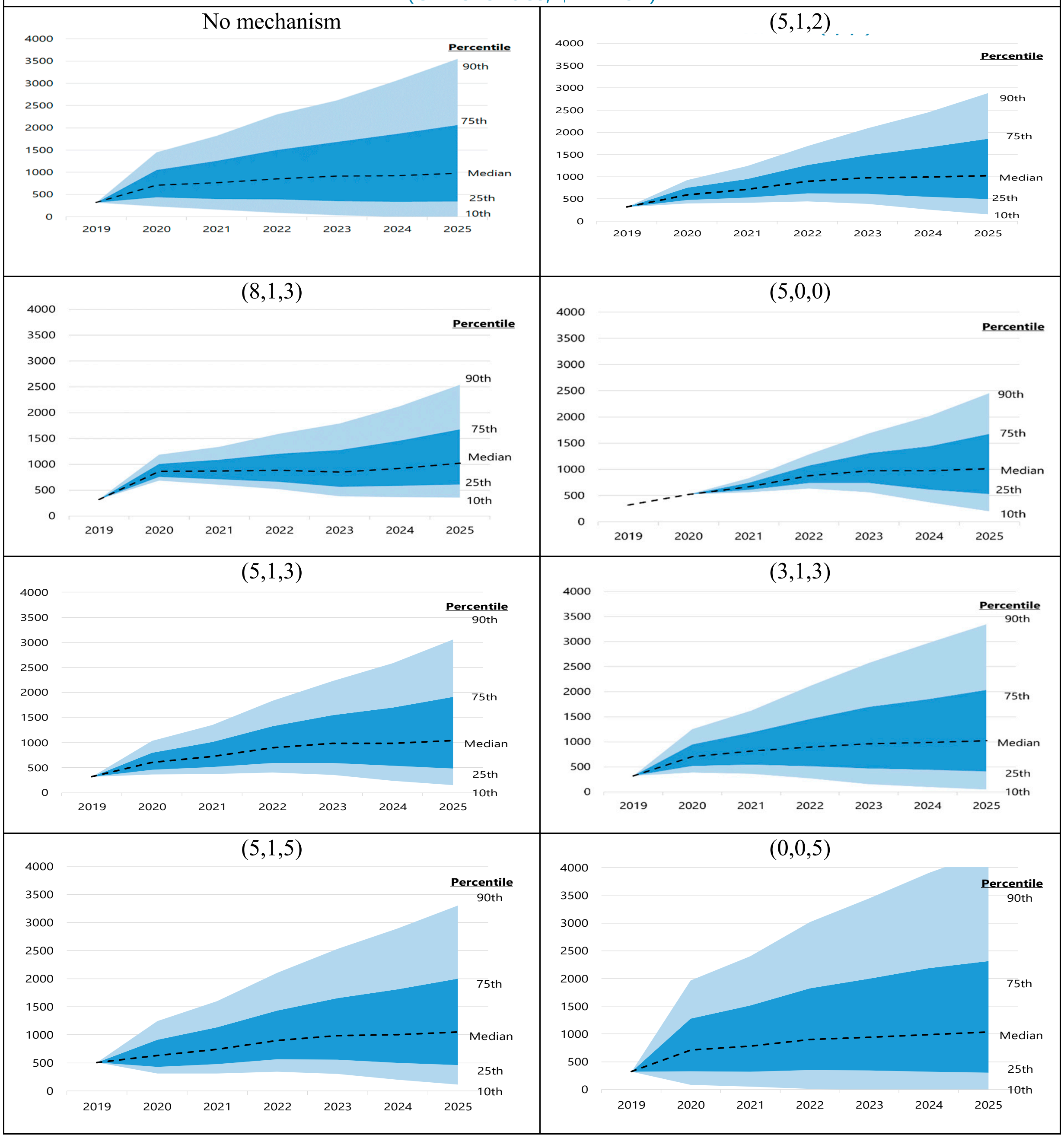
Figure 1. Chad: Oil Price Volatility and Chad's Fiscal Policy



2. Staff simulated the impact of different price-based smoothing mechanisms on the volatility of oil revenue. In simple terms, a price smoothing mechanism consists of using a smoothed oil price when preparing the budget. For instance, a (5,1,2) smoothing mechanism means that the reference oil price is equal to the moving average of the past five years, the current year and next two years projections. When actual (realized) revenues are higher than projected, the surplus is accumulated in a stabilization buffer. Conversely, when actual oil revenue is lower than the formula projected, the deficit is financed by drawing down resources previously accumulated in the stabilization buffer.[1] Through a probabilistic approach using historical volatility of oil prices, staff simulated 5,000 oil price scenarios throughout the projection horizon.[2] Applying different calibrations of the smoothing mechanism (i.e., different moving averages), staff simulated the associated 5,000 oil revenues scenarios. Results are shown in Figure 2.

Figure 2. Chad: Impact of a Price Smoothing Mechanism on Oil Revenues Volatility

(Oil revenues, $ million)



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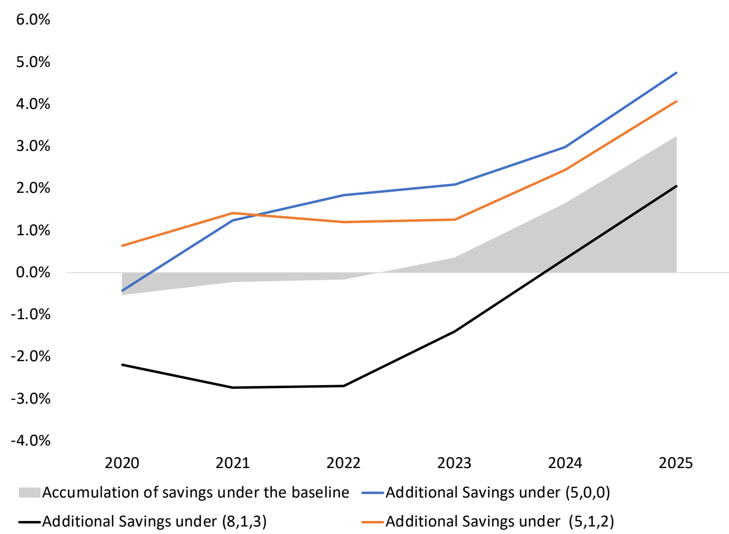
[1] See IMF (2012).

[2] The average standard deviation of oil price variations since 2000 is 25 percent. Generated oil price series follow a random walk based on a normal distribution with parameters (0, 0.25).

3. Using baseline fiscal, oil, and macroeconomic projections, Figure 3 shows savings accumulation under different mechanisms relative to the baseline. Given the decline in oil prices in 2014/15, price smoothing mechanism (5,0,0) allows for higher accumulation of buffers than other smoothing mechanisms beginning in 2020.

Figure 3. Chad: Cumulative Accumulation of Savings
(Percent of non-oil GDP)



Source: IMF staff calculation

4. Lastly, staff estimated the adequate level of savings to allow Chad to absorb a one-year and a two-year oil price shock. In order to prevent a forced sharp adjustment in expenditure in case of an oil price shock, sufficient buffers (in the form of savings) need to be built. The average annual oil price decline since 2008 is 27 percent.[3] The impact on oil revenues of the average shock to the baseline oil price, under different smoothing mechanisms, ranges between 2.3 percent and 3.5 percent of non-oil GDP for a one-year shock and from 5.4 to 7.1 percent for a 2-year shock (Table 1). Comparing this shortfall of revenues to the level of savings accumulated enables an assessment of the point in time that buffers would cover this shortfall and therefore allow to prevent any cuts in expenditure. Table 1 shows that, under the (5,0,0) and the (5,1,2) mechanisms, sufficient buffers would be accumulated by 2025 to accommodate a one-year shock, by 2026 to accommodate a two-year shock.

[3] Specifically, Chadian oil prices declined in 2009 (33 percent), 2014 (10 percent), 2015 (57 percent) and 2016 (9 percent).

Table 1. Chad: Accumulation of Savings and Decline in Oil Revenues under Different Stress Tests
(Percent of non-oil GDP)

	2021	2022	2023	2024	2025	2026
Savings Accumulation under (5,0,0)	1.3%	2.0%	2.2%	3.2%	5.1%	7.6%
Decline in Oil Revenues (1-year shock)	2.3%	3.2%	3.7%	3.7%	3.3%	3.0%
Decline in Oil Revenues (2-year shock)		5.4%	6.7%	7.1%	6.7%	6.1%
Savings Accumulation under (5,1,2)	1.5%	1.3%	1.3%	2.6%	4.4%	6.7%
Decline in Oil Revenues (1-year shock)	2.8%	3.3%	3.7%	3.7%	3.4%	3.2%
Decline in Oil Revenues (2-year shock)		5.9%	5.9%	5.9%	5.9%	5.9%

Note: A red/green cell shows that the shortfall in revenues is larger/smaller than the cumulative savings.
Source: IMF staff calculation

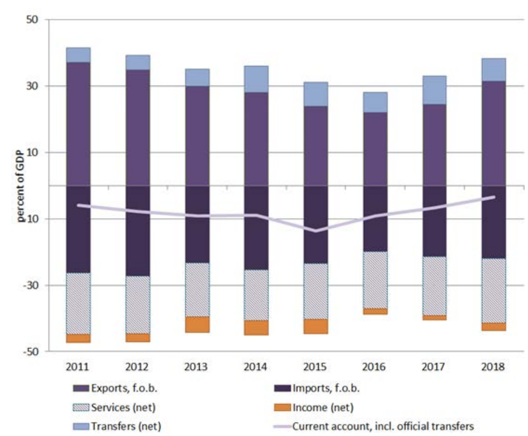
Annex IV. External Sector Assessment

Chad's external position is assessed to be weaker than implied by fundamentals and desirable policy settings at end-2018. The current account deficit is expected to widen in 2019 because of lower oil prices and to remain at about the same level thereafter.

A. Recent Developments in External Accounts

1. Chad's current account deficit has moderated since the collapse of oil prices in 2015 (Figure 1). With the dip in oil prices in late 2018, however, the current account is expected to hit 6.5 percent of GDP in 2019 compared to 4.4 percent of GDP in 2018. Services make negative contributions to the current account due to large payments to transportation-linked services like shipping and freight insurance. Income flows also have a negative balance due to profit repatriation by multinationals from oil production.[1]

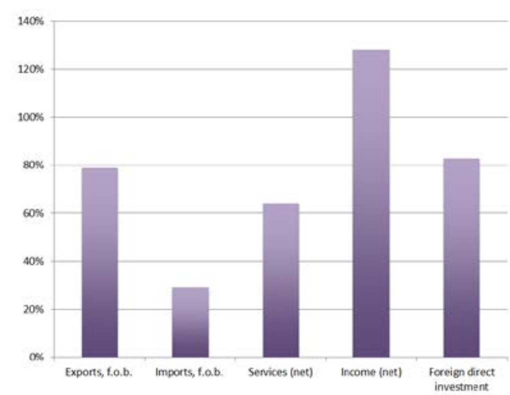
Figure 1. Chad: Current Account Balance, 2011-2018



Source: Country Authorities, BEAC, and staff estimates.

2. The oil sector dominates the balance of payments to a much larger degree than the overall economy (Figure 2). While the oil sector comprises 18 percent of the overall economy, it constitutes a much higher share of nearly every component of the balance of payments for which the oil sector component can be identified. Figure 2 shows that nearly 80 percent of exports is oil, explaining why the current account moves procyclically with oil prices. Imports have a relatively small link to oil but importing oilfield equipment and supplies represents a hefty 30 percent of the total. Revenue earned on oil proceeds does not all stay in Chad, as the negative components of services and income almost entirely constitute oil-related activity. Most private sector capital flows

Figure 2. Chad: Oil Share of Selected Balance of Payments Components, 2018



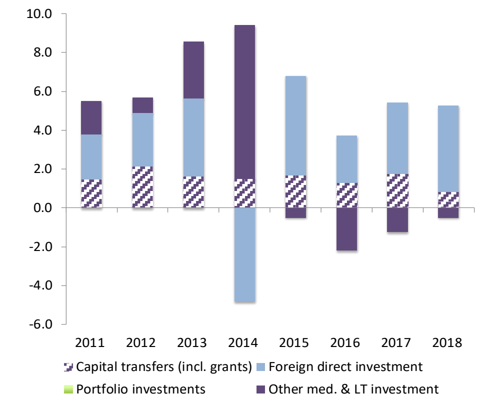
Source: Country Authorities, BEAC, and staff estimates.

[1] Data deficiencies severely limit the precision of external account analysis for Chad. The most recently published balance of payments data covered up to 2012, so figures after that represent estimates.

are also linked to the oil economy. For instance, FDI largely consists of international oil companies retaining earnings or contributing additional capital to their operations in Chad.

3. **FDI provides the major source of financing for the current account deficit.** With the exception of 2014 when the government of Chad bought out Chevron's stake in the domestic oil industry, FDI has provided the largest portion of capital inflows (Figure 3). Grants for capital projects fall under capital transfers and represent another reliable source of finance. After the oil price collapse Chad has been deleveraging, and the repayment of loans has generated net outflows of other medium and long-term investments.

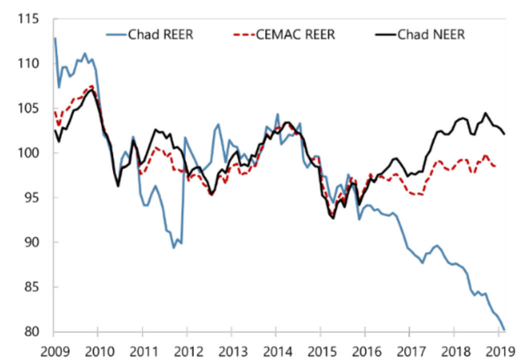
Figure 3. Chad: Capital and Financial Account Balance, 2011–2018



Source: Country Authorities, BEAC, and staff estimates.

4. **Chad has seen several years of real depreciation after experiencing two years of crisis-linked deflation that only ended in 2018**. Chad's inflationary experience has diverged sharply with that of its neighbors, causing its real effective exchange rate (REER) to move at odds with the region (Figure 4). Chad's non-oil economy is relatively localized, consisting largely of primary agricultural products and handicrafts which serve regional demand, to the extent that they export. The oil sector, however, is largely insulated from local price developments because of its heavy use of dollars.

Figure 4. Chad: Real and Nominal Effective Exchange Rate Indices, 2009-2018



Source: Country Authorities, BEAC, and staff estimates.

B. Model-Based Assessment of the External Position

5. **A battery of five models produce a wide range of results on the potential misalignment of the current account and the REER.** The EBA-Lite provides three models that focus on determinants of the current account, REER index, and external stability. In addition, because Chad is a commodity producer, two further models were applied to consider alternative uses of commodity proceeds. The Bems & Carvalho (2009) model evaluates intergenerational equity by assessing what current account would be consistent with providing a constant real per capita annuity for the whole population for perpetuity. The Araujo et al. (2013) model applies to countries with deep investment needs and weighs the tradeoffs involved in allowing a share of oil proceeds to be used domestically in the near term to pursue investment goals.

6. **The Current Account model suggests a moderate overvaluation** (Table 1). The EBA-Lite CA model is generally regarded as producing more relevant results for low-income countries than

the REER models because current accounts tend to exhibit stronger theoretically-consistent relationships with other economic phenomena than exchange rates. Indeed, for Chad, the fit of the CA model is much better. The CA model finds a current account gap of -3 percent of GDP, meaning the current account is weak relative to the model-derived "norm", or the level consistent with fundamentals and desirable policy settings. The empirical relationship between the current account and real exchange rate suggests a real depreciation of 11 percent would be needed to facilitate exports and imports adjusting to close the gap.

Table 1. Chad: External Position Assessments

	EBA-Lite, 2018			Commodity Exporter Modules, 2024	
	Current Account (CA)	Index Real Effective Exchange Rate (IREER)	External Stabillity (ES)	Bems & Carvalho Constant Real Per Capita Annuity	Araujo et al. Investment Needs
Current account norm (percent of GDP)	-2.9			7.5	2.1
Underlying current account[1] (percent of GDP)	-5.8			-5.7	-5.7
Current account gap[2] (percent of GDP)	-3.0	4.7	-1.2	-13.3	-7.8
Overvaluation (+) /undervaluation (-)[2] (percent)	11.0	-16.8	4.3	47.5	28.0

[1] The underlying current account in the CA model is cyclically adjusted. The commodity exporter modules focus on timeframes that look past cycles.

[2] The relationship between the current account gap and REER gap in all of the models is defined by a semi-elasticity of -0.28.

7. **Intergeneration equity considerations suggest the current account balance should rise dramatically, while investment needs suggest a more moderate rise.** A current account deficit represents borrowing that future generations must repay. Monetizing national endowments like oil to pay for current consumption has a similar effect of denying resources to future generations. Equity considerations advise against doing both, and the Bems & Carvalho model suggests a medium-term current account balance of positive 7.5 percent of GDP would achieve the right balance. The Araujo et al. model recognizes that using future resources today may make sense if they are invested wisely. It recommends a more moderate medium-term current account target of 2.1 percent of GDP. In Chad, the degree of adjustment needed to achieve even the more moderate investment needs norm would require a devastating fiscal adjustment that would completely undermine the goal of higher social and growth-enhancing expenditure.

8. **Finally, the REER and external stability (ES) models provide somewhat different signals.** The ES model targets a stable net international investment position. It indicates only a moderate improvement of the current account would be needed to do so. On the other hand, the REER model suggests the exchange rate is undervalued and should rise. While the recent strong depreciation might suggest the need for a correction, it is more likely offsetting previous excess currency strength, common among commodity exporters. The fit of REER models is not as reliable

given the difficulty of modeling exchange rates, and REER data quality issues may further reduce the usefulness of this model for Chad.

9. Overall, Chad's current account and real exchange rate appear weaker than implied by fundamentals and desirable policy settings at end-2018. The CA model estimates are not only the median of the range of values, but also the most reliable and relevant for Chad. Staff assesses a current account gap in the range of 2.5 to 3.5 percent of GDP and a REER gap of -5 to -15 percent.

C. Structural Reforms to Improve Competitiveness

10. As a member of a currency union, Chad's best course of action is to undertake structural reforms. Monetary and exchange rate policy is not available and fiscal policy is rightly focused on building resilience while protecting the vulnerable. Instead, improvements to the business climate, governance and the banking system could all carry a large impact for local businesses' ability to compete.

Annex V. Macro-Financial Linkages in Chad

The banking sector in Chad has been under pressure in large part due to the effect of the oil price shock as the government accumulated large domestic arrears and relied excessively on domestic financing. This annex describes the structure of the financial sector, explains the key channels of interaction between banks and the sovereign, and the main sources of risks and vulnerabilities in the banking sector.

Overview of the Financial Sector

1. Financial depth in Chad is low and dominated by a few commercial banks. There are nine commercial banks with total assets of CFAF 1,185 billion (19 percent of GDP). Four banks include state participation, two of which, Commercial Bank of Tchad (CBT) and Banque Commerciale du Chari (BCC)represent around 45 percent of total assets and hold around 40 percent of all government T-bills and T-bonds. Banking intermediation is weak, with credit to the private sector limited to 11.5 percent of GDP in 2018, minimal interbank transactions, and no established secondary market for government debt. There are 100 microfinance institutions (MFIs) but their activities are limited. The rest of the financial system is composed of two small pension funds (for the private sector) and three insurance companies.

Macro Financial Linkages

2. The Chadian economy is characterized by limited diversification, heavy reliance on the oil sector and government spending. The oil sector generates a significant share of government revenues (45 percent in 2018) and makes up the bulk of exports (about 80 percent in 2018). The oil sector is not integrated with activity in the rest of the economy. The links between the oil sector and the rest of the economy are through fiscal policy as the government spends oil-related revenues. Most economic agents (employees, state-owned enterprises, private companies) depend directly on government spending including through wages, transfers to (state-owned) companies, and contracts with private firms for the provision of goods and services and the construction of physical infrastructure. As such, private sector financial transactions (both deposits and credit) with the banking sector is dominated by public spending.

3. The severe impact of the 2014-17 crisis on the banking sector reflects a tight sovereign-bank nexus. The nexus reflects the considerable role of the government in the economy which in turn increases banks' vulnerability to oil sector developments, and the government's large ownership in the banking sector. The key links between the government and the banking sector affect both the asset and liability side of the banks' balance sheet, and fiscal risks on the government's side (Figure1).

4. Faced with a significant decline in oil revenues, the government dramatically cut public spending, heavily increased its issuance of public securities, and accumulated significant domestic arrears. The economic recession and accumulation of arrears resulted in a rapid deterioration in the quality of banks' portfolios. The main transmission channels from the government to the banking sector are:

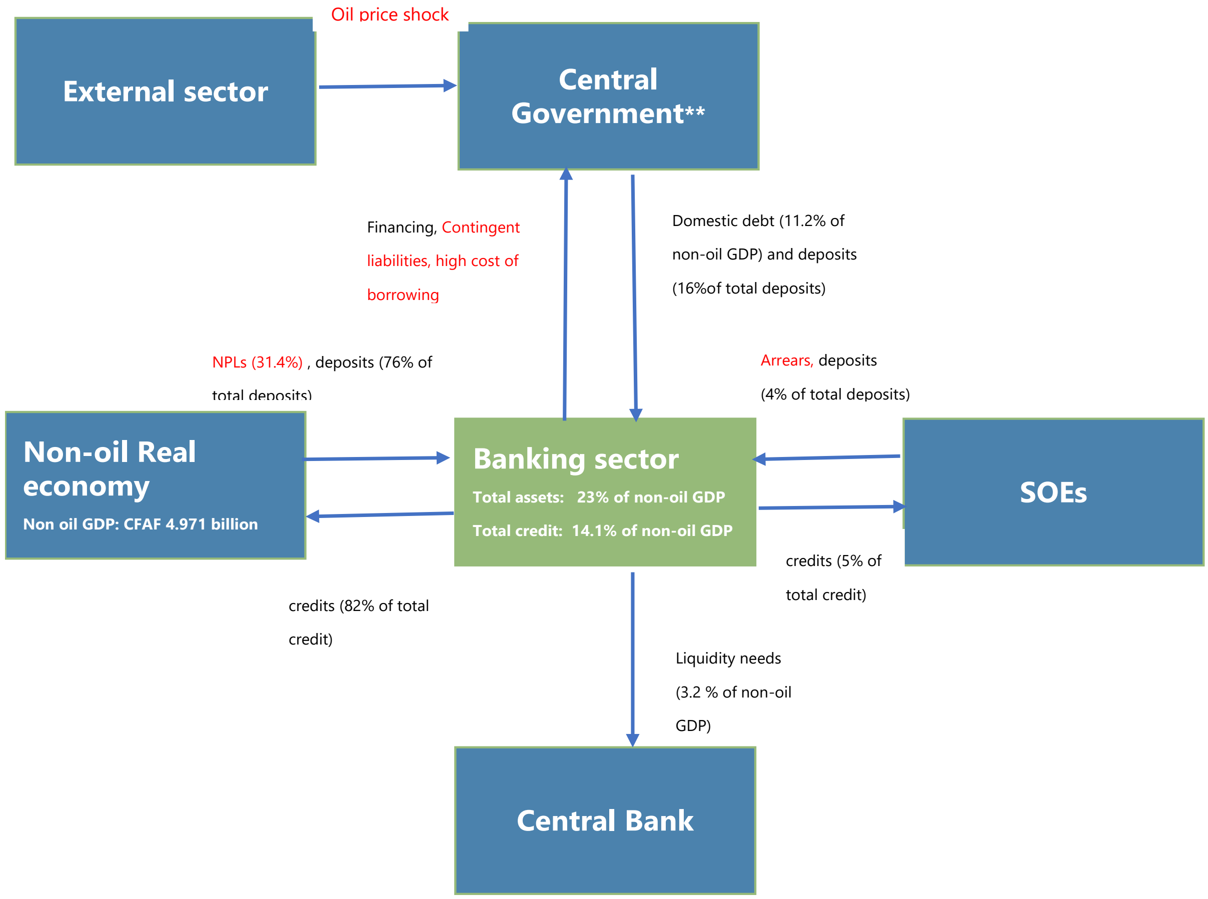
- **Government domestic arrears.** The government accumulated a large stock of domestic arrears during the crisis. While the stock of recognized arrears rose to around 3.2 percent of GDP during the crisis, the total stock is much larger and is currently being audited. These arrears have led to a considerable increase in overdue loans which reached around 31 percent at end 2018 from around 12 percent at end 2014 as the private sector increased its borrowing on the basis of related IOUs from the government that were not paid.

- **Government domestic debt.** During the crisis, domestic debt held by the banking sector (including regional banks outside Chad) increased significantly to reach around 12 percent of non-oil GDP in 2018 against 5.6 percent in 2014, with around two thirds currently held by domestic banks. The large holding of government securities has represented a good source of income for some banks, however some banks faced liquidity stress as the government rolled over all its maturing debt due its liquidity constraints and the BEAC began to tighten the monetary stance. The high exposure of banks to sovereign debt has made them highly vulnerable to sovereign risk in addition to liquidity risk. Although the fiscal situation improved, the need for the government to rollover domestic debt is likely to continue for the next few years. In addition to government securities, banks hold a stock of government guaranteed loans of around 1.4 percent of non-oil GDP. This represents a potential risk as banks are not required to make provisions for this debt as it become overdue.

- **Government deposits.** In addition, the liquidity position of the government has a direct impact on that of banks. For example, government deposits in the banking sector declined by 11 percent between 2016 and 2018 contributing to the liquidity stress of banks.

5. The heavy reliance of the sovereign on financing from domestic banks and the decline in private sector deposits put heavy pressures on domestic banks' liquidity. The banking sector reached the access limit to central bank refinancing and public banks had to draw on advances under the penalty rates, which were replaced later by emergency liquidity assistance. This led to an increase in the cost of liquidity for these banks. Overall, banks' refinancing at the BEAC increased significantly during this period (from CFAF 10 billion in December 2014 to CFAF 160 billion in December 2018). As a result, the profitability of the banking system declined and its capacity to collect deposits and provide credits was curtailed. While credit and deposit grew at about 12 percent in 2014, they shrank between 2015 and 2017, before stabilizing in 2018 (Figure 2).

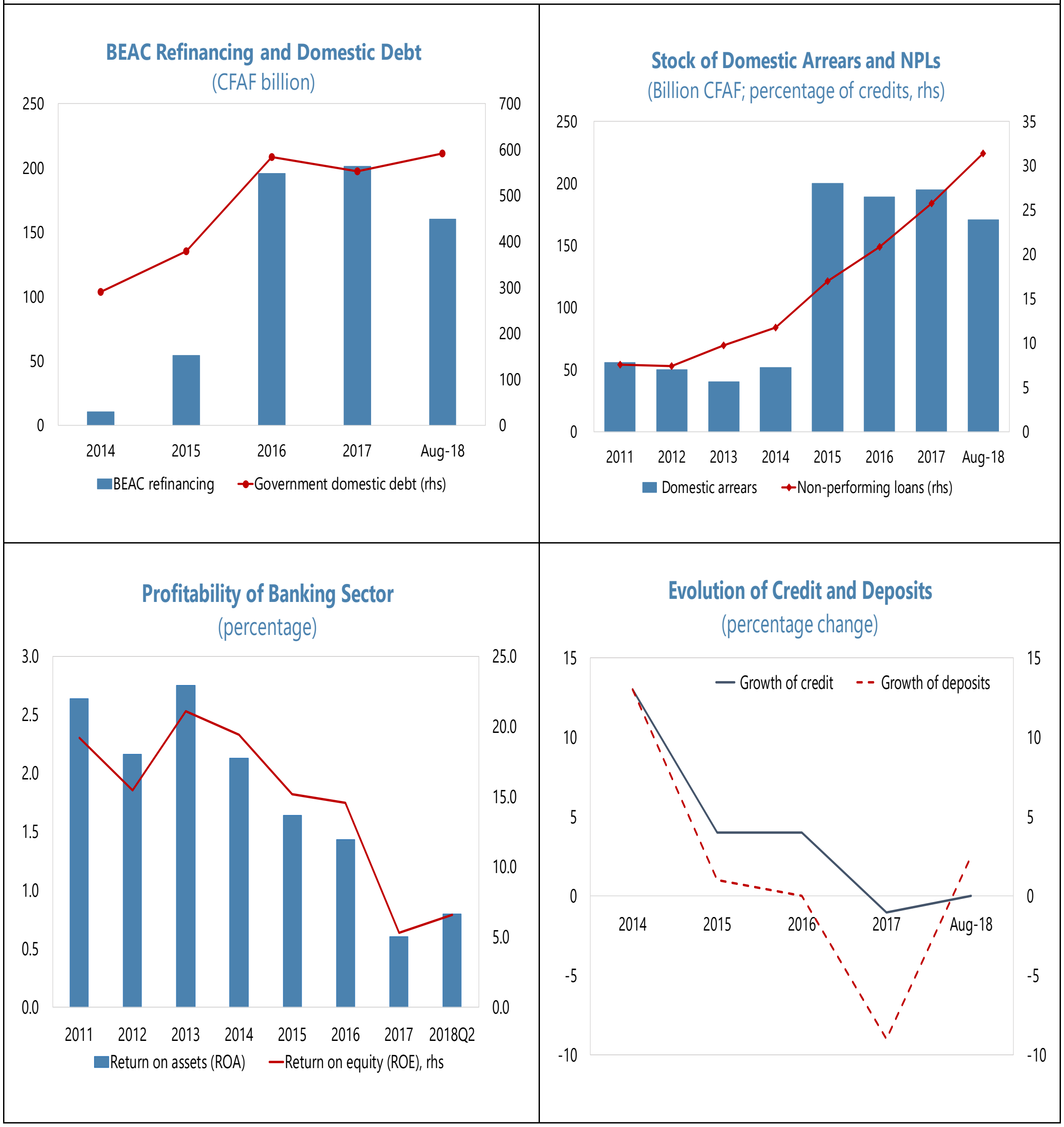
Figure 1. Chad: Macro-Financial Linkages*



*Data at the end of 2018.

**Domestic debt includes government bonds held by non-Chadian banks.

Figure 2. Chad: Banks-Sovereign Nexus



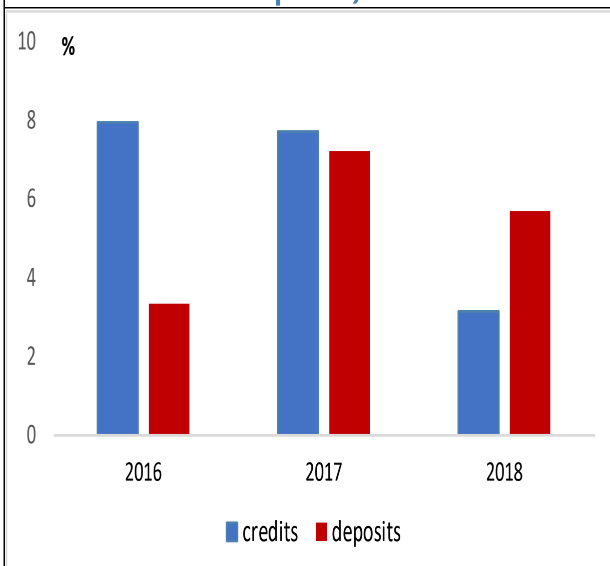
6. A further tightening of the monetary policy stance could increase liquidity pressure on Chadian banks. Absorption of excess liquidity by the BEAC, along with the absence of an effective interbank money market, is likely to present particular difficulties to banks that are highly dependent on the BEAC financing.

7. While banks' exposure to state owned enterprises (SOEs) has declined, the difficult financial situation of some SOEs is a source of risk. Banks credit to SOEs declined from around 8 percent in 2016 to around 3 percent in 2018 of total credit, while deposits increased from 3.3 percent in 2016 to 5.7 percent in 2018 of total deposits (Figure 3). The decline of credit to SOEs is partly due to the clearance of arrears of the public cotton company (CFAF 54 billion) by the government. Others SOEs are facing difficulties: the electricity and sugar enterprises have accumulated large arrears to banks, and these could materialize in the future as liabilities of the government.

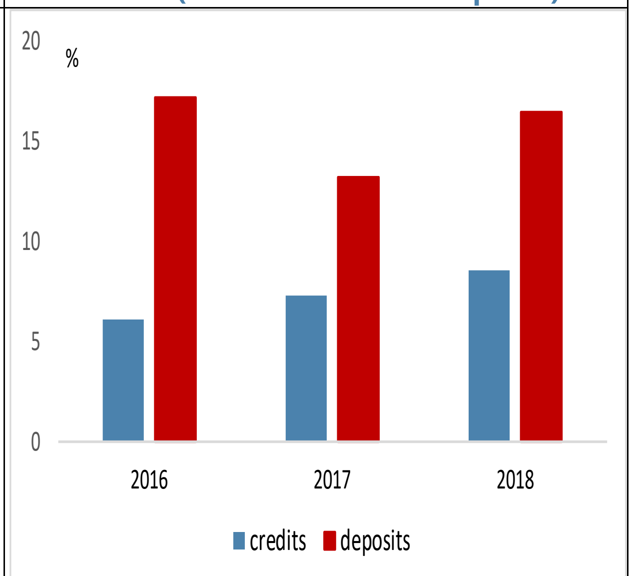
8. Weaknesses in the banking sector, particularly public banks, expose the government to additional fiscal risks. Given government ownership, solvency concerns in public banks could translate into contingent liabilities in cases where banks require recapitalization. The reorganization plans of the two public banks should inform the need for recapitalization of public banks. In addition, a small public bank (with joint foreign ownership) does not meet the capital requirement and may need to be restructured.

Figure 3. Chad: Central Government and SOEs Deposits and Credits

SOEs deposits and credits from banks (% total credits and deposits)



Central government deposits and credits from banks (% total credits and deposits)



Summary of Stress Tests

9. Stress tests conducted using banks' balance sheets at end 2017 confirmed the dominance of sovereign risks for the banking sector. Stress tests similar to those used for other CEMAC countries[2] aim to assess the resilience of the banking sector under different scenarios: haircuts on government debt, overdue loans, NPLs[3], and government guaranteed loans, an

[2] See Cameroon 2018 Article IV staff report.

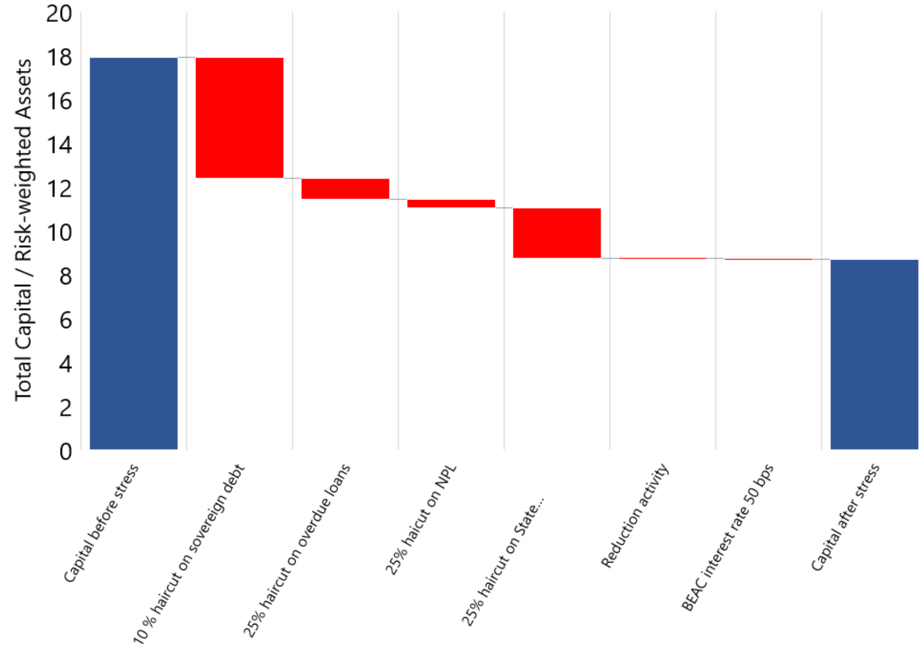
[3] Overdue loans are loans that have not been serviced on time for up to 3 months. NPLs are loans that have not been serviced for more than three months.

economic recession that leads to an increase in NPLs, and an increase in the BEAC policy rate. Figure 4 summarizes the results of the moderate and the severe stress tests.[4] Under the moderate stress test, haircuts on sovereign debt and government guaranteed debt are the most significant shocks that affect the banking system's aggregate capital. The overall banking system will continue to meet capital requirement under the moderate stress, but public banks are disproportionally affected. Under the severe stress test, a haircut on sovereign debt, haircut on government guaranteed debt, and a rise in the BEAC policy rate are the most significant shocks. The banking sector is not resilient under this stress test as the capital becomes negative.

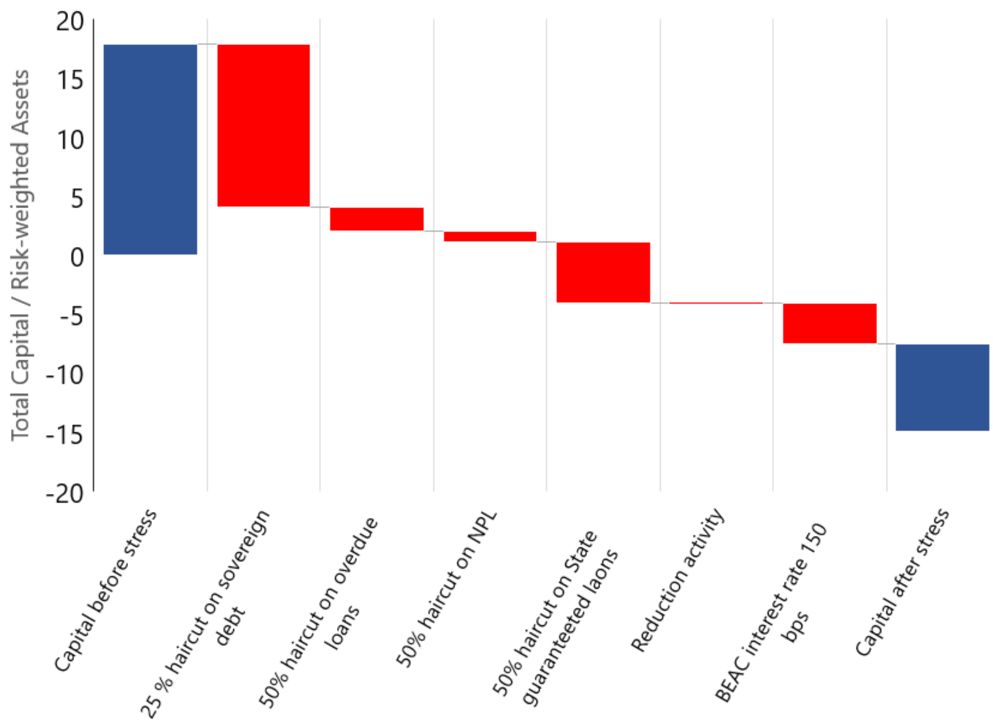
[4] These stress tests are illustrative. The audit of the two banks will provide more updated assessment of the situation of the two largest public banks, and the forthcoming stress test exercise to be conducted by the BEAC will reflect more recent developments in the banking sector and tailor the assumptions used for the stress tests.

Figure 4. Chad: Stress Test

Moderate stress



Severe stress



10. The analysis of the macro-financial linkages in Chad shows the dominance of sovereign risks and the need for decisive actions from the authorities. The highest priority is to address the high level of NPLs. In addition to progress in clearing domestic arrears, the authorities' collaboration with the regional supervisory authorities should address vulnerabilities in the two public banks as agreed under the program and adopt and begin implementing an action plan which would include: (i) increasing provisioning in banks with high NPLs, and (ii) facilitating extra-judicial resolution of overdue loans. To further ease the liquidity position of banks, in addition to the ongoing efforts by the BEAC and the COBAC to modernize the monetary policy framework and activate the inter-bank money market, the authorities should aim for a progressive reduction of government dependence on domestic banks refinancing.

Appendix I. Letter of Intent

June 18, 2019

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

Madame Managing Director,

On June 30, 2017, the Executive Board of the International Monetary Fund (IMF) approved a financial program under the Extended Credit Facility (ECF) covering the period June 30, 2017 through June 29, 2020, to support Chad's economic stabilization and recovery strategy. On April 13, the Executive Board completed the first review of the program and approved the second review on July 27, 2018 and the third review on December 21, 2018. Each review led to the immediate disbursement of SDR 35.05 million, bringing total disbursements under the program to SDR 140.20 million.

Despite a difficult socio-economic situation and security challenges, Chad continues to make progress under its ECF-supported program. The signs of stabilization observed since the second half of 2017, continued in 2018 and in early 2019. After contracting for a third straight year in 2017, non-oil economic activity began to recover in 2018, but at a slower-than-expected pace. While oil production rebounded as projected, the upturn in non-oil economic activity was not as strong as initially expected. Progress was made in clearing external arrears and, since the conclusion of the third review of the ECF, all external debt obligations have been paid in a timely manner.

All performance criteria (PC) for completion of the fourth review were met. However, the two indicative targets were not achieved. The indicative target on poverty-reducing social spending was missed, a reflection of the wage bill reduction that disproportionately impacted the ministries of Education and Health, and of a heavy public procurement process. The indicative target on the regularization of emergency spending procedures (DAO) was also missed. All the quantitative targets for end-March 2019 were met, except those relating to DAO regularization, poverty-reducing social spending and the reduction of domestic arrears. Corrective measures have been taken to meet the end-June objectives. These include the increase in spending on social sectors which reached 86 billion in early June, and the plan to pay CFAF 30 billion of domestic arrears.

The government remains strongly committed to implementing the structural reforms program, notwithstanding some delays. Of the six structural benchmarks for the period up to end-March 2019, three were implemented although one with a delay. Progress is underway in implementing the other three. In particular the audit reports of the two public banks will be delivered to the IMF staff and the regional banking commission (COBAC) in June (prior action). With regard to the removal of exemptions in line with the audit of 47 conventions, while progress was made in this regard, further actions will be taken by February 2020 to complete it (new structural benchmark). Finally, due to the delay in completing the audit of domestic arrears, the strategy for clearing these arrears could not be adopted before end-March 2019. However, the government will finalize the audit underway of a significant amount of arrears and start the second audit of remaining obligations (prior action). On this basis, the government undertakes to adopt a comprehensive clearance strategy for domestic arrears by end-November 2019 that will clearly establish the priorities and terms for clearing audited arrears. This strategy will be widely disseminated to the public.

The government's economic reform strategy remains focused on stabilizing the economy and supporting the resumption of growth in the non-oil sector. The gradual improvement in the fiscal position owing to strengthened non-oil revenue mobilization and greater oil revenue transparency, as well as improved public financial management will create fiscal space for higher investment and social spending, the clearance of domestic arrears and the repayment of domestic debt. This should help reinforce financial sector stability and boost the non-oil sector.

Non-oil revenue mobilization continues to be an important aspect of the overall effort to improve fiscal sustainability. Particular efforts will be needed in view of the 2018 underperformance. The 2019 budget includes additional provisions for improving non-oil tax revenues, including the elimination or revision of exemptions not compliant with legislation and the streamlining of income tax, and the application of a customs penalty to importers without a tax identification number. The government commits to not renew expiring tax exemptions. To strengthen oil revenue mobilization, the government is firmly committed to not extend or renew tax and customs exemptions granted for existing oil production and refining operations and ensuring that all oil revenues are paid into the Treasury.

On spending, the 2019 budget law seeks fiscal prudence, including control over the wage bill, but also greater resource allocation to social sectors and investments. In particular, the government will ensure that spending by social ministries is in line with the budget and that the shortfall in spending early this year is made up rapidly. In this regard, particular attention will be given to ensuring that the existing procurement process does not impede spending by these ministries, which should be at least 34 percent of primary expenditures. The government has set up a committee on social spending, chaired by the General Director of the Ministry of Finance, which is already operational and will ensure that social spending is in line with the program targets. Strong efforts are being made to meet the end-June 2019 target. On the issue of emergency spending procedures (DAO), the government will ensure that their use is in line with the presidential decree that limits it to 22 percent of total primary spending as agreed with IMF staff. With regard to the allocation for the parliamentary elections, if the elections are postponed to 2020, the unspent amount of the budgeted allocation for 2019 will be transferred to the 2020 budget. In the event of additional oil revenues (beyond what is projected under the program), the government commits to use it in line with the agreed parameters of the IMF supported program.

The government recognizes the centrality of good governance and the fight against corruption for sustainable and inclusive private sector-led growth. Particular focus is therefore placed on improving governance (particularly in the fiscal area) along with other structural reforms to diversify the economy and enhance its competitiveness. Effective implementation of the United Nations Anti-Corruption Convention is a key element of the government effort in this regard. Furthermore, the government will improve its public investment program to address the pressing infrastructure needs of the country. It has undertaken to seek concessional financing to support priority investments. With more determined program implementation efforts and continued technical and financial support from our development partners, we are confident in achieving the goal of progressively lifting economic growth and reducing poverty.

The government strongly supports CEMAC efforts to maintain an appropriate monetary policy, reinforce regional foreign exchange reserves, and promote the stability of the financial sector. In this respect, it will continue to provide all the contracts and agreements with oil companies to relevant CEMAC bodies. The government is also committed to transparency in managing oil sector capital flows, particularly by revising oil and mining codes to align them with CEMAC foreign exchange regulations by end-2019 and by repatriating foreign exchange revenues into the local banking system. The latter will be done by transferring balances from external accounts with Citibank to the treasury current account with the BEAC and by ensuring that all revenues channeled through these accounts are then repatriated without delay.

The attached Memorandum of Economic and Financial Policies (MEFP) supplements that of December 2018. It describes the economic and financial situation in 2018 and early 2019, sets out the economic and financial policies that the government intends to implement during the remainder of 2019, and establishes the performance criteria, indicative targets, and structural benchmarks for the rest of 2019 and early 2020.

Based on program performance, the government requests that the Executive Board of the IMF approve the completion of the fourth review under the ECF-supported program. The government requests to modify the date of the structural benchmarks on the clearance strategy of domestic arrears and the removal of tax exemptions on the 47 audited conventions. It also requests modifications to the PCs on net government financing from the BEAC and on net domestic government financing excluding BEAC.

The government is convinced that the measures and policies set forth in the MEFP will serve to achieve the program objectives. It stands ready to take other measures that may prove necessary. The Chadian authorities will consult with the IMF on the adoption of any additional measures in advance of revisions to the policies contained in the MEFP, in accordance with Fund policies on such consultations. To facilitate program monitoring and assessment, the government undertakes to provide all necessary information to Fund staff on a regular basis and in a timely manner, pursuant to the attached Technical Memorandum of Understanding (TMU).

In closing, in keeping with our longstanding commitment to transparency, the government agrees to the publication of the staff report, the letter of intent, the MEFP, and the TMU on the IMF website.

Very truly yours,

/s/

Allali Mahamat Abakar
Minister of Finance and Budget

Attachments:
I. Memorandum of Economic and Financial Policies (MEFP)
II. Technical Memorandum of Understanding (TMU)

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 had severely aggravated its financial and social effect as it necessitated a deep and unsustainable fiscal contraction. In addition, the security and humanitarian tensions particularly in the Lake Chad and northern regions and Chad's active involvement in peacekeeping 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 its reform and stabilization strategy to lift the country out of the crisis.** A three-year ECF arrangement was approved on June 30, 2017 in support of the government's medium-term economic program; the first review of the ECF was approved by the IMF's Board on April 13, 2018, the second review on July 27, 2018, and the third review on December 21, 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 three years of sharp non-oil economic contraction, signs of stabilization started to appear at the end of 2017 and continued in 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 a regular basis and clear some domestic and external 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. **This memorandum is an update and a supplement to that of December 2018**. It lays out the specific elements of the government's reform strategy under the ECF arrangement. It describes recent economic developments, the government's efforts to implement policies agreed under the existing program supported by the current arrangement, macroeconomic prospects, as well as the government's policies and reform agenda, particularly for 2019.

RECENT DEVELOPMENTS AND IMPLEMENTATION OF THE 2017 ECF ARRANGEMENT

A. Recent Developments

5. Economic activity showed signs of a modest recovery in 2018, albeit at a slower pace than initially anticipated. After a sharp decline in 2017 following technical problems in the oil sector, oil production rebounded in 2018 broadly in line with projections. Non-oil economic growth turned positive in 2018, with estimated growth of 0.5 percent, but activity was not as strong as initially expected due lower foreign-financed investment, lower wage bill, and relatively less arrears repayment than initially planned for the year. After reaching a peak of 7.3 percent in May (y-o-y), inflation decelerated to 4.3 percent in December 2018. The pick-up of inflation is mainly due to the increase in the price of fresh water (from CFAF 105 to CFAF 200 per cubic meter) decided in May 2018 by the Chadian water company.

6. Fiscal developments in 2018 were primarily marked by a decline in non-oil revenues and a lower than initially budgeted wage bill. Non-oil revenue performance, which was encouraging in the first six months, weakened during the second half of the year due to weak implementation of "bancarisation" of revenue collection, aggravated by a strike of the tax directorate civil servants. Despite the good performance of customs revenue, there was a shortfall in tax revenues of about CFAF 30 billion, not fully compensated by the overperformance in non-tax revenue. The good performance of customs revenue and non-tax revenue reflects strong efforts to secure these revenues. While the 2018 wage bill was lower than initially planned in the budget (by about CFAF 35 billion) following reduction in benefits and bonuses in early 2018, other primary spending was broadly in line with the budget. Nonetheless, spending on social sectors (including goods and services) was significantly below the budgeted amount and declined relative to 2017.

7. Oil revenue exceeded slightly program projections, driven by the satisfactory performance of oil tax revenues. Higher oil prices and production contributed to a higher than projected oil tax revenues in 2018. Government direct oil revenue (from royalties and government participation in oil companies) in 2018 was broadly in line with projections.

8. Net government domestic financing in 2018 was broadly in line with program objectives. Net domestic financing from banks was broadly in line with projections, although T- bills and T-bonds issuances resulted in a slightly higher rollover rate than the 90 percent initially expected under the program. Also, maturities are shortening as all maturing T-bonds are rolled over through six- and twelve-months T-bills. Net domestic financing from the BEAC has been much lower than anticipated as (i) IMF third review disbursement was credited in 2019 and (ii) deposits at the BEAC increased significantly reflecting among other factors higher oil revenues and lower wage bill.

9. The good progress made in clearing domestic arrears slowed in the last quarter of 2018. After declining by about CFAF 45 billion in the second half of 2017, the stock of domestic arrears was reduced further in 2018 by CFAF 35 billion.

10. The government made considerable progress in clearing its arrears to external creditors and, since the third ECF arrangement review, has paid external debt obligations in a timely manner. The principal of the Libyan loan for the May, July and September maturities were paid in line with the agreement in principle signed with the Libyan Foreign Bank in May 2018. Active discussions are underway to address outstanding arrears with Libya, Angola, Equatorial Guinea, the Republic of Congo and Mega Bank, an external commercial bank. The government is confident that the funds dedicated for external debt payment in an escrow account—along with monthly meetings of all parties relevant for external debt service, including the IMF resident representative as an observer—will ensure the nonrecurrence of external arrears.

11. Vulnerabilities in the banking sector remain elevated including because of continued portfolio deterioration. In December 2018 deposits stabilized (y-o-y) following a sharp decline in 2017 and credits slightly increased by 0.6 percent, but overdue loans reached 31.4 percent (against 28 percent in 2017). The banking sector liquidity is showing some signs of improvement as the BEAC refinancing declined from CFAF 199 billion in December 2017 to CFAF 160 billion in December 2018 and all advances at penalty rate were paid.

12. The security situation has deteriorated. Boko Haram has been launching deadly attacks on both sides of Lake Chad, both on villagers and military forces. In response, regional forces, including Chad's, have engaged in a strong campaign against the group. The conflict has sent more regional refugees to Chad. In addition, security and defense forces fought attacks by armed groups in northern Chad near the border with Libya, which intensified in early February 2019. Concerns over security have necessitated an increase in security spending in the fourth quarter of 2018 and in early 2019.

13. Social tensions have moderated. The social situation improved following the October 2018 agreement with public sector trade unions. The agreement helped stop a five-month strike that had disrupted education and health activities. The government delivered on its commitments under the agreement: (i) in January 2019, it restored 15% of benefits and bonuses that had been cut in early 2018; and (ii) in November 2018, it set up a joint committee charged with the rationalization of the payroll, including the removal of ghost workers and the audit of diplomas. Following the adoption of the new constitution in May, the government plans to organize parliamentary elections in the fourth quarter of 2019.

B. Program Implementation

14. The government continued to show a strong determination to implement the program. All performance criteria were met including the two continuous PC. However, the two indicative targets were missed at end-December 2018.

- The ceiling on non-oil primary balance (NOPB) for end-December 2018 was met as the deficit stood at CFAF 211 billion compared to the quantitative performance criterion of CFAF 218 billion. This result was achieved primarily because of the government's efforts to contain spending particularly the wage bill.

- The floor on customs revenue was exceeded (CFAF 124 billion versus a target of CFAF 118 billion). Despite still weak economic activity and imports, the government strengthened its customs collection efforts.

- The criterion on net domestic government financing from BEAC was met with a large margin. This reflects higher oil revenues, lower wage bill and slightly lower repayment of arrears

- The criterion on net domestic government financing excluding BEAC was met, primarily as the rollover of T-bills and T-bonds was broadly in line with the program objective of 90 percent, albeit slightly higher.

- The adjusted criterion on domestic arrears payment was met with a small margin. The stock of domestic arrears reached CFAF 159 billion against an adjusted target of CFAF 163 billion.

- The continuous zero ceiling on new external arrears of the government and non-financial public enterprises has been met after being missed during all the previous reviews. 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 non-concessional financing.

- The indicative target on poverty-reducing social spending was missed, primarily because the reduction in the wage bill disproportionately affected the health and education sectors, and the execution of committed social spending on goods and services was low because of the burdensome procurement process. In a context of continuing efforts to keep spending discipline, the government remains strongly committed to protecting spending on social sectors. Allocations to social sectors were increased significantly in the 2019 budget, in line with the program.

- The indicative target on the regularization of emergency spending procedures (DAO) was missed. The regularization reached only 65 percent against a target of 80 percent. The authorities are committed to accelerate the regularization speed to meet the end of year target.

15. Performance at end-March 2019 remained broadly in line with the program. The non-oil primary deficit remained below the program ceiling, custom revenue was met as the government sustained the efforts to improve custom administration and limit fraud. The IT on net domestic financing from the BEAC was met as draw down on government deposits was lower than anticipated, and the IT on net domestic financing from banks was also met as the rollover of securities remained in line with the program objectives. The IT on the repayment of domestic arrears was missed by a small margin, as domestic arrears increase by about CFAF 7 billion in the first three months of the year, However, the government is committed to rapidly offset this increase and meet the end-June 2019 target; an ad-hoc commission was formed to clear CFAF 30 billion of domestic arrears. The IT on poverty reducing social spending was missed, due in part to slow budget execution; Preliminary data shows that social spending has actually increased since March and reached over CFAF 86 billion at June 10 to partly offset the low execution in the first quarter. In addition, the government is committed to accelerate the payment of spending commitments which have reached a total amount of CFAF 38 billion before the end of the month to meet end June target. A high-level committee has been put in place to monitor social spending and identify specific social programs that should be prioritized; this committee is operationalized and will meet once a month going forward.

16. Despite some delays, the government remains committed to the implementation of the structural reform agenda Out of the six structural benchmarks for the period up to end- March 2019 two were met, one was partially implemented, one was implemented with slight delays and two are still pending.

(i) The structural benchmark on the publication of the oil sector note was met, as the government continues to publish quarterly notes on the oil sector, in line with the template agreed with IMF staff.

(ii) The action plan to improve VAT collection was adopted before end-December 2018, as envisaged in the program.

(iii) The structural benchmark related to the removal of tax exemptions based on the audit of 47 conventions was partially implemented by end-February 2019. Out of the 47 conventions, 45 were audited; however, 15 companies contested the results of the audit, of which 7 were reestablished after verification by the ad hoc committee. The remaining 8 conventions should be removed, although some firms have challenged the removal in court and they remain under judicial review.

(iv) The decree on the implementation of the 2019 budget law adopted on January 16, 2019 (slightly later than agreed under the program), limits the use of emergency spending procedures (DAO) at 22 percent of primary spending.

(v) The structural benchmark for end-February 2019 on the review and reorganization plan for the two public banks was not implemented, but the government have shared preliminary reports with IMF staff which are being finalized.

(vi) Due to the delays in finalizing the report on the audit of domestic arrears, the arrears clearance strategy could not be adopted as envisaged by end-March 2019. The audit was delayed because of issues related to the financing of the audit, longer than expected time needed for document review and the authorities desire to closely follow and monitor the progress of the audit. An interim audit report has identified a substantial amount of valid arrears, but a large amount of arrears likely remains unaudited. The government is committed to redouble its efforts to ensure the audit is completed this year.

17. The BEAC and COBAC have pursued the implementation of their policy commitments. Consistent with the December 2018 policy assurances, the BEAC submitted the new foreign exchange regulations to the UMAC ministerial committee and operationalized the new monetary policy framework by end-2018. In addition, the end-2018 projection for regional NFAs was exceeded.

ECONOMIC AND FINANCIAL POLICIES FOR THE REMAINDER OF THE PROGRAM

18. The government's priority continues to be to strengthen the stabilization and support the recovery and achieve durable and inclusive growth. Medium-term challenges associated with oil price volatility and the security environment, have reinforced the commitment of the government to reforms. Fiscal policy aims to preserve much of the adjustment in current spending of the past three years and focus on redirecting resources to social sectors and public investment, while reducing domestic debt to banks and arrears to suppliers. The government considers that prudent spending policy including on the wage bill is necessary to ensure a sustainable fiscal position over the medium term. At the same time, efforts to raise non-oil revenue will need to be enhanced to ensure that the government has a steady and reliable source of income, while enhancing the transparency of oil direct and indirect revenue flows and pursuing an effective taxation of the oil sector.

A. Fiscal Policy in 2019 and the Medium Term

19. Fiscal policy for the remainder of 2019 will be focused on raising non-oil revenues, increasing social spending and productive investment, clearing domestic arrears and paying down domestic debt. The government will aim at a more predictable and transparent implementation of the budget through an effective execution of the budget evenly spread over the year with minimal use of emergency spending procedures. Given the persistent concerns over the security situation, the government may have to increase security spending, but is committed to doing so without undermining the objectives of the program.

20. Oil revenues projections for 2019 remain broadly unchanged. Lower-than expected direct oil revenues (from royalties and equity stake) following the decline in oil prices since the third review, will be broadly offset by (i) lower Glencore debt service in line with the contingencies included in the contract and (ii) the payment of oil profit tax revenues from the main oil operator. In case of higher than projected oil revenues, they will be will used to increase buffers, pay down domestic debt and recognized domestic arrears with any remainder allocated to increase primary spending if necessary (see TMU).

21. Efforts to increase non-oil revenues will be strengthened and the government commits to taking additional revenue measures this fiscal year if revenue performance does not improve by mid-year. Non-oil revenue projections for 2019 have been slightly revised downward, reflecting lower than expected outcome in 2018 and lower expected nominal growth. Despite the decline in non-oil revenues in the second half of 2018, the government remains committed to increase those in 2019 to meet program objectives. Within the 2019 budget, the government has taken additional measures to improve non-oil tax revenues. These measures include: (i) centralizing the granting of exemptions at the ministry of finance, assessing their impact on revenue, prohibiting granting of tax exemptions to businesses that collect taxes (primarily VAT), and prohibiting automatic renewal of exemptions; (ii) increasing income tax revenues by improving its collection and widening its base.; and (iii) revision of the ceiling for the application of the VAT "régime réel". Under its economic program, the government is targeting a gradual increase in non-oil tax revenue to a level of about 9 percent of non-oil GDP by 2020 and will take additional revenue measures this year and next when needed to achieve this objective. In May 2019, the government exempted on a temporary basis a few imported basic food items from customs and tax duties to help alleviate pressures on the poor. This is not expected to have a major impact on revenues, but the government is ready to take offsetting measures if necessary.

22. In 2019, domestically financed spending will remain in line with the budget.

- The government remains determined to maintaining control of the wage bill while improving its management. The Government understands that keeping the wage bill at a sustainable level is necessary to allow it to effectively implement fiscal policy and meet the development and social spending needs of the country. The government commits to pursuing the ongoing efforts to update and clean the payroll. It also commits to taking new measures to control the wage bill if the monthly wage bill exceeds the budgeted amount.

- Parliamentary elections are planned to take place in 2019, although the date has not been set. The government has allocated CFAF 33 billion to cover their cost. In case the elections are delayed to 2020, the amount of this allocation not spent on elections in 2019 will be transferred to the 2020 budget. Additional spending for the elections would only be made if external budget support can be secured or in case of additional receipts (e.g., oil revenue higher than projected), and will be consistent with the program.

- In line with program objectives, the government increased the budget envelope for social sectors within the 2019 budget. While social spending was insufficient in 2018, the government will ensure adequate execution of spending by social ministries.

23. Beyond 2019, the government commits to design future budgets that allocate more resources to address the large development needs of the country. In this regard, emphasis will be placed on increasing allocation to social sectors particularly health and education and to building the country's infrastructure. At the same time, the government will ensure that this spending is efficient. It plans to consult with its external development partners in this regard. In addition, the government commits to consult with IMF staff on the use of potential revenue windfall,

24. The government plans to repay more debt to domestic banks to help ease liquidity pressures in the banking sector. In addition to paying maturities related to non-securitized debt, it will aim to repay at least 15 percent of maturing treasury bills and Treasury bonds (85 percent rollover rate on average for the year). It will aim to use additional budgetary revenues to further reduce domestic debt in 2019 consistent with program targets and objectives. In addition, the government will make every effort—notably through better communication with banks—to increase the maturity of rolled over debt in order to limit liquidity risks and reduce the costs of domestic financing through T-bills for which interests are prepaid. The government believes that moving to longer maturities is likely given the projected improvement in the fiscal position of the government.

25. 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 plans to clear more domestic arrears recorded in the Reste-a-Payer, to catch up for the shortfall in domestic arrears payment in 2018. 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, if additional resources are available. Regarding unrecognized arrears (arrears outside the '*Restes à Payer*' table), the government reiterates its commitment not to repay any of those before their audit is completed and a strategy for their clearance is developed (see para 30 and 31).

26. In its efforts to raise additional financing the government is committed to refrain from contracting or guaranteeing new non-concessional external loans. Recognizing the heavy burden of non-concessional external borrowing, the government will ensure that all external financing agreements (for project and budget support), will be concessional (have at least 35 percent grant element, see TMU) and are consistent with debt sustainability. All draft loan agreements will continue to be submitted for prior approval to the National Commission for Debt Analysis (CONAD), which is supported by the technical and financial analysis of the Technical Team for Debt Sustainability Analysis (ETAVID).

B. Regional Context

27. The BEAC has provided an updated policy assurance on end-December 2019 NFAs in support of CEMAC countries' Fund-supported programs. In its updated letter of policy support, the BEAC presented a revised projection for the end-December 2019 NFA and also reiterated its commitment to implement an adequately tight monetary policy to achieve the NFA projections, while member states will implement adjustment policies in the context of IMF-supported programs. The NFA assurances provided by the BEAC are critical for the success of Chad's program and will help bolster the region's external sustainability.

C. Tax and Customs Reforms and Policies

28. The government will continue to improve the base and structure of oil and non-oil tax revenues.

- **Tax and customs exemptions.** The government is committed to continue to reduce exemptions to widen the tax base in line with the 2019 budget. Most importantly it is firmly determined not to renew expiring exemptions on existing activities nor to extend existing exemptions particularly in the oil sector (including oil refining), but also in construction and hospitality industries. This will ensure a reliable source of income for the government. In addition, the government is committed to assess systematically the fiscal impact of all new requests for exemptions through a dedicated committee. Starting from July 2019, the government will publish on a semiannual basis a list of all new exemptions (including renewal and extension of exemptions) on the Ministry of Finance website (existing structural benchmark) and will aim to start publishing its analysis of the fiscal impact of these exemptions in early 2020. The government continues to follow up on the recommendations of the audit of 47 tax conventions. It will provide IMF staff with the action taken for each of the 47 conventions. It will complete the implementation of the recommendations made by the auditors by end-February 2020 to remove or amend exemptions not in line with legal texts or that have not been implemented correctly (modified structural benchmark). Article 26 of the 2019 budget law amending Article 154 of the General Tax Code states that: (i) any convention or agreement that may result in a special, total or partial exemption from duty, direct or indirect tax shall be subject to the prior examination of a technical commission responsible for examining applications for exemptions. A decree issued by the Council of Ministers will determine the operating procedures of this commission; and (ii) the tax and customs exemptions and exemptions provided for by the General Tax Code (CGI), the Customs Code, may be granted at the request of the taxpayer, by order of the Minister in charge of Finance and either the Minister in charge of Trade or the minister in charge of Plan.

- **Non-oil revenues.** The government understands that revenue from the VAT, which stands at about 1 percent of non-oil GDP, is among the lowest in Africa. The time-bound plan to strengthen the VAT regime adopted in December 2018 includes among others measures to (i) set-up a VAT refund mechanism and (ii) reduce VAT exemptions. Measures implemented in January 2018 requiring taxes to be paid through the banking system (so called "*bancarisation des recettes*") have demonstrated promise in reducing leakages. By end-September 2019, the list of VAT tax payers will be integrated in the computerized system and published, and a 15 percent penalty customs rate will be applied to incentivize taxpayers to acquire a tax ID (new Structural Benchmark). Finally, measures are expected to widen the base and reduce avoidance of income tax and stamp duties.

29. The government will also take administrative **measures to improve tax and customs collection performance.**

- **Customs revenues.** The government aims to increase efficiency and improve compliance through greater computerization of customs operations. The expected migration to new software (ASYCUDA World) will improve customs procedures and in particular will (i) allow more accurate application of duties; (ii) shrink the abuse of customs exemptions; (iii) improve integration of customs and VAT systems to improve compliance; (iv) facilitate the interconnections with the custom offices in Cameroon, Niger and Sudan, and (v) set the stage for transition to a single window system.

- **Non-oil taxes.** The government plans to re-organize key elements of the tax directorate drawing on IMF TA recommendations to strengthen tax and customs administrations. In addition, the Directorate in charge of land and property tax has begun a new survey of potentially taxable properties, starting in N'Djamena, which will improve the ability to apply the taxes effectively.

D. Structural Reforms on Public Financial Management

30. 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 Ministry of Finance and Budget.

31. The government renewed its determination to improve the expenditure chain.

- The government is committed to reduce the use of emergency spending procedures ("*dépenses avant ordonnancement*", DAO), which intensified in the past two years. The government will also regularize DAO 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 will ensure the effective execution of the decree on the implementation of the 2019 budget which set a limit of 22 percent of all primary spending excluding the wage bill, military spending and debt service. The execution will be monitored on a quarterly basis. Under the program the government will continue the monitor the regularization of DAO in line with Table 1.

- 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). With the help of AFD (French Development Agency), the ministry of finance has launched the implementation of the CIE, which will be integrated with the CID to improve the monitoring of the spending chain in particular the issuance of accounting statements. The government aims to more consistently implement the expenditure chain with a view to improving effective absorption of budgeted allocations, particularly for social sectors.

32. The government is committed to define a strategy to clear domestic arrears. It commits to pay only arrears registered in the "*Reste à Payer*" table prepared by the Treasury (CFAF 159 billion by end-December 2018) until all other potential arrears are verified and validated and a strategy for their clearance is adopted. In order to enable successful conclusion of the audit, the government has decided to break it down into two exercises that will be completed by June (prior action): (i) the first part which includes potential arrears currently under by the steering committee, will be finalized and adopted by the government by June 2019; and (ii) the second part includes identifying the potential arrears that have not been audited (including remaining ones within the ministry of infrastructure and the "Grand Travaux Presidentiels", and other line ministries), and launching their audit. This audit is planned to be finalized by end-September 2019 (new SB).

33. The government is committed to prepare and adopt a clearance strategy for the entire stock of verified arrears by end-November (modified SB). The strategy will transparently explain the factors for prioritizing the clearance of arrears. 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 also establish clear modalities for repayment, which include cash payment, securitization of arrears, and some discounts. It will also include a credible plan to finance clearance including external and domestic financing consistent with reducing debt vulnerabilities and improving financial stability. A key component of the strategy is public communication and outreach, which will help the strategy succeed in rebuilding confidence of the private sector by reducing key sources of uncertainty regarding the repayment of arrears. The government believes that support from Chad's external development partners will be critical to clear the arrears.

34. The government continues to work towards a more efficient cash management system. The Cash Plan 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, which would be included within the budget (in line with CEMAC Directive) starting with the 2020 budget, and updated on a semi-annual basis, and strengthening the responsiveness of the Committee to update revenue and expenditure forecasts. Steps will also be taken to establish a single treasury account (TSA), starting with a census of all accounts in commercial banks that could be covered by the TSA.

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 in the past to misreporting of information on debt service to the IMF. To further improve public debt management, the government intends 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 payments are in line with the mechanism under the escrow account and all the relevant officials meet on a monthly basis (with the participation of the IMF resident representative as an observer) 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.

37. Transfers to the National Electricity Company (SNE) will be reflected in a transparent manner in the budget as early as 2021. The state subsidy to SNE in terms of supply of diesel and electricity produced by the SRN (up to 10 MW) is provided through the SHT, which is mandated by the state to market its royalties in kind. In this perspective, the SHT sells up to 4 million barrels a year to the SRN of the volume from the royalties of the State at the selling price of $46.85 / barrel and in proportion to the volume delivered. The SHT instructs the SRN to withhold monthly charges including the amounts equivalent to the number of diesel fuel tanks and MW of electricity delivered to the SNE and to pay the remainder to the Treasury. On the other hand, the SRN pays the State the 60 percent of the difference between the selling price of crude oil abroad and the sale price to the SRN. In 2018, the state subsidy to SNE amounts to $103 million or about CFAF 60 billion.

E. Banking Sector Reforms

38. Despite some delays, the government is committed to implement its strategy to strengthen the position of public banks. Efforts to address arrears, along with more rapid payment of debt owed to domestic banks, are expected to help ease pressures on the banking sector. Concerning the two large public banks, the government began to implement the needed reforms to address vulnerabilities. External consultants will complete their audit work and will share the final reports on the review and the reorganization plans for CBT and BCC with the IMF staff and the COBAC (prior action). Reorganization and funding plans will be shared with the staff of the IMF and the COBAC before end-July and adopted by the relevant decision-making bodies of CBT and BCC before end-September 2019 (new SB). In addition, the government is committed to address all weaknesses identified and improve the governance structure of the two public banks including if necessary reconsider the role of the government in the banks. In the meantime, banks should continue to improve their liquidity position. Those with large NPLs should adopt a clear strategy of increasing provisioning. The government is aware of the limited access of Chadians to financial services and is aiming to increase financial inclusion by encouraging the creation of microfinance institutions and by developing mobile money payments. Access to credit should also be facilitated by the emergence of a new category of players in the financial system, the Credit Information Bureau (BIC), one of whose missions is to collect, process and disseminate information on borrowers to all players in the banking system (credit institutions, microfinance institutions and payment institutions).

F. Other Structural Reforms

39. 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 ratified by the National Assembly in 2017. The government will seek support from the UN to assess the extent to which its present penal code is in line with the convention and seek to strengthen it where necessary 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 constitution includes a requirement for high officials to declare their assets, but compliance appears to be very low. This is partly due to the absence of implementing legislation that explicitly define all aspects of the asset declaration obligations. The government is preparing legislation that aims for a strong implementation of asset declaration obligations set forth in the Constitution. A new money laundering law was enacted at the end of 2018 and efforts will now focus on implementation of AML/CFT frameworks at the national level.

40. The government is committed to continue its effort to improve transparency and oversight of the oil sector. In early May, the EITI completed Chad's assessment under the 2016 standards. The government has made significant progress in disclosing contracts and licenses in the petroleum sector with support from the World Bank. It has published certified and verified annual financial reports for 2015-2016 for the SHT (*Société des Hydrocarbures du Tchad*) holding and its subsidiaries. In addition, with support from the World Bank, an audit of the joint operations of the two major oil companies operating in Chad has been launched. In order to further improve the transparency of oil revenues flows, the government is committed to improve the transparency and management of oil revenues accruing from the export of government to an offshore account.

41. The government considers that improving the level and efficiency of electricity production will alleviate a key constraint to economic growth and the well-being of the population. Very limited power generation and a narrow transmission network means that just 9 percent of the population has access to electricity. The low efficiency and the high production cost of the public electricity company calls for concerted efforts to reform the electricity sector, with the aim of attracting fresh investment to raise power generation capacity, transmission and distribution at lower cost. The government is committed to seek concessional financing to support investment in the sector.

42. Progress is under way in implementing the 2017-21 National Development Plan (NDP) which seeks to diversify the sources of economic growth. The government has made progress in raising some financing for public investment from multilateral and regional creditors. Private sector contribution to the implementation of the NDP is still lacking in particular given the government's commitment not to provide sovereign guarantees on nonconcessional financing. In October 2018, the Chamber of commerce, industry, agriculture, mines, and craft held a national week of reflection on private sector contribution to economic recovery which was supported by the President of the republic. It called for actions by the government particularly to improve governance and the anti-corruption framework, improve procurement transparency procedures, improve access to internet and electricity, and pay domestic arrears transparently. The government started to follow up on these recommendations.

MONITORING THE IMPLEMENTATION OF THE PROGRAM

43. 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.

44. 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 fifth review will be completed on or after October 15, 2019 and the sixth review will be completed on or after April 15, 2020. 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. Chad: Quantitative Performance Criteria (QPC) and Indicative Targets (IT)* under the ECF Arrangement

(in billions of CFAF, unless otherwise indicated)

	End-June 2019 QPC	End-Sept 2019 IT	End-Dec 2019 QPC	End-mar 2020 IT
1. Floor on non-oil primary budget balance (NOPB)	-125	-190	-252	-70
2. Floor on customs revenue	50	90	130	30
3. Ceiling on net domestic government financing excluding BEAC	-50	-70	-90	-10
4. Ceiling on net government financing from the BEAC	150	170	124	95
5. Ceiling on the stock of domestic payment arrears by the government	140	120	100	95
6. Ceiling on new external arrears of the government and non-financial public enterprises	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
	IT	**IT**	**IT**	**IT**
8. Floor for poverty-reducing social spending	114	177	241	61
Memo item:				
9. Emergency spending procedures-DAO (Percent of primary spending)	*22*	*22*	*22*	*22*
10. Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO)	*70*	*75*	*80*	*50*
11. External concessional borrowing (US$ million)	*52*	*78*	*127*	*28*
12. Oil Revenue	*181*	*271*	*362*	*112*
13. Grants	*0*	*23*	*54*	*0*

Sources: Chadian authorities; and IMF Staff.

*The adjustors for the QPCs and IT are defined in paragraph 23 of the TMU.

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 net financing from Treasury bills / bonds and domestic banks direct loans net of amortization, see Technical memorandum of understanding. The QPC for end-June 2019 has been revised from -35 to -50.

4. The QPC for end-June 2019 has been revised from 125 to 150.

5. Stock of verified arrears, as given in the Table "Restes à payer". In line with the TMU, the target for end-June 2019 is CFAF 140 billion (reflecting the actual end-December 2018 stock of domestic arrears of CFAF 160 billion).

6. Applies continuously.

7. Applies continuously.

8. 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).

10/11. 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.

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. Chad: Prior Actions and Structural Benchmarks for the Program, 2019- 2020

Measures		Due Dates
Prior actions		
1. Deliver report of external consultants on the review and reorganization plan for two public banks.		[...]
2. Finalize the audit of all domestic arrears covered in the Interim Report from the auditor, which are being reviewed by the Steering Committee and start audit of remaining arrears.		[...]
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.	Existing	Quarterly, starting end-June 2019
2. Publish a semi-annual note which lists all new exemptions (including renewal and extension of exemptions).	Existing	Semi-annual, starting end-July 2019
3. Create and publish a VAT taxpayer list and integrate it in the computerized system by end-September 2019 and apply a custom penalty rate of 15 percent for companies not registered.	New	End-September 2019
4. Based on the conclusion of the audit of BCC and CBT, adopt restructuring and funding plans for CBT and BCC	New	End-September 2019
5. Complete audit of remaining domestic arrears described in paragraph 24 by September 2019.	New	End-September 2019
6. Adopt a clearance strategy of domestic arrears based on the audit results	Re-stated	End-November 2019
7. Complete the implementation of the recommendations of the audit of the 47 settlement agreements with a view to removing or modifying those that do not comply with the legal texts or that have not been correctly executed	Re-stated	End-February 2020

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 June 18, 2019**. 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 corporation[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 refer 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".

14. **For the purposes of this TMU:**

[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.

- 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

[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.

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** are 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 paragraphs 24 and 25).

- **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 concept 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 six 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.

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,

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[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.

(vi) Environment Water and Sanitation, and (viii) Professional Training and Small Job Promotion. It also includes education spending through the ministry of health in the amount of 7 CFAF billion.

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.
- **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

[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.

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 2018, the stock of recognized expenditure payment arrears was at CFAF 160 billion based on information in the Table "*Reste à Payer*" (prepared by the Treasury). In line with the December 2018 TMU, the ceilings set for end-March and end-June 2019 have been adjusted upward to reflect the end-December 2018 actual stock of arrears. The ceilings for end-September and end-December 2019 have been set to offset the lower repayment in 2018.

- **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 and Memo Items

22. The indicative targets and memo items 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 poverty–reducing social spending equivalent to 34 percent of domestically financed primary spending in 2019. Poverty–reducing social spending is defined in paragraph 18.

- A ceiling (22 percent) on the use of emergency spending procedures (DAO) excluding the wage bill, military spending and debt service as a percent of primary spending excluding the wage bill and military spending (memo item). Military spending is spending by the Ministry of Defense.

- A floor on the regularization of spending executed through DAO (memo item). 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.

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 excluding grants to finance the parliamentary elections, or exceptional receipt:

  - the floor for the non-oil primary balance *can be* adjusted down by 25 percent of the excess amount;

  - the ceiling on net financing from the BEAC *shall be* adjusted down by 25 percent of the excess amount;

  - the ceiling on net domestic government financing excluding BEAC *shall be* adjusted down by 25 percent of the excess amount; and

  - the ceiling on the stock of domestic recognized expenditure payment arrears *shall be* adjusted down 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. Chad: Baseline Projection of Selected Variables
(Cumulative on annual basis)

	2019			2020	
	End-Jun.	End-Sept.	End-Dec.	End-Mar.	End-Jun.
	(in CFAF Billion)				
Net Oil Revenue[1]	180	271	362	112	225
Budget Grants	0	23	54	0	0
Budget Loans	0	0	13	0	0
Exceptional Receipt	0	0	0	0	0
Total	180	294	429	112	225

[1] Net Oil Revenue is the sum of (i) the sale revenue of government oil net of operating and transportation cost and (ii) oil tax revenues.

- Should primary 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 below 34 percent.

F. Structural Benchmarks

24. Prior Actions are specified in Table 2 of the MEFP

- Deliver to BEAC, COBAC and Fund staff the reports of external consultants on the review and reorganization of the two public banks (CBT and BCC).

- Finalize and share with IMF staff the audit of all domestic arrears covered in the Interim Report from the auditor, which are being reviewed by the Steering Committee. Arrears validated by the Steering Committee shall be confirmed by the auditor. Start the audit of remaining arrears. Coverage of the audit should include at least i) all remaining “Grand Travaux Presidentiels” and ii) all potential arrears not yet reviewed from the Infrastructure ministry. The government will share the terms of reference and signed contract with the auditors with IMF staff.

25. 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-September 2019 (Table 2). The note issued at end-September will cover developments up to the end of the previous quarter (June 2019).

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.

- Create and publish a VAT taxpayer list and integrate it in the computerized system by end-September 2019 and apply a custom penalty rate of 15 percent for companies that are not registered.

- Based on the conclusion of the audit of BCC and CBT, adopt restructuring and funding plans for CBT and BCC in coordination with BEAC, COBAC and Fund staff by end-September 2019.

- Complete audit of remaining domestic arrears described in paragraph 24 by September 2019.

- Adopt a clearance strategy of domestic arrears based on the completed results of both audits by end-November 2019.

  - The clearance strategy should include transparent and objective factors for prioritization, including economic and social impact, and the effect payment is expected to have on the banking sector. It should address clearance modalities, notably whether and how much the government will pay in cash, restructure and securitize.
  - The strategy should also indicate the plan to finance clearance.

- Complete the implementation of the recommendations of the audit of the 47 exemption conventions with a view to removing or modifying those that do not comply with the legal texts or that have not been correctly executed, by end-February 2020.

- Publication every six months of a list of all new, renewed or extended tax and customs exemptions during the previous six months. The first list should be published at end-July and should cover the period January to June 2019.

Table 1. Chad: 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
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.

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

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.
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

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

Table 1. Chad: Summary of Data to be Reported (concluded)		
Gross external debt	Ministry of Finance and Budget DGT (Debt Directorate)	Annually, within 90 days of year end.

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

[2] Including maturities.

[3] Including the breakdown by currency and maturity.

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

Table 2. Chad: Summary of Oil Revenue

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

CHAD

June 18, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

African Department
(In collaboration with other departments)

CONTENTS

RELATIONS WITH THE IMF

(As of April 30, 2019)

Membership Status:		July 10, 1963
General Resources Account:	**SDR Million**	**% Quota**
Quota	140.20	100.00
Fund holdings of currency (Exchange Rate)	137.00	97.72
Reserve Tranche Position	3.24	2.31
SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	53.62	100.00
Holdings	0.25	0.46
Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ECF Arrangements	230.05	164.08

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jun 30, 2017	Jun 29, 2020	224.32	140.20
ECF	Aug 01, 2014	Jul 31, 2017	140.20	98.34
ECF[1]	Feb 16, 2005	May 31, 2008	25.20	4.20

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

		Forthcoming			
	2019	2020	2021	2022	2023
Principal Charges		2.00	8.12	17.01	29.68
Interest	.045	0.61	0.61	0.61	0.61
Total	**0.45**	**2.61**	**8.73**	**17.62**	**30.29**

[1/] Formerly PRGF

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

Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	May 2001
Assistance committed by all creditors (US$ Millions) 1/	170.12
Of which: IMF assistance (US$ million)	18.02
(SDR equivalent in millions)	14.26
Completion point date	Apr 2015
Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	14.26
Interim assistance	8.55
Completion point balance	5.71
Additional disbursement of interest income 2/	2.77
Total Disbursement	17.03
Implementation of Multilateral Debt Relief Initiative (MDRI)	Not Applicable
Implementation of Catastrophe Containment and Relief (CCR)	Not Applicable

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

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.
Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

1/ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.
2/ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of the Central African Economic and Monetary Community (CEMAC). A full safeguards assessment (SA) under the periodic four-year cycle for regional central banks was completed in August 2017. The BEAC continues to implement the remaining recommendations of the 2017 safeguards assessment. BEAC's full transition to IFRS is progressing broadly as planned, and steps are being taken to accelerate the adoption of revisions to the secondary legal instruments to align these with the BEAC Charter, in consultation with IMF staff.

Exchange Rate Arrangement

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

Article IV Consultations

Chad is on the standard 24-month cycle for Article IV consultations for program countries. The last Article IV consultation was concluded on July 22, 2016.

Technical Assistance

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

Department	Purpose	Time of Delivery
AFC	Public Debt Management – Institutional Framework	April 2019
STABP	Balance of Payments Statistics	April 2019
AFC	National Accounts	April 2019
AFC	Public Financial Management	March 2019
AFC	Macrofiscal	January 2019
FADM2	Wage Bill	January 2019
STABP	Balance of Payments Statistics	December 2018
AFC	Revenue Administration	November 2018
AFC	Customs Administration	November 2018
FADR2	Tax Administration	November 2018
FADR2	Staff visit RMTF project	November 2018
MCMDM	MTDS	October 2018
AFC	Public Debt Management	September 2018
AFC	Real Sector Statistics Advisor – Peer to peer learning	September 2018
AFC	National Accounts	July 2018
AFC	Government Finance Statistics	July 2018
AFC	Public Financial Management HQ Based Mission	July 2018
FADM2	Budget Formulation	July 2018
AFC	Public Financial Management Advisor	May 2018
FADR2	Tax and Customs Administration	April 2018
AFC	Tax Administration Advisor	April 2018
AFC	Customs Administration Advisor	February 2018
AFC	New Macrofiscal Regional Resident Advisor	January 2018
AFC	Debt Strategy Development	November 2017
FADM2	PFM (Funding TBC)	November 2017
AFC	Liability Management Advisor	November 2017
AFC	National Accounts	November 2017
AFC	National Accounts	October 2017

Department	Purpose	Time of Delivery
AFC	Government Finance Statistics	October 2017
AFC	National Accounts	September 2017
AFC	Public Financial Management Advisor	August 2017
FADM2	Budget execution and control	July 2017
AFC	Customs Administration Advisor	July 2017
FADTP	Tax Policy Reform	June 2017
AFC	Liability Management Advisor	June 2017
FADR2	Tax and Customs Administration	April 2017
AFC	Public Debt Management / STX Visit	April 2017
AFC	Tax Administration – STX Mission	April 2017
FADR2	Strengthening CEMAC customs union	April 2017
AFC	Public Debt Management – LTX Visit	March 2017
AFC	Tax Administration – STX Visit	January 2017
AFC	National Accounts	December 2016
FADR2	Customs Administration	December 2016
AFC	Public Debt Management	November 2016
AFC	Tax Administration	November 2016
AFC	Liability Management	October 2016
AFC	Public Financial Management	October 2016
STA (AFRITAC)	National accounts	September 2016
FADM2	Budget preparation, Public Investment	September 2016
AFC	AFC: Government Finance Statistics	August 2016
FADR2	Customs administration	July 2016
FADM2	Follow-up Mission on the Macro-fiscal Framework	May 2016
AFC	Tax administration	April 2016
FAD (AFRITAC)	Public financial management	April 2016
STA (AFRITAC)	National accounts	March 2016
FAD (AFRITAC)	Customs administration	February – March 2016
FAD (AFRITAC)	Tax administration	January-February 2016
STA (AFRITAC)	National accounts	January 2016
FAD	Public financial management	November – December 2015
STA (AFRITAC)	National accounts	August – September 2015
STA (AFRITAC)	National accounts	March 2015
FAD (AFRITAC)	Revenue administration	January 2015

Department	Purpose	Time of Delivery
STA (AFRITAC)	Balance of payment	December 2014
STA (AFRITAC)	National accounts	December 2014
FAD (AFRITAC)	Public financial management	September 2014
STA (AFRITAC)	National account	August 2014
STA (AFRITAC)	National account	March 2014

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

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

Resident Representative

Mr. Joseph Ntamatungiro is the IMF's Resident Representative in N'Djamena since September 2018.

JOINT WORLD BANK AND IMF WORK PROGRAM

The IMF and World Bank staff communicates and collaborates closely in their work on Chad. IMF and World Bank staff in Washington DC share information and communicate ahead and after IMF missions. Bank staff (from the local office) participates in IMF missions' technical meetings with the authorities. World bank's analysis and advice to the government in key structural reform areas informs Fund work. The World bank's work program can be found on the following website http://www.worldbank.org/en/country/chad.

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

Exchange of information and collaboration:

- World Bank requests to the Fund include periodic updates on the macroeconomic framework, on the status of the current Fund supported economic program under the ECF, and on planned technical assistance missions.
- Fund requests include periodic updates on World Bank program in Chad.
- Joint products include joint Bank-Fund Debt Sustainability Assessments (DSA).
- Other exchange of information is related to the authorities' structural reform agenda and their poverty reduction efforts.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision has capacity-related shortcomings but is broadly adequate for surveillance. There is scope for improvement in quality, coverage, and timeliness in most macroeconomic datasets. The authorities continued to dedicate resource to improve the macroeconomic database, particularly the national accounts.
National accounts: The authorities are revising national accounts estimates, moving from the 1993 System of National Accounts (SNA) to the 2008 SNA, have started the process of rebasing the GDP estimates using 2017 as the new base year (the current base year is 2005). Final Annual National Accounts are available until 2017. However, compilation remains weak owing to inadequate funding for the Institut National de la Statistique, des Etudes Economiques et Démographiques (INSEED) and high staff turnover. In addition, dissemination of data and metadata to the public could be improved by more timely releases, provision of more detailed information, and enhanced dissemination through the internet.
Price statistics: The Harmonized Consumer Price Index (HCPI) is of rather good quality. The HCPI base year is 2014, and the index weights are from the 2011 household consumption expenditure survey. It has a national profile, as it covers the five major cities of Chad, including the capital city. The methodology used for the collection and the compilation is in line with the CEMAC and AFRISTAT (Economic Observatory and Statistics of Sub-Saharan Africa). However, it is sometimes released with some delays. With EU financing, the regional authorities improved the quality of the HCPI in each of the Central African Economic and Monetary Community (CEMAC) countries.
Government finance statistics: Data weaknesses create uncertainty about the central government's actual fiscal position and hamper debt sustainability analysis. This is largely due to a deficient accounting system of Treasury transactions. Staff prepares estimates of central government financial operations from disparate administrative sources that may or may not fully reconcile with domestic bank financing or changes in net indebtedness.
Monetary statistics: The Banque des Etats de l'Afrique Centrale (BEAC) reports monetary and financial statistics for the central bank and other depository corporations on a monthly basis using the standardized report forms (SRFs). A key shortcoming of monetary and financial statistics is the lack of clear reconciliation between the domestic banking sector's net credit to the government and the implicit financing in the weak government financial accounts. Meanwhile, the data for interest rates offered by financial institutions to non-financial entities on deposits and loans is not available. In addition, the depository corporations' survey omits the large number of microfinance operations in the country. Chad reports some data and indicators of the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Balance of payments: Weaknesses in Chad's balance of payments (BOP) data create uncertainty about its actual external position, creating challenges for the debt sustainability analysis. The BEAC National Directorate for Chad prepares balance of payments data that is validated with a long- time lag—the most recent validated data stops in 2008. BOP data through 2016 have been compiled

based on the Balance of Payments and International Investment Position Manual, sixth edition (BPM6), but significant imputation errors in the BDP6+ persist, as the breakdown of the IT system has not allowed a correction. Customs-based data are unreliable and suffer from coverage problems, to the extent that they are not relied upon for balance of payments or national income estimation. Staff must estimate current and capital flows from surveys and disparate administrative sources. The coverage of informal cross-border transactions, particularly those carried out by households, is insufficient. The international investment position (IIP) suffers from many inconsistencies, and there are discrepancies between the BOP and national accounts and monetary statistics. The IMF Statistics Department has recommended tighter coordination among the BEAC, INSEED, and other agencies to improve data coverage. BEAC headquarters is coordinating technical reforms to improve data quality and timeliness.
II. Data Standards and Quality
Chad participates in the IMF's Enhanced General Data Dissemination Standard (e-GDDS). Metadata and plans for improvement are posted on the IMF's Dissemination Standards Bulletin Board (DSBB) and were last updated in July 2002.
III. Reporting to STA (Optional)
Only international liquidity, monetary statistics, GDP, and prices are currently reported to STA for publication in the *International Financial Statistics (IFS)*. Chad has not yet been able to resume reporting of detailed data for publication in the *Government Finance Statistics Yearbook*. Annual fiscal data through 2001 have been reported and are included in the *IFS* database. Chad has yet to submit BOP and IIP data to STA.

Chad: Table of Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items: Data Quality: Methodological Soundness[8]	Memo Items: Data Quality – Accuracy and Reliability[9]
Exchange rates	Daily	Daily	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities[1]	12/2018	03/2019	M	M	M		
Reserve/base money	12/2018	03/2019	M	M	M	LO, LNO, LNO, LO	LO, O, O, LO, NA
Broad money	12/2018	03/2019	M	QM	M		
Central bank balance sheet	12/2018	03/2019	M	M	M		
Consolidated balance sheet of the banking system	12/2018	03/2019	M	M	M		
Interest rates[2]	04/2019	05/2019	MI	QM	M		
Consumer price index	03/2019	05/2019	M	M	M		
Revenue, expenditure, balance and composition of financing[3] – general government[4]	03/2019	05/2019	Q	Q	Q	LO, LNO, LO, LO	O, LO, LO, LO, NO
Revenue, expenditure, balance and composition of financing[3]–central government	03/2019	05/2019	Q	Q	Q		
Stocks of central government and central government-guaranteed debt[5]	12/2018	05/2019	Q	Q	Q		

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

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
Exports and imports of goods and services	2016	04/2019	A	A	A		
GDP/GNP	2017	04/2019	A	A	A	LNO, LO, LNO, LO	LNO, LNO, LNO, LNO, LNO
Gross external debt	12/ 2018	05/ 2019	Bi-M	Bi-M	Bi-M		
International investment position[6, 10]	NA	NA	NA	NA	NA		

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

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

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

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

[5] Including currency and maturity composition.

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

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

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

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

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

INTERNATIONAL MONETARY FUND

CHAD

June 18, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
David Owen, Yan Sun, Marcello Estevao

Prepared by the Staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

Chad Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgement	*No*

Chad's risks of external and overall debt distress are high but have nonetheless declined in the past year.[1] *All but one external debt sustainability indicators are below their respective thresholds from 2019 onwards. The debt-to-revenue ratio moderately breaches its threshold under the baseline scenario. 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 debt sustainability analysis is based on projected continued fiscal prudence and an increase in non-oil revenues. Following the restructuring in 2018, the new Glencore debt contract has helped contain the impact of low oil prices on debt sustainability, as it allows for lower debt service when oil prices are lower.*

[1] Chad's debt carrying capacity was rated weak according to the composite indicator (CI) based on the October 2018 WEO and the 2017 CPIA index.

PUBLIC DEBT COVERAGE

1. **State and local debt has been added to the coverage of public debt.** As in the previous DSA, coverage includes the central government, as well as state guaranteed external debt owed by the public oil company "Société des Hydrocarbures du Tchad" (SHT) (Text Table 1). This scope encompasses all public external debt; other public sector entities (including regions and other state-owned enterprises) do not have access to external financing. The Ministry of Finance plans to complete a census of public sector enterprises by the end of the year in order to assess the full amount of their outstanding domestic borrowing. Staff will use the findings to include SOE debt in the DSA.

2. **The contingent liability stress test accounts for vulnerabilities associated with non-guaranteed state-owned enterprises (SOEs), unaudited domestic arrears, and financial markets (Text Table 1).** Contingent liabilities from financial markets are set at 5 percent of GDP, which represents the average cost to the government of a financial crisis in a low-income country since 1980. The contingent liability stress test is customized to include domestic arrears that could potentially be validated by the ongoing audit. While there is significant uncertainty regarding these arrears, the size of the stress test is set at 8 percent, in addition to the standard amounts for SoEs' debt (2 percent of GDP) and financial market (5 percent of GDP).

Text Table 1. Chad: Coverage of Public-Sector Debt and Design of Contingent Liability Stress Tests

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

		Default	Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central, state, and local governments, central bank		
2	Other elements of the general government not captured in 1.	0 percent of GDP	8	Domestic arrears could potentially be validated by an ongoing audit.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4	PPP	35 percent of PPP stock	0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		15	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND

A. Evolution and Composition of Debt

3. Chad's external public and publicly guaranteed (PPG) debt burden increased considerably over the past decade mainly on account of external commercial borrowings related to oil. 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 were the primary reason for reduced revenues available to repay oil sales advances. This debt has since been restructured twice, most recently in early 2018, which has considerably reduced its burden. At end- 2018, outstanding PPG external debt stood at about $2.6 billion (27 percent of GDP). Chad's CFAF-denominated debt held by the regional central bank (BEAC), the regional development bank (BDEAC), and bilateral creditors in the currency union (Republic of Congo, Equatorial Guinea, and Cameroon) amounts to 9.9 percent of GDP. It is not included in external debt, which is calculated on a currency basis.

4. 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 87 percent in 2008 to 28 percent in 2018, while the share of commercial debt, which was virtually non-existent in 2008, is now trending down from a peak in 2017 of 54 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 2). Consistent with the ECF arrangement, external debt is defined on a currency basis.

5. Domestic public debt has begun to decline in recent years (Text Table 3).[2] Following a peak in 2015, debt to the BEAC was restructured and Chad stopped borrowing from the BEAC. In addition to the debt owed to BEAC (33.7 percent of total debt), some debt denominated in local currency is held within the CEMAC region, including about 8.9 percent of total debt owed to official bilateral partners and BDEAC, and in the form of securities that could be held by non-resident banks. Since 2017, domestic debt has been declining as the authorities aim to loosen the bank-sovereign nexus and reduce domestic arrears.

[2] State and local debt amounts to less than 0.1 percent of GDP.

Table 1. Chad: External Debt Stock 2015–2019[1]

			2015	2016	2017	2018e
Total	(Millions of $)		2,735	2,622	2,649	2,671
	(Billions of CFA francs)		1,649	1,632	1,468	1,540
	(Percent of GDP)		25	27	25	25
		Billions of CFA francs				
Multilateral			375	390	385	422
	IMF		38	77	96	151
	World Bank/IDA		113	110	101	100
	African Development Fund/Bank		69	56	56	55
	Others		155	147	133	117
Bilateral			366	370	408	436
	Paris Club official debt		2	…	25	32
	Non-Paris Club official debt		364	370	383	404
	of which:	China, People's Republic	144	156	132	130
		Libya	158	164	150	156
		India	27	30	27	21
Commercial[2]			875	862	705	664
		Share of Total (percent)				
Multilateral			23	24	26	28
Bilateral			23	23	26	27
Commercial[2]			54	53	48	45
		Memo: Millions of $				
Multilateral			635	631	695	738
	IMF		65	125	173	272
	World Bank/IDA		191	178	182	176
	African Development Fund/Bank		116	90	100	95
	Others		263	238	239	195
Bilateral			620	597	682	734
	Paris Club official debt		4	…	45	46
	Non-Paris Club official debt		616	597	637	689
	of which:	China, People's Republic	244	252	226	226
		Libya	268	265	230	272
		India	46	49	38	37
Commercial[2]			1,481	1,394	1,272	1,199

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

[1]Includes only debt denominated in foreign currency.
[2]Glencore loan accounts for about 98 percent of commercial debt stock in 2017.

Text Table 2. Chad: Domestic Debt Stock 2015–2018

	2015	2016	2017	2018
Total (Billions of CFA francs)	**1191.8**	**1482.2**	**1445.6**	**1424.1**
(Percent of GDP)	**18.3**	**24.4**	**24.6**	**23.1**
Share of Total (in percent)				
Central Bank financing	38.1	33.3	33.2	33.7
Statutory advances [1]	*23.5*	*18.9*	...	...
Exceptional advance [1]	*11.7*	*11.5*	...	...
Consolidated debt	*2.9*	*3.0*	...	...
Commercial banks' loans	6.3	3.3	3.6	7.1
2011 Bond[2]	2.3	0.0	0.0	0.0
2013 Bond[2]	4.5	3.7	1.2	0.0
Treasury Bonds[3]	11.7	21.2	21.8	12.3
Treasury Bills	*7.0*	*11.2*	*11.7*	*20.6*
BDEAC	1.7	3.2	3.4	3.5
Republic of Congo	2.9	2.4	2.4	2.5
Equatorial Guinea	1.3	1.0	1.0	1.1
Cameroon	0.0	2.0	2.1	1.9
Domestic arrears	16.8	12.8	13.5	11.2
Others[4]	7.4	5.9	6.1	6.2

Source: Chadian authorities

[1] Includes advances that were consolidated in 2017.

[2] Issued through banks' syndication

[3] Auctionned in regional securities' market.

[4] Legal commitments, standing payment orders, and accounting arrears.

6. **External payment arrears accumulated in 2016 and in 2017 but were reduced considerably in 2018.** Due to 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 creditors (Mega bank from Taiwan province of China). At end-2017 about $102 million (about 1 percent of GDP) remained outstanding, mainly to bilateral creditors. The authorities have since reduced this stock to $63 million—particularly to the Rep. of Congo (about $55 million)—by paying the amount owed to the Islamic Development Bank and through a rescheduling agreement with Libya and India. Active discussions are underway to address all outstanding arrears, including with Angola, Equatorial Guinea, the Republic of Congo, the European Investment Bank, and Mega Bank. The authorities have taken concrete steps to prevent the further accumulation of arrears—including measures to improve coordination among relevant agencies and reactivate an escrow account for the payment of external debt at the BEAC.

B. Macroeconomic Forecast

7. The DSA's baseline scenario reflects policies and financing assumptions underlying the ECF arrangement and medium-term projections that reflect the Glencore debt restructuring. The growth projection has declined compared to the previous DSA (December 2018) from 4.6 and 6.1 percent in 2019 and 2020 respectively to 2.4 and 5.5 percent. The non-oil economic recovery is expected to be slower than originally projected due to the persistent impact of legacies from the crisis. The outlook assumes that the ongoing revenue-led fiscal consolidation will continue over the program horizon at a gradual pace and that spending control would be maintained. Export growth in 2019 is similarly expected to be weaker than previously expected despite sustained oil production because of a lower oil price forecast. Oil production is expected to continue to increase in the medium term, leading to higher oil revenues, higher exports and overall GDP growth (Figure 3).[3] The baseline scenario assumes full clearance of external arrears in 2019 and gradual repayment of domestic arrears.

Text Table 3. Chad: Macroeconomic Assumptions Comparison Table

	DSA December 2018		Current DSA	
	2017-22	2023-38	2018-23	2024-39
Real GDP (%)	3.5	3.2	4.1	3.1
Inflation (GDP deflator, %)	3.6	2.9	3.3	3.0
Average nominal interest rate on external debt (%)	3.5	1.4	2.9	1.5
Average nominal interest rate on domestic debt (%)	3.5	5.4	3.0	5.1
Primary Balance (% of GDP)	2.4	3.4	3.3	2.9
Real primary spending growth (%)	3.6	4.8	4.8	4.6
Exports of G&S growth (%)	13.3	2.6	12.3	2.3
Noninterest current account deficit (% GDP)	4.3	2.0	4.8	3.1

Sources: Chadian authorities and IMF staff estimates and projections.

8. Financing assumptions have been updated based on most recent information. Externally financed investment has remained unchanged, and the discount rate is kept at 5 percent over the forecast horizon. The grant element of new borrowing is assumed to decline gradually over the forecast horizon. With regards to domestic financing, based on a recent shift towards short term debt, the share of T-bills over the forecast horizon has been revised up. Reflecting this shift, average interest rate on domestic debt has been revised upward slightly.

9. The forecast is broadly realistic. The projected 3-year fiscal adjustment is in line with historical data on LIC adjustment programs. Continued fiscal prudence and efforts to raise non-oil revenues are expected to ensure a sustainable adjustment. The fiscal multiplier tool suggests that growth in 2020

[3] Note that the historical changes in Figure 3 are driven by the crisis and debt restructuring.

could be optimistic given the projected consolidation. However, staff expects a catalytic effect on growth from the program outside the immediate fiscal impulse. Private sector confidence is expected to be boosted by the improvement in fiscal health, improvement in budget execution, progress is identifying and clearing domestic arrears, and the authorities' ongoing efforts to implement the national development plan. This is consistent with expected private sector driven growth, led by private investment in the oil sector, as shown in Figure 4. New oilfield development projects have boosted expected private investment, while public sector investment remains low. The recent privatization of the cotton public enterprise is likely to help strengthen the private sector's contribution to growth.

C. Country Classification and Determination of Stress Test Scenarios

10. The composite indicator (CI) based on April 2019 World Economic Outlook (WEO) projections and an update of the CPIA index to 2019 levels indicates weak debt carrying capacity for Chad. The CI combines the CPIA score, external conditions as captured by world economic growth and country-specific factors. The April 2019 data indicate weak debt carrying capacity, reflecting mainly a low CPIA, very low remittances, and a low level of foreign reserves (Text Table 5).

Text Table 4. Chad: CI Score

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.677	1.03	42%
Real growth rate (in percent)	2.719	2.745	0.07	3%
Import coverage of reserves (in percent)	4.052	32.207	1.31	53%
Import coverage of reserves^2 (in percent)	-3.990	10.373	-0.41	-17%
Remittances (in percent)	2.022	0.000	0.00	0%
World economic growth (in percent)	13.520	3.559	0.48	19%
CI Score			2.48	100%
CI rating			Weak	

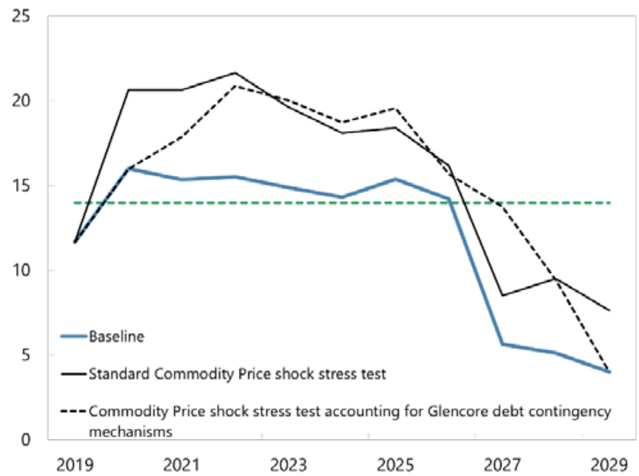
Source: IMF staff calculations. The CI cutoff for medium debt carrying capacity is 2.69.

11. The debt sustainability analysis relies on six standard stress tests and a customized oil price shock stress test (Figures 1 and 2 and Tables 3 and 4). The customized oil price shock entails oil prices lower than the baseline by 38 percent between 2020 and 2025 and has been calibrated to account for contingency mechanisms under the Glencore debt contract which limit the negative effect of the shock in the near term (Text Figure 1).[4] Debt service under the contract includes a mandatory amortization and interest payment plus a cash sweep component that falls to zero as the Doba oil price hits a certain price. The contract also allows Chad to shift out some of the mandatory payments as prices fall. In 2020 debt service will rise as the grace period on mandatory amortization expires under the contract. The contingencies significantly alleviate the debt service burden over the next few years,

[4] The fourth panel of Figure 1 presenting debt service-to-revenue ratios under standard alternative scenarios does not include the Glencore debt contract contingency mechanisms.

but moderately raises it starting in 2023. By 2029, the debt service level returns to the baseline as the Glencore debt is retired.

Text Figure 1. Chad: Debt Service-to-Revenue Ratios



Sources: Chadian authorities; IMF staff calculations.

DEBT SUSTAINABILITY

A. External Debt Sustainability

12. Public external debt is projected to gradually decline over the forecast horizon under the baseline scenario. Under the baseline scenario the present value of PPG external debt to GDP ratio, the present value of PPG external debt to exports ratio and the debt service to exports ratio are well below their thresholds (Figure 1). The debt service to revenue ratio is expected to drop below its threshold of 14 percent in 2019 and rise moderately above it over the medium term before dropping significantly as the Glencore debt matures. The projected path of this indicator has improved relative to its path in the last DSA.

13. Under stress tests, the thresholds are breached for all indicators. By increasing the future debt servicing burden, the Glencore debt contract raises the present value of PPG external debt, an effect that is most pronounced in the historical scenarios. Under the shock scenarios, the exports shock stress tests produce the most extreme scenario for all indicators except the debt service to revenue ratio, for which the commodity shock stress test is the most extreme. Under the export stress test, the threshold of the present value of PPG external debt-to GDP ratio is breached from 2021 until 2024. The present value of PPG external debt to exports ratio is breached from 2021 until 2026 and debt service to exports is breached from 2021 onwards.

B. Public Debt Sustainability

14. The benchmark for public debt is breached under the baseline. The PV of total public debt-to-GDP ratio projected at end-2019 stands at 41 percent, which is about 6 percentage points above the 35 percent benchmark level associated with heightened public debt vulnerabilities with a weak debt carrying capacity. The indicator achieves a below-threshold level by 2022 under the baseline scenario.

C. Risk Rating and Vulnerabilities

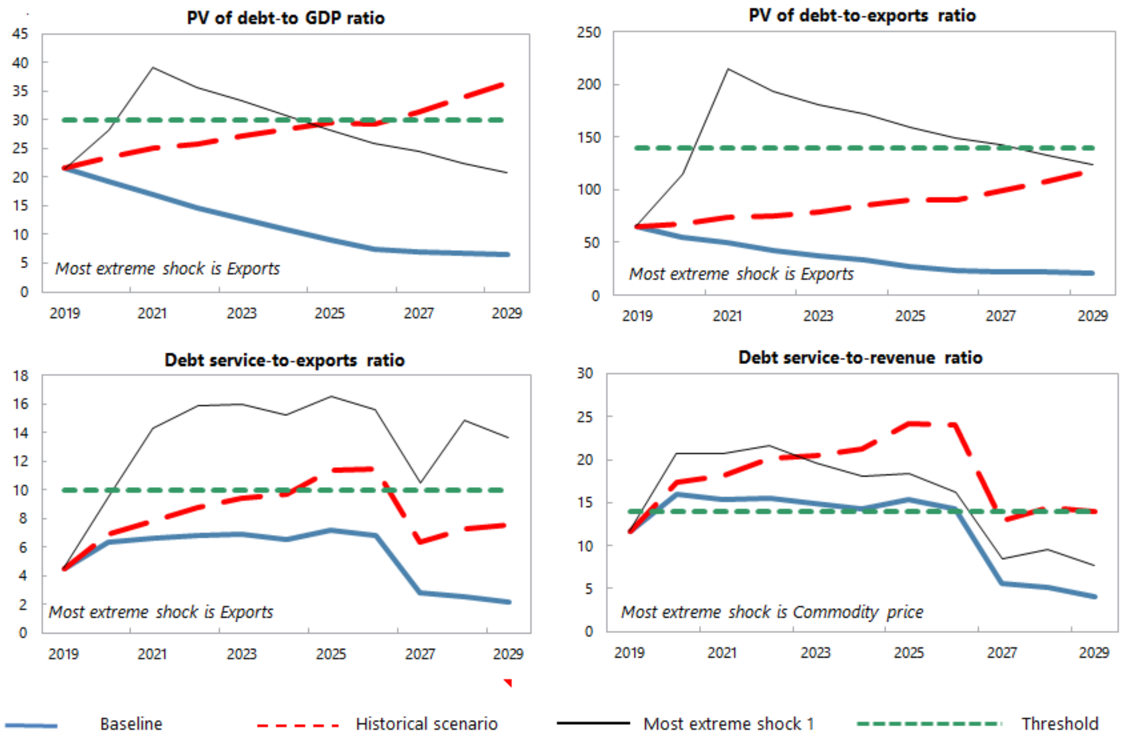
15. Chad's debt sustainability is less vulnerable to oil price fluctuations than before its debt restructuring. This reflects contingency mechanisms under the new Glencore debt contract, which allow lower external debt service to Glencore when oil prices are lower. As demonstrated by the recent oil price decline, the impact of a commodity price shock on debt sustainability is now limited. In 2019, external debt service to Glencore is now expected to be around 64 percent of what was scheduled before oil prices dipped late last year. Likewise, in a lower oil price scenario that accounts for the contingency mechanisms, the debt service to revenue ratio remains close to the baseline (Text Figure 1).

16. Chad is at high risk of external debt distress and high overall risk of public debt distress. Debt vulnerabilities have, however, declined significantly since the beginning of the program. 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 projected path of the debt service to revenue indicator has improved significantly since the restructuring and in fact is better at the baseline oil price than at the higher price of the third review. Nonetheless, it remains moderately higher than the threshold under the new DSA framework. As such, Chad's external debt is assessed to be at high risk of debt distress. Additionally, the overall risk of debt distress is high based on the breach of an external debt sustainability indicator threshold and total public debt residing above its benchmark level. Mechanically, the CFAF-denominated debt held by the BEAC, BDEAC, and bilateral creditors would weaken the external debt sustainability indicators if the external DSA were done on residency basis. These claims do not face currency risk, and institutional ties with the creditors are relatively strong. Nonetheless, some difficulties may still be faced in restructuring such debt if necessary, and the risks associated with the rollover of securities held by non-resident (the scale of which is unclear) remains even if it is limited.

17. Significant efforts are warranted to ensure debt remains on a downward trajectory. Elevated vulnerabilities reinforce 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 the remaining arrears. Finally, continued effective inter-agency coordination to strengthen the capacity to record and monitor public debt is very important to better manage public debt.

18. The authorities remain committed to improving Chad's debt sustainability and consider that improving the non-oil economy's growth performance is key in this regard. A major roadblock for the authorities' well-placed emphasis on developing the non-oil economy is the growing difficulty of attaining concessional borrowing. The authorities are convinced that the economic returns to projects like electrification and transportation are high enough to justify non-concessional terms and would in turn help further improve debt sustainability. However, their commitment to the program and conservative debt management remains the priority.

Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2019–2029



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	No	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	17	20
Avg. grace period	5	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

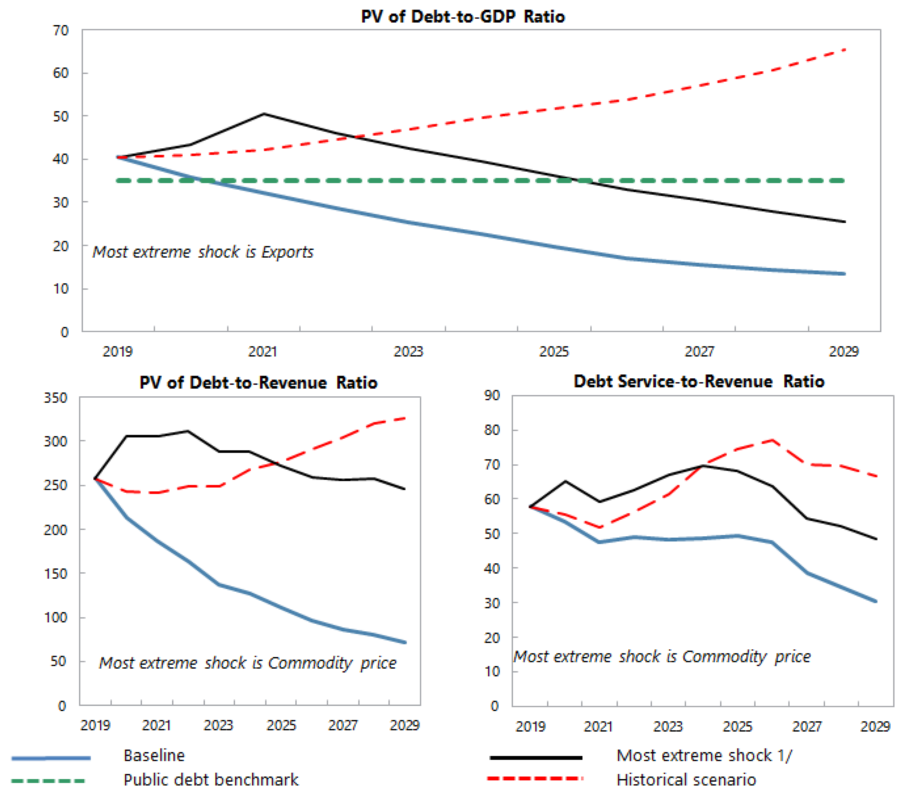
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

The tailored commodity price stress test presented here does not account for the contingency mechanisms in the Glencore debt as Text Figure 1 does.

Figure 2. Chad: Indicators of Public Debt Under Alternative Scenarios, 2019–2029



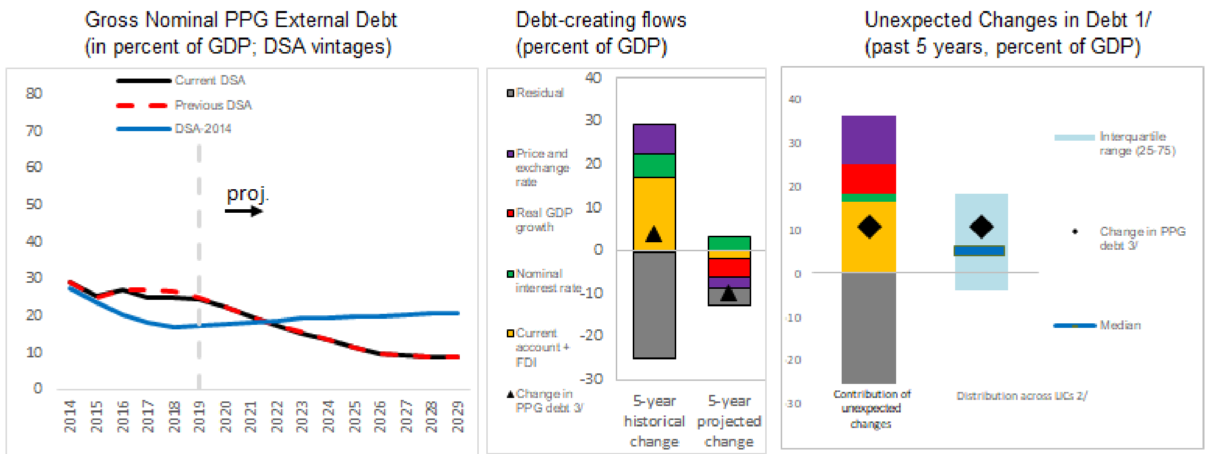
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	19%	65%
Domestic medium and long-term	21%	20%
Domestic short-term	69%	15%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	17	20
Avg. grace period	5	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	6.0%	4.0%
Avg. maturity (incl. grace period)	3	2
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	2%	3.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

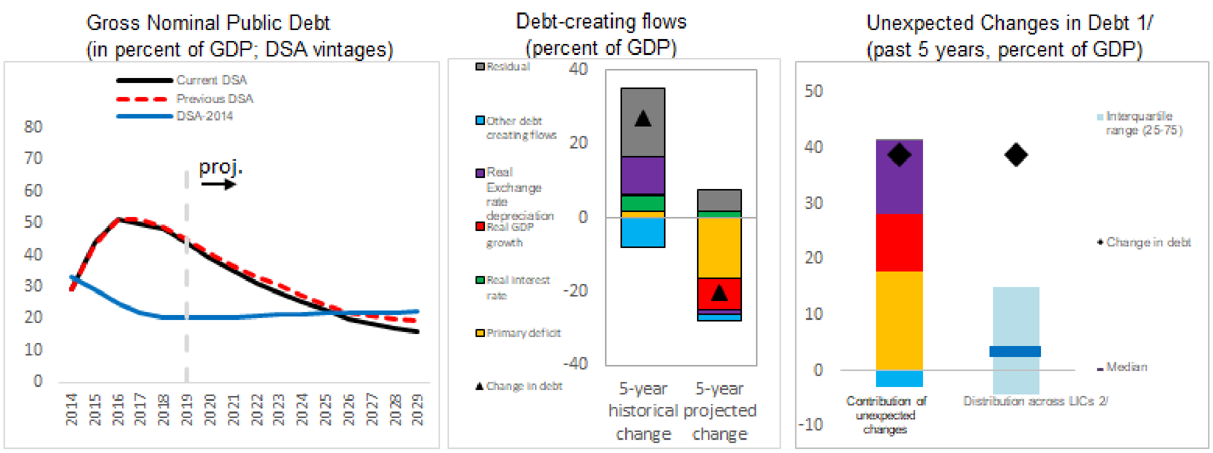
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Chad: Drivers of Debt Dynamics—Baseline Scenario



Public debt



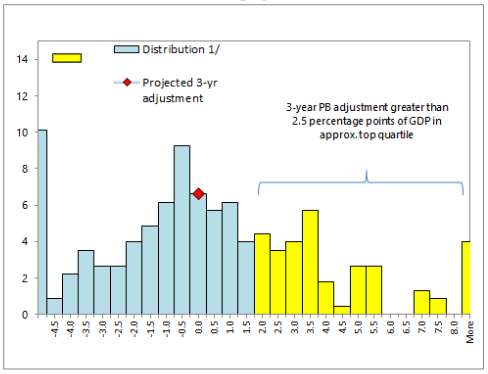
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

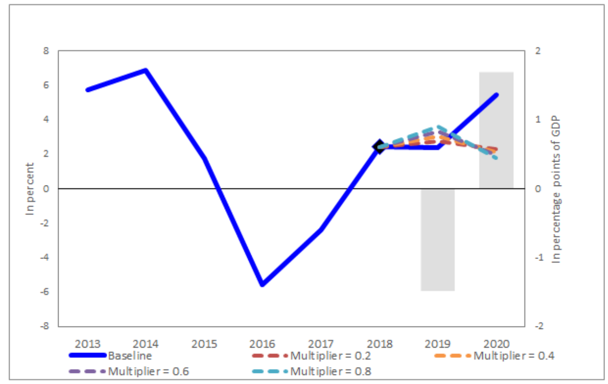
Figure 4. Chad: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



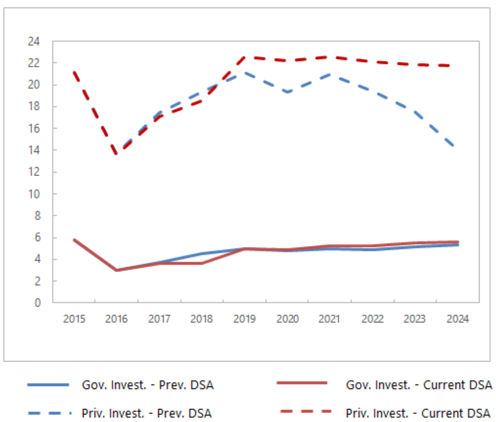
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

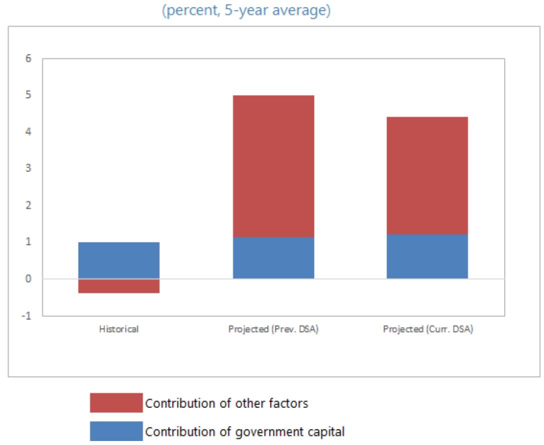
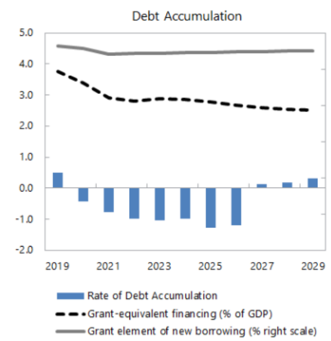


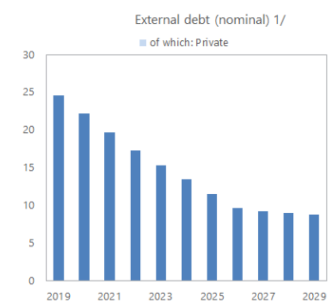
Table 2. Chad: External Debt Sustainability Framework, Baseline Scenario, 2008–2039

(In percent of GDP, unless otherwise indicated)

	Actual											Projections								Average 8/	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projection
External debt (nominal) 1/	**16.8**	**26.1**	**24.6**	**21.8**	**20.0**	**21.1**	**29.1**	**25.5**	**27.0**	**25.1**	**25.1**	**24.6**	**22.2**	**19.7**	**17.3**	**15.3**	**13.5**	**8.8**	**9.5**	**24.5**	**14.6**
of which: public and publicly guaranteed (PPG)	**16.8**	**26.1**	**24.6**	**21.8**	**20.0**	**21.1**	**29.1**	**25.5**	**27.0**	**25.1**	**25.1**	**24.6**	**22.2**	**19.7**	**17.3**	**15.3**	**13.5**	**8.8**	**9.5**	**24.5**	**14.6**
Change in external debt	...	9.3	-1.5	-2.8	-1.7	1.1	8.0	-3.7	1.5	-1.9	0.0	-0.5	-2.4	-2.5	-2.5	-1.9	-1.8	-0.2	1.1		
Identified net debt-creating flows	...	**3.7**	**0.0**	**-1.7**	**2.7**	**4.2**	**2.2**	**16.6**	**9.6**	**3.3**	**-3.0**	**-0.3**	**-2.2**	**-1.7**	**-2.4**	**-2.0**	**-1.6**	**-0.8**	**2.0**	**3.8**	**-1.0**
Non-interest current account deficit	**-3.7**	**8.0**	**8.4**	**5.4**	**7.1**	**8.5**	**8.2**	**12.5**	**8.5**	**5.5**	**2.7**	**5.7**	**5.2**	**5.6**	**4.6**	**4.6**	**4.9**	**2.1**	**3.0**	**7.5**	**4.4**
Deficit in balance of goods and services	-1.7	11.5	10.8	7.5	9.8	9.6	12.5	16.3	15.9	14.6	9.9	11.7	10.1	9.9	8.4	8.4	8.8	5.4	-19.0	**11.9**	**8.1**
Exports	42.5	35.2	37.8	40.6	38.2	33.4	31.5	26.5	23.2	27.0	33.9	32.8	34.7	33.9	34.2	34.0	33.3	30.9	19.0		
Imports	40.9	46.8	48.6	48.1	48.0	43.1	43.9	42.9	39.1	41.7	43.8	44.5	44.8	43.7	42.6	42.4	42.0	36.4	0.0		
Net current transfers (negative = inflow)	-4.4	-7.5	-5.6	-4.3	-4.4	-5.1	-7.9	-7.1	-7.6	-9.4	-8.9	-8.1	-7.4	-6.8	-6.4	-6.3	-6.3	-4.9	-3.9	**-6.8**	**-6.2**
of which: official	-0.7	-0.6	-0.3	-0.3	-0.7	-1.3	-4.0	-2.5	-2.4	-3.1	-3.2	-2.1	-2.0	-1.6	-1.5	-1.5	-1.7	-1.2	-1.2		
Other current account flows (negative = net inflow)	2.4	3.9	3.2	2.2	1.7	3.9	3.6	3.2	0.1	0.3	1.7	2.2	2.5	2.5	2.6	2.5	2.4	1.5	25.9	**2.4**	**2.5**
Net FDI (negative = inflow)	**-5.8**	**-6.5**	**-5.2**	**-4.5**	**-4.7**	**-4.0**	**-5.2**	**-5.1**	**-2.4**	**-3.6**	**-4.2**	**-6.2**	**-6.9**	**-7.0**	**-6.6**	**-6.4**	**-6.3**	**-2.6**	**-0.8**	**-4.5**	**-5.2**
Endogenous debt dynamics 2/	...	**2.3**	**-3.2**	**-2.6**	**0.3**	**-0.3**	**-0.8**	**9.3**	**3.6**	**1.4**	**-1.6**	**0.2**	**-0.5**	**-0.4**	**-0.4**	**-0.2**	**-0.1**	**-0.2**	**-0.1**		
Contribution from nominal interest rate	...	0.2	0.2	0.4	0.7	0.6	0.7	1.1	1.7	1.0	0.6	0.7	0.7	0.6	0.5	0.5	0.4	0.1	0.1		
Contribution from real GDP growth	...	-0.8	-3.1	0.0	-1.9	-1.1	-1.4	-0.7	1.5	0.6	-0.6	-0.6	-1.2	-1.0	-1.0	-0.7	-0.5	-0.3	-0.2		
Contribution from price and exchange rate changes	...	2.8	-0.3	-3.0	1.5	0.2	-0.2	8.8	0.4	-0.3	-1.6	...	...	...	...	...	...	...	...		
Residual 3/	...	**5.6**	**-1.4**	**-1.2**	**-4.5**	**-3.2**	**5.8**	**-20.3**	**-8.1**	**-5.2**	**3.0**	**-0.2**	**-0.2**	**-0.7**	**0.0**	**0.0**	**-0.2**	**0.6**	**-0.9**	**-2.9**	**-0.5**
of which: exceptional financing	...	0.0	0.0	0.0	0.0	0.0	-0.1	-0.8	-1.1	-1.0	-1.3	-1.6	-0.7	-0.3	-0.3	-0.3	-0.3	-0.2	-0.1		
Sustainability indicators																					
PV of PPG external debt-to-GDP ratio	...	...	...	...	...	...	...	...	...	...	**21.3**	**21.5**	**19.2**	**17.0**	**14.6**	**12.8**	**11.0**	**6.6**	**7.0**		
PV of PPG external debt-to-exports ratio	...	...	...	...	...	...	...	...	...	...	**62.9**	**65.5**	**55.3**	**50.1**	**42.8**	**37.6**	**33.1**	**21.3**	**37.1**		
PPG debt service-to-exports ratio	**3.5**	**2.0**	**1.5**	**2.2**	**3.2**	**3.9**	**15.6**	**9.5**	**14.2**	**8.8**	**6.0**	**4.5**	**6.4**	**6.6**	**6.8**	**6.9**	**6.5**	**2.2**	**3.3**		
PPG debt service-to-revenue ratio	**7.1**	**5.7**	**3.1**	**3.9**	**5.7**	**7.1**	**31.0**	**24.0**	**34.5**	**22.5**	**16.9**	**11.7**	**16.0**	**15.4**	**15.5**	**14.9**	**14.3**	**4.0**	**3.9**		
Gross external financing need (Million of U.S. dollars)	...	...	...	...	453.4	755.2	1114.1	1084.2	953.4	434.9	64.4	117.9	66.1	121.7	49.3	92.4	117.3	28.5	1122.9		
Key macroeconomic assumptions																					
Real GDP growth (in percent)	3.1	4.1	13.6	0.1	8.8	5.8	6.9	1.8	-5.6	-2.4	2.4	2.4	5.5	4.8	5.4	4.1	3.7	3.8	3.1	**3.6**	**4.1**
GDP deflator in US dollar terms (change in percent)	16.6	-14.3	1.2	13.7	-6.4	-1.0	0.8	-23.2	-1.4	1.2	7.0	-0.7	4.0	3.6	3.5	2.1	3.5	2.9	2.9	**-2.2**	**2.8**
Effective interest rate (percent) 4/	...	1.3	0.7	1.8	3.3	3.4	3.7	3.1	6.2	3.8	2.8	3.0	3.1	2.7	2.9	2.8	2.7	1.3	1.3	**3.0**	**2.4**
Growth of exports of G&S (US dollar terms, in percent)	15.3	-26.1	23.3	22.3	-4.1	-8.4	1.4	-34.0	-18.7	15.4	37.6	-1.8	16.0	6.0	10.2	5.7	5.0	5.4	1.5	**0.9**	**6.2**
Growth of imports of G&S (US dollar terms, in percent)	19.3	2.1	19.4	12.7	1.6	-6.0	9.9	-23.7	-15.1	5.3	15.3	3.1	10.6	6.0	6.3	5.7	6.5	5.3	...	**2.2**	**5.2**
Grant element of new public sector borrowing (in percent)		...	...	...	...	...	...	...	...	...	...	33.3	32.8	32.1	32.2	32.2	32.3	32.5	32.5	**...**	**32.4**
Government revenues (excluding grants, in percent of GDP)	21.2	12.3	18.9	23.2	21.7	18.5	15.8	10.5	9.5	10.6	12.0	12.7	13.8	14.5	14.9	15.7	15.2	16.8	16.2	**15.3**	**15.1**
Aid flows (in Million of US dollars) 5/	169.2	350.6	263.4	279.6	477.1	377.5	369.1	433.3	326.8	527.7	480.2	364.8	384.6	363.4	381.3	414.5	442.6	533.6	799.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	...	...	...	...	...	...	...	...	3.8	3.4	2.9	2.8	2.9	2.9	2.5	2.4	**...**	**2.9**
Grant-equivalent financing (in percent of external financing)	...	...	...	...	...	...	...	...	...	...	...	71.3	80.3	81.9	81.7	81.2	80.9	79.5	63.1	**...**	**79.8**
Nominal GDP (Million of US dollars)	10,438	9,312	10,702	12,181	12,411	12,994	14,003	10,952	10,202	10,078	11,051	11,238	12,330	13,385	14,600	15,516	16,663	23,203	40,119		
Nominal dollar GDP growth	...	-10.8	14.9	13.8	1.9	4.7	7.8	-21.8	-6.8	-1.2	9.7	1.7	9.7	8.5	9.1	6.3	7.4	6.8	6.1	**1.2**	**7.0**
Memorandum items:																					
PV of external debt 7/	...	...	...	...	...	...	...	...	...	...	21.3	21.5	19.2	17.0	14.6	12.8	11.0	6.6	7.0		
In percent of exports	...	...	...	...	...	...	...	...	...	...	62.9	65.5	55.3	50.1	42.8	37.6	33.1	21.3	37.1		
Total external debt service-to-exports ratio	3.5	2.0	1.5	2.2	3.2	3.9	15.6	9.5	14.2	8.8	6.0	4.5	6.4	6.6	6.8	6.9	6.5	2.2	3.3		
PV of PPG external debt (in Million of US dollars)											2358.6	2413.4	2363.8	2269.7	2137.0	1983.4	1832.1	1532.9	2824.8		
(PVt-PVt-1)/GDPt-1 (in percent)												0.5	-0.4	-0.8	-1.0	-1.1	-1.0	0.3	1.2		
Non-interest current account deficit that stabilizes debt ratio	...	-1.3	9.8	8.3	8.8	7.4	0.2	16.1	7.0	7.4	2.7	6.2	7.6	8.1	7.1	6.6	6.7	2.3	1.9		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**Yes**





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. For projections also includes contribution from price and exchange rate changes.

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

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

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

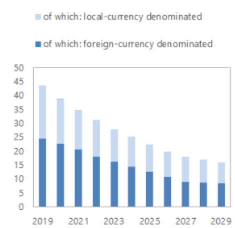
Table 3. Chad: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008–2039

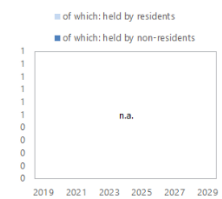
(In percent of GDP, unless otherwise indicated)

	Actual											Projections								Average 6/	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	16.8	26.1	24.6	21.8	20.0	21.1	29.1	43.8	51.4	49.7	48.2	43.8	39.0	34.9	31.1	28.0	25.4	16.1	14.3	33.6	26.9
of which: external debt	16.8	26.1	24.6	21.8	20.0	21.1	29.1	25.5	27.0	25.1	25.1	24.6	22.2	19.7	17.3	15.3	13.5	8.8	9.5	24.5	14.6
Change in public sector debt	...	9.3	-1.5	-2.8	-1.7	1.1	8.0	14.7	7.6	-1.7	-1.5	-4.5	-4.8	-4.1	-3.8	-3.2	-2.6	-1.0	0.3		
Identified debt-creating flows		8.8	1.4	-4.5	-2.2	0.6	0.6	9.3	5.4	-3.1	-3.8	-3.4	-5.9	-5.4	-5.6	-5.7	-5.0	-5.2	-18.4	1.2	-5.1
Primary deficit	-3.9	8.7	3.6	-3.0	-0.9	1.5	3.6	2.7	-0.1	-1.3	-3.0	-1.5	-3.2	-3.2	-3.9	-4.6	-3.9	-4.5	-18.0	1.2	-3.7
Revenue and grants	22.4	14.9	20.2	24.8	24.4	20.7	17.8	14.0	12.4	14.6	15.3	15.7	16.8	17.1	17.4	18.3	17.8	19.0	18.0	17.9	17.6
of which: grants	1.2	2.6	1.3	1.6	2.6	2.3	2.0	3.4	2.9	4.0	3.2	3.0	3.0	2.6	2.5	2.6	2.5	2.2	1.8		
Primary (noninterest) expenditure	18.5	23.7	23.8	21.8	23.4	22.3	21.4	16.7	12.4	13.3	12.2	14.2	13.6	13.9	13.6	13.7	13.8	14.5	0.0	19.1	13.9
Automatic debt dynamics		0.1	-2.1	-1.5	-1.3	-0.5	1.4	7.3	5.9	0.0	-0.2	-1.4	-2.3	-1.8	-1.5	-0.8	-0.7	-0.6	-0.4		
Contribution from interest rate/growth differential	...	-0.6	-3.2	-0.1	-1.5	-0.8	-1.0	0.1	4.4	2.4	-1.2	-0.9	-1.9	-1.6	-1.3	-0.8	-0.6	-0.5	-0.3		
of which: contribution from average real interest rate	...	0.1	-0.1	-0.1	0.3	0.3	0.3	0.6	1.8	1.2	0.0	0.2	0.3	0.2	0.5	0.4	0.4	0.1	0.1		
of which: contribution from real GDP growth	...	-0.7	-3.1	0.0	-1.8	-1.1	-1.4	-0.5	2.6	1.3	-1.2	-1.1	-2.3	-1.8	-1.8	-1.2	-1.0	-0.6	-0.4		
Contribution from real exchange rate depreciation		0.6	1.2	-1.4	0.2	0.3	2.5	7.2	1.5	-2.4	1.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows		0.0	-0.2	0.0	-0.1	-0.5	-4.4	-0.7	-0.5	-1.8	-0.6	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.1	-0.9	-0.3
Privatization receipts (negative)		0.0	-0.2	0.0	-0.1	0.0	-4.0	-0.4	0.0	-1.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (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	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)		0.0	0.0	0.0	0.0	-0.5	-0.4	-0.3	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.1		
Other debt creating or reducing flow (please specify)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual		0.5	-2.8	1.6	0.5	0.5	7.4	5.4	2.2	1.4	2.4	-1.5	0.8	1.0	1.7	2.6	2.2	4.2	18.7	1.9	2.0
Sustainability indicators																					
PV of public debt-to-GDP ratio 2/		...	...	...	...	...	...	...	...	...	45.3	40.5	35.9	32.1	28.5	25.4	22.9	13.9	11.9		
PV of public debt-to-revenue and grants ratio		...	...	...	...	...	...	...	...	...	296.7	258.2	213.6	187.4	163.5	139.0	129.0	73.1	65.9		
Debt service-to-revenue and grants ratio 3/		4.7	2.9	3.6	5.0	6.4	27.6	22.6	39.2	46.5	18.3	57.8	53.4	47.5	49.1	48.7	49.2	32.3	28.7		
Gross financing need 4/	-2.5	9.2	4.0	-2.5	-0.4	2.2	7.8	4.5	2.9	4.1	-0.2	7.3	6.2	5.4	5.9	5.4	5.8	1.8	4.6		
Key macroeconomic and fiscal assumptions																					
Real GDP growth (in percent)	3.1	4.1	13.6	0.1	8.8	5.8	6.9	1.8	-5.6	-2.4	2.4	2.4	5.5	4.8	5.4	4.1	3.7	3.8	3.1	3.6	4.1
Average nominal interest rate on external debt (in percent)		1.4	0.6	1.8	3.5	3.3	3.6	3.3	6.3	4.0	2.7	3.1	3.1	2.7	2.9	2.8	2.7	1.3	1.3	3.1	2.4
Average real interest rate on domestic debt (in percent)	0	12.0	-5.2	-6.2	2.2	7.8	2.9	13.3	2.1	2.3	-0.5	-0.6	0.4	0.9	3.0	2.5	3.2	2.0	2.8	3.1	1.6
Real exchange rate depreciation (in percent, + indicates depreciation)		3.9	5.2	-5.5	1.0	1.6	12.4	24.5	5.5	-8.5	3.9	...	...	...	...	...	...	...	...	4.4	...
Inflation rate (GDP deflator, in percent)	8.6	-9.5	6.2	8.4	1.3	-4.2	0.8	-8.0	-1.1	-0.8	2.3	2.6	2.9	3.0	2.9	1.7	2.9	2.9	2.9	-0.5	2.8
Growth of real primary spending (deflated by GDP deflator, in percent		32.9	14.3	-8.5	17.2	0.5	2.7	-20.8	-29.9	5.0	-5.7	18.4	1.1	7.5	2.6	4.9	4.8	6.3	3.9	0.8	5.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/		...	...	...	...	...	...	...	-7.7	0.4	-1.6	2.9	1.6	0.9	-0.1	-1.5	-1.4	-3.5	-18.3	-2.9	-0.8
PV of contingent liabilities (not included in public sector debt)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments, central bank. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 4. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–2029

(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	21.5	19.2	17.0	14.6	12.8	11.0	9.1	7.4	7.0	6.7	6.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	21.5	23.4	25.0	25.7	27.1	28.4	29.5	29.2	**31.3**	**33.9**	**36.5**
B. Bound Tests											
B1. Real GDP growth	21.5	21.6	21.2	18.3	16.0	13.8	11.4	9.2	8.8	8.4	8.3
B2. Primary balance	21.5	22.2	23.7	21.7	19.5	17.0	14.3	12.1	11.2	10.3	9.7
B3. Exports	21.5	28.2	**39.1**	**35.7**	**33.3**	**30.7**	28.2	25.8	24.5	22.4	20.7
B4. Other flows 3/	21.5	22.1	22.4	19.9	17.9	16.0	14.0	12.1	11.5	10.7	10.1
B6. One-time 30 percent nominal depreciation	21.5	24.0	18.0	15.3	13.0	10.8	8.5	6.5	6.1	6.0	6.1
B6. Combination of B1-B5	21.5	**30.6**	**30.6**	27.4	24.9	22.5	20.0	17.7	16.5	15.3	14.3
C. Tailored Tests											
C1. Combined contingent liabilities	21.5	25.1	23.8	21.4	18.9	16.2	13.5	11.3	10.5	9.9	9.5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	21.5	23.6	25.6	22.9	20.6	18.2	15.5	13.1	11.9	10.6	9.5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	65.5	55.3	50.1	42.8	37.6	33.1	27.8	22.9	22.1	21.5	21.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	65.5	67.5	73.8	75.1	79.6	85.4	90.2	90.9	98.8	108.3	118.0
B. Bound Tests											
B1. Real GDP growth	65.5	55.3	50.1	42.8	37.6	33.1	27.8	22.9	22.1	21.5	21.3
B2. Primary balance	65.5	64.0	69.9	63.4	57.5	51.0	43.7	37.6	35.3	33.0	31.4
B3. Exports	65.5	115.2	**214.5**	**193.6**	**181.5**	**171.5**	**159.8**	**149.0**	**143.3**	133.1	124.1
B4. Other flows 3/	65.5	63.8	66.3	58.1	52.7	48.1	42.7	37.7	36.2	34.3	32.8
B6. One-time 30 percent nominal depreciation	65.5	55.3	42.5	35.7	30.5	26.0	20.8	16.0	15.3	15.3	15.7
B6. Combination of B1-B5	65.5	101.7	75.1	103.0	94.4	87.1	78.7	70.9	66.8	62.8	59.6
C. Tailored Tests											
C1. Combined contingent liabilities	65.5	72.5	70.3	62.6	55.6	48.8	41.3	35.1	33.2	31.6	30.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	65.5	80.9	87.3	74.9	66.0	57.9	48.9	41.8	38.6	34.8	31.6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	4.5	6.4	6.6	6.8	6.9	6.5	7.2	6.8	2.8	2.6	2.2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	4.5	6.9	7.8	8.8	9.4	9.7	**11.3**	**11.5**	6.4	7.2	7.6
B. Bound Tests											
B1. Real GDP growth	4.5	6.4	6.6	6.8	6.9	6.5	7.2	6.8	2.8	2.6	2.2
B2. Primary balance	4.5	6.4	6.7	7.1	7.2	6.9	7.5	7.0	3.6	4.2	3.9
B3. Exports	4.5	9.6	**14.3**	**15.9**	**16.0**	**15.2**	**16.5**	**15.6**	**10.5**	**14.9**	**13.6**
B4. Other flows 3/	4.5	6.4	6.7	7.1	7.2	6.8	7.5	7.0	3.6	4.0	3.5
B6. One-time 30 percent nominal depreciation	4.5	6.4	6.6	6.6	6.8	6.4	7.1	6.7	2.7	1.9	1.6
B6. Combination of B1-B5	4.5	8.3	**10.8**	**11.2**	**11.3**	**10.8**	**11.8**	**11.1**	7.4	7.3	6.5
C. Tailored Tests											
C1. Combined contingent liabilities	4.5	6.4	6.9	7.1	7.2	6.8	7.5	7.0	2.9	2.7	2.3
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	4.5	7.8	8.2	8.5	8.5	7.9	8.5	8.0	4.3	4.9	4.3
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	11.7	**16.0**	**15.4**	**15.5**	**14.9**	**14.3**	**15.4**	**14.2**	5.6	5.1	4.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	11.7	**17.3**	**18.2**	**20.1**	**20.4**	**21.2**	**24.2**	**24.0**	12.9	**14.4**	13.9
B. Bound Tests											
B1. Real GDP growth	11.7	**18.0**	**19.2**	**19.4**	**18.7**	**17.9**	**19.3**	**17.8**	7.1	6.4	5.0
B2. Primary balance	11.7	**16.0**	**15.7**	**16.3**	**15.7**	**15.0**	**16.0**	**14.7**	7.3	8.3	7.1
B3. Exports	11.7	**17.0**	**18.0**	**19.6**	**18.7**	**17.9**	**19.0**	**17.6**	11.5	**15.9**	13.5
B4. Other flows 3/	11.7	**16.0**	**15.7**	**16.2**	**15.5**	**14.9**	**15.9**	**14.7**	7.4	7.9	6.4
B6. One-time 30 percent nominal depreciation	11.7	**20.1**	**19.3**	**19.1**	**18.3**	**17.6**	**18.9**	**17.5**	6.8	4.8	3.6
B6. Combination of B1-B5	11.7	**18.1**	**19.7**	**19.9**	**19.0**	**18.2**	**19.5**	**18.0**	11.7	11.2	9.3
C. Tailored Tests											
C1. Combined contingent liabilities	11.7	**16.0**	**16.1**	**16.3**	**15.6**	**15.0**	**15.9**	**14.6**	6.0	5.4	4.2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	11.7	**20.7**	**20.6**	**21.7**	**19.6**	**18.1**	**18.4**	**16.2**	8.5	9.5	7.6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 5. Chad: Sensitivity Analysis for Key Indicators of Public Debt, 2019–2029

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	**40.5**	**35.9**	32.0	28.1	25.1	22.3	19.5	16.8	15.3	14.2	13.2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	**41**	**41**	**42**	**44**	**47**	**49**	**51**	**53**	**57**	**60**	**65**
B. Bound Tests											
B1. Real GDP growth	**41**	**45**	**48**	**46**	**45**	**45**	**43**	**42**	**42**	**43**	**44**
B2. Primary balance	**41**	**42**	**44**	**40**	**36**	34	31	28	26	24	23
B3. Exports	**41**	**43**	**50**	**46**	**42**	**39**	**36**	33	30	28	25
B4. Other flows 3/	**41**	**39**	**37**	33	30	27	24	22	20	18	17
B6. One-time 30 percent nominal depreciation	**41**	**45**	**40**	**35**	32	28	25	21	18	16	15
B6. Combination of B1-B5	**41**	**42**	**41**	34	31	28	27	24	23	22	21
C. Tailored Tests											
C1. Combined contingent liabilities	**41**	**48**	**43**	**38**	**35**	33	30	27	25	23	22
C2. Natural disaster	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
C3. Commodity price	**41**	**43**	**44**	**45**	**47**	**48**	**47**	**46**	**46**	**46**	**47**
C4. Market Financing	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Public debt benchmark	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
PV of Debt-to-Revenue Ratio											
Baseline	258.2	213.6	187.0	161.2	136.2	124.8	108.7	95.1	85.2	78.7	69.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	258	242	241	246	247	266	275	289	302	319	325
B. Bound Tests											
B1. Real GDP growth	258	263	271	255	237	240	234	231	229	232	224
B2. Primary balance	258	252	259	227	198	187	170	156	143	134	119
B3. Exports	258	258	294	262	230	218	200	185	169	154	133
B4. Other flows 3/	258	231	219	191	164	153	136	122	110	101	88
B6. One-time 30 percent nominal depreciation	258	270	235	205	175	161	140	120	104	92	77
B6. Combination of B1-B5	258	252	236	191	165	158	147	137	128	121	109
C. Tailored Tests											
C1. Combined contingent liabilities	258	284	251	220	192	182	165	151	139	130	116
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	258	306	306	309	286	286	271	257	254	255	245
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	57.8	53.4	47.1	46.9	45.9	45.7	46.6	45.7	36.6	32.8	29.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	58	56	51	54	59	66	71	74	67	67	64
B. Bound Tests											
B1. Real GDP growth	58	59	58	61	61	61	63	63	54	51	47
B2. Primary balance	58	53	58	65	54	47	45	44	36	35	31
B3. Exports	58	53	48	49	48	47	48	47	41	41	36
B4. Other flows 3/	58	53	47	47	46	46	47	46	38	35	31
B6. One-time 30 percent nominal depreciation	58	52	49	47	47	47	48	47	35	31	26
B6. Combination of B1-B5	58	53	49	57	51	48	48	47	38	35	31
C. Tailored Tests											
C1. Combined contingent liabilities	58	53	69	59	49	45	44	43	35	32	28
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	58	65	59	60	64	66	65	61	52	50	47
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by Mr. Raghani, Executive Director for Chad; Mr. Sidi Bouna, Senior Advisor to the Executive Director and Mr. Bangrim Kibassim, Advisor to the July 3, 2019

1. The Chadian Authorities would like to express their appreciation to Staff, Management and the Executive Board for their continued support to Chad. The Extended Credit Facility (ECF) arrangement has been instrumental in the authorities' efforts to stabilize the economy following the severe oil and security shocks. The discussions with staff in the context of the 2019 Article IV consultation and Fourth Review under the ECF have shed light on the achievements thus far and the policies needed to further the recovery. The authorities broadly share the thrust of the staff report which gives a fair account of issues at stake.

2. In view of its fragile situation, Chad is still facing a challenging socio-economic environment characterized by heightened security conditions and a humanitarian crisis, which put additional pressures on already constrained public finances. Despite such a context, the authorities have made good progress in reform implementation while contributing to the macroeconomic stability of the CEMAC region. As a result of their efforts supported by the Fund and other development partners, notable achievements have been made in economic recovery both in the oil and non-oil sectors, enhancing the fiscal position and debt restructuring.

3. Going forward, the authorities reiterate their commitment to the objectives of the ECF-supported program. They are determined to step up effort to further supporting economic recovery for a stronger and inclusive growth and increased domestic revenue.

Recent Developments, Program Performance and Outlook

Recent Developments

4. Economic activity in 2018 was characterized by higher-than-anticipated oil production and a lower activity in the non-oil sector. Overall GDP growth is estimated at 2.4 percent while inflation stood at 4 percent resulting from price increases in services. The authorities' prudent fiscal policy in 2018 translated notably into a more comfortable position at the regional central bank (BEAC). As well, improvements in oil exports caused the current account deficit to decline to 3.4 percent from 6.6 percent in 2017.

Program Performance

5. Despite challenges, program performance was satisfactory with all performance criteria (PC) met and corrective measures are being implemented for the indicative targets that were

missed on poverty-reducing social spending and on regularizing emergency spending procedures. In addition, out of the six structural benchmarks, two were met, one was partially implemented, one was implemented with slight delays and two are still pending.

Outlook

6. The authorities share staff's views on a broadly favorable outlook while being cognizant of the downside risks. The rise in oil production paired with the recovery in the non-oil sector, albeit at a slower pace, bode well for medium term growth. The authorities remain committed to maintaining fiscal discipline regardless of future developments on oil markets while accelerating structural reforms. As well, they will closely monitor security situations and take preventive measures to ensure a peaceful environment conducive for private investment.

Policy and Reform Agenda for the Medium-Term

7. The authorities are determined to enhance macroeconomic stability and to implement their reform program to achieve the overarching goal of a sustainable and inclusive growth. For the period ahead, they will strive to enhance fiscal policy while lifting bottlenecks to the development of the non-oil sector and the diversification of the economy, including addressing infrastructure gaps and improving the business climate, as envisaged under the National Development Plan (NDP).

Fiscal Policy

8. Fiscal policy for 2019 and the medium term will be geared towards ensuring fiscal sustainability through continued improvement in domestic revenue mobilization and greater spending efficiency. This will be needed to create space for key expenditures—including increasing public investment in infrastructure and meeting social spending—and for clearing arrears, in line with the program objectives.

9. To enhance revenue mobilization, the authorities will aim at expanding non-oil revenue through more efficient collection methods by streamlining tax and customs exemptions including on VAT, reforming VAT, corporate income tax and strictly enforcing the legislation on importers. On the other hand, strengthened transparency and strict enforcement of tax collection in the oil sector is expected to better support revenue mobilization. Measures are also being taken, including strengthening the IT system, to improve customs and tax administrations and further increase revenue. Furthermore, the authorities are committed to enhancing fiscal resilience by building buffers.

10. On the expenditure side, the authorities will continue their prudent approach, including through the close monitoring of the wage bill. They will prioritize productive public investment, notably in infrastructure and education and health sectors. The government is also

making progress in the clearance of domestic arrears despite pressures on public finances stemming from the fragile security situation.

Public Financial Management

11. Public financial management (PFM) will be enhanced with ongoing efforts to improve efficiency and transparency in public resources management, including measures to strengthen monitoring and reporting, implement CEMAC directives and enhance cash management and the public procurement process. Specific measures encompass: (i) reducing the use of emergency spending procedures; (ii) establishing a cash management plan; (iii) implementing the Treasury Single Account (TSA); and (iv) for capacity building notably in public procurement.

12. Stronger PFM will also require the clearance of government domestic arrears. In this regard, the authorities are determined to adopt by November 2019 a comprehensive clearance strategy for resolving recognized domestic arrears, in line with the program objectives. An audit will help assess the remaining arrears before payment.

Financial Sector

13. Liquidity conditions in the banking sector have improved and recourse of banks to BEAC refinancing has declined. Moreover, the strategy of government arrears clearance should help reduce non-performing loans (NPLs) and reinforce banks' contribution to the recovery. In addition, the authorities are taking steps to address remaining vulnerabilities in the banking system, including by implementing the recommendations of the reports of the external consultants on the review and the reorganization plans for the two major public banks. The authorities will also work closely with regional institutions, BEAC and COBAC, to deepen the interbank money market. Progress will also be made in advancing financial inclusion, including through supporting the development of mobile banking.

Capacity Building

14. The authorities are grateful to the IMF and development partners for the increased technical assistance (TA) that has accompanied the implementation of the ECF arrangement and helped improve ownership. TA has covered tax policy and domestic revenue mobilization, oil revenue projection and management, non-oil revenue mobilization, debt management, the reform of the Treasury and PFM. Going forward, Chad being in fragile situation, the authorities are requesting long-term experts, notably in the area of PFM, to sustain the impact of capacity development and buttress the coordination of TA and reform programs.

Structural Reforms

15. The authorities will pursue the implementation of their structural reform agenda. Priority areas include enhancing transparency and governance and improving the business climate. To this effect, they will facilitate the creation of SMEs by rationalizing related procedures. They will also pursue financial sector reforms aimed at improving the access of businesses to financing. On the governance front, the authorities will forcefully implement the United Nations Convention against Corruption (UNCAC) approved by the national assembly in 2017, as well as the new anti-money laundering law in their continued efforts to further improve the business climate.

16. To foster non-oil growth, it is imperative that the authorities be able to invest in the electricity sector, which requires significant resources. In this vein, they call on development partners to avail the necessary concessional financing given the zero limit on non-concessional borrowing under the ECF-supported program. A number of actions are also underway to enhance transparency, especially in the oil sector. These include the recent publication of oil contracts and revenues, notably those earmarked for debt servicing, as well as the publication of the financial statements of the state-owned oil company, *Société des Hydrocarbures du Tchad* (SHT).

Conclusion

The authorities have made commendable progress in the implementation of sound policies and reforms to stabilize the economy and support recovery amid a difficult security environment. Performance under the ECF arrangement continues to be satisfactory. The authorities are cognizant of the challenges that still lie ahead, including the imperative of increasing domestic revenue to finance public investment and diversify the economy away from oil dependency. In view of Chad's appreciable program performance in a difficult environment and the authorities' continued commitment to the objectives of the program, we would appreciate Executive Directors' support for the completion of the Fourth Review under the Extended Credit Facility arrangement and the request for modification of performance criteria