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THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW —PRESS RELEASE; STAFF REPORT AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHAD

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 21, 2018, following discussions that ended on November 2, 2018, with the officials of Chad on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 10, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Chad.

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

Letter of Intent sent to the IMF by the authorities of Chad*
Memorandum of Economic and Financial Policies by the authorities of Chad*
Technical Memorandum of Understanding*

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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FOR IMMEDIATE RELEASE
December 21, 2018

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Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review under Extended Credit Facility for Chad and Approves US$48.6 Million Disbursement

- Performance under the ECF-supported program has been satisfactory and the fiscal position continues to improve reflecting strong commitment by the authorities.
- Further reform efforts are needed to support the economic recovery.
- Chad's program is supported by the implementation of policies and reforms by the regional institutions which are critical to its success.

On December 21, 2018, the Executive Board of the International Monetary Fund (IMF) completed the third review of Chad's economic and financial program supported by an Extended Credit Facility (ECF) arrangement. The completion of the review enables the disbursement of SDR 35.05 million (about US$48.6 million), bringing total disbursements under the arrangement to SDR 140.2 million (about US$194.5 million).

The Executive Board also approved the authorities' request for a waiver of the nonobservance of the continuous performance criterion on the accumulation of new external payment arrears by the government and nonfinancial public enterprises.

Chad's ECF arrangement was originally approved by the Executive Board on June 30, 2017 (see Press Release No. 17/257) for SDR 224.32 million (about US$ 312.1 million or 160 percent of Chad's quota). The ECF-supported program aims to help Chad restore macroeconomic stability, 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, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

"Performance under the ECF-supported program has been satisfactory, reflecting strong commitment by the authorities. Decisive implementation of the authorities' program will help strengthen macroeconomic stability and support diversified and inclusive growth. Progress is underway on the structural reform agenda, despite some delays.

“Moving forward, the authorities are determined to continue their efforts to further stabilize the fiscal position, energize non-oil growth, and reduce banking sector vulnerabilities. Key policies in this regard include maintaining control over the wage bill, increasing domestic revenue mobilization, and improving public financial management. This would help create sufficient space for increased spending in social sectors and public investment, and to pay down domestic debt and domestic arrears. Strengthening anti-corruption legislation and addressing weaknesses in some of the domestic banks are also key.

“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.”

CHAD

December 10, 2018

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. The current ECF arrangement (access of 160 percent of quota or SDR 224.32 million) was approved on June 30, 2017 in the context of a very difficult and deteriorating social, economic, and financial situation. The crisis was precipitated by the oil price and security shocks that began in 2014, and the heavy burden of external commercial debt with Glencore. The restructuring of this debt in June 2018 paved the way for the completion of the second review in July 2018. Chad's stability is key for the regional security situation given its regional peace-keeping efforts.

Program. The program is on track. All but one performance criteria (PC) for completion of the third review were met. The continuous PC on non-accumulation of external arrears was missed by a very small margin, and on this basis the authorities are requesting a waiver. One structural benchmark was met, and progress is under way on the other two. The two end-June indicative targets were missed. Program performance at end-September remained good. The program is supported by union-level efforts to maintain an appropriate monetary policy stance, build up regional reserves, and promote financial sector stability.

Staff views. Staff supports the completion of the third review under the ECF given Chad's encouraging performance, and the waiver of non-observance of continuous PC. Completion of the third review will result in the disbursement of SDR 35.05 million. The Fund arrangement remains instrumental to catalyze donor support to address Chad's protracted balance of payment needs. A major downside risks to the program is a significant drop in oil price, with other risks including possible resort to nonconcessional financing, overshooting in the wage bill, further deterioration in the liquidity position of banks, and a worsening of the security situation. Upside risks mostly consist of higher oil revenues.

Approved By
David Owen and Yan Sun

Discussions took place in N'Djamena (October 25 - November 2, 2018) and through video conferences afterward. 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, National Director of the BEAC, Director General of the oil public enterprise (SHT), representatives of the Ministries of Education and Health, representatives of the trade unions, representatives of the banking sector, representatives of the private sector and representatives of international development partners. Ms. Ibrahim, Ms. Canales, and Ms. Pilouzoue supported the preparation of the staff report.

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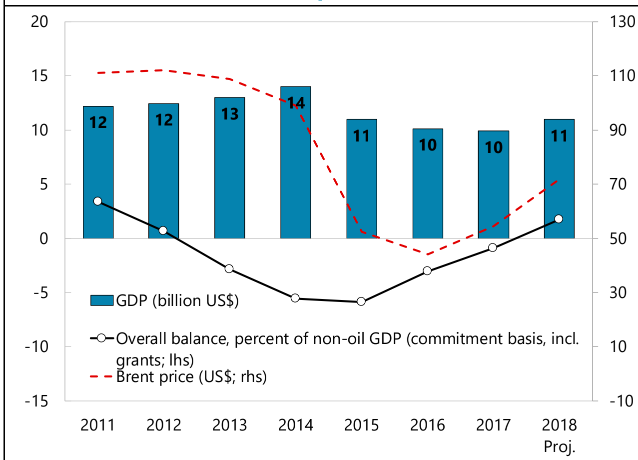
BACKGROUND

1. The substantial oil price decline that started in 2014 has had severe and lasting effects on the already fragile Chadian economy. The drop in oil GDP and dramatic spending cuts led to a significant reduction in nominal GDP during 2014-17 (Text Figure 1) and GDP per capita fell from $1,239 to $810. While oil GDP rebounded in 2018 and non-oil economic activity appears to have stabilized, the economic, financial, and social situation remains very difficult. Security and humanitarian tensions including in the Lake Chad region have added significant pressures on the economy. Chad remains actively engaged in peace keeping efforts in the region, including in the context of the G5 Sahel countries.

Text Figure 1. Chad: GDP, Oil Price and Fiscal Balance, 2011-18



Sources: Chadian authorities, and IMF staff calculations.

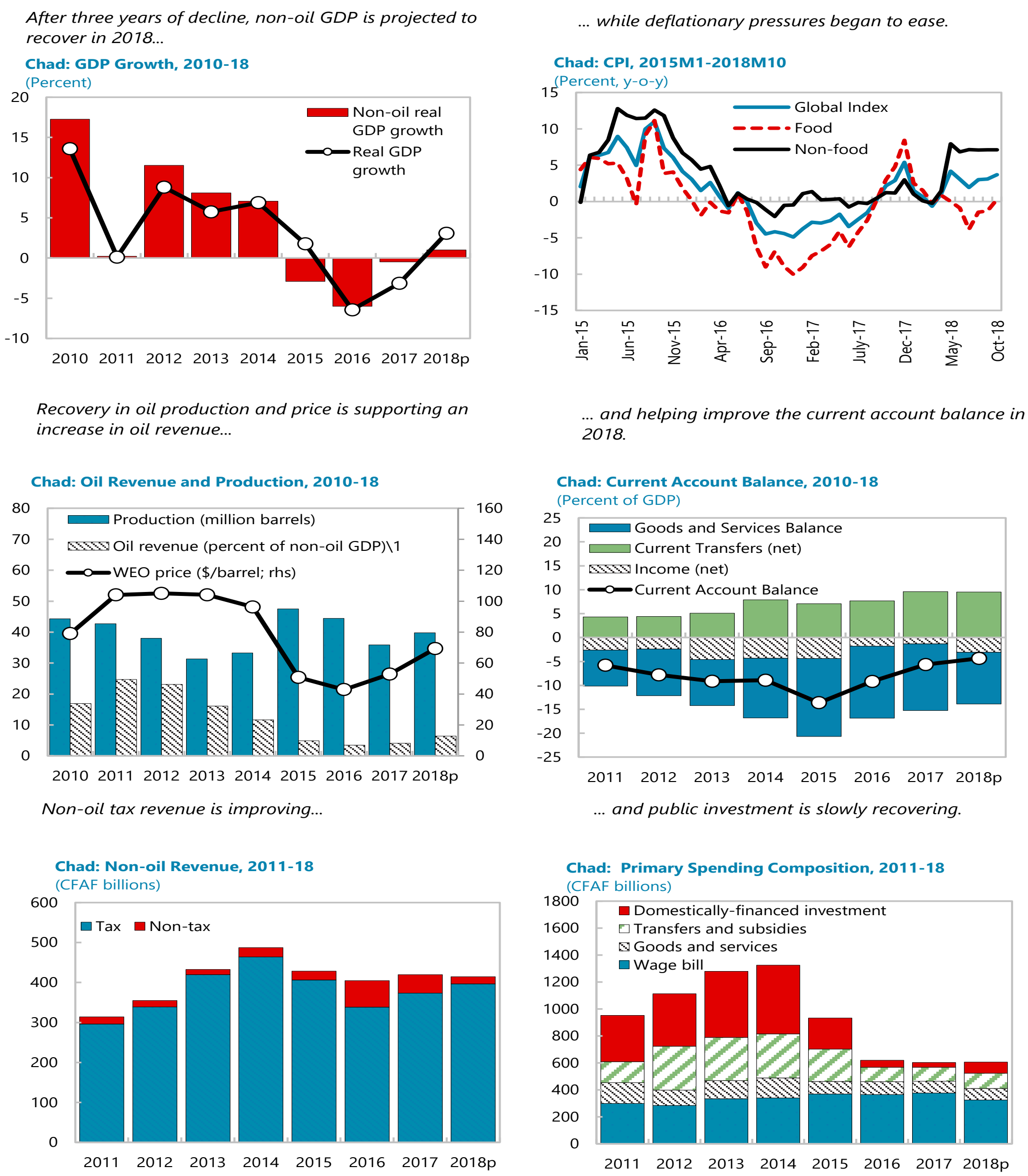
2. In June 2017, the Board approved an ECF arrangement with access of 160 percent of quota (SDR 224.32 million) to support the authorities' reform program. The first review was completed in April 2018 and the second review in July 2018. The program aims to (i) reestablish debt sustainability through external commercial debt restructuring which was recently completed, (ii) achieve further gradual fiscal adjustment through domestic revenue mobilization and create space for domestic arrears payment, investment, and social spending, and (iii) limit reliance on domestic financing to help alleviate pressure on domestic banks. The reform program is part of a coordinated regional approach to support stabilization and strengthen the region's reserve position.

3. The CEMAC regional economic situation remains challenging, with shortfalls in reserves accumulation. Regional growth could improve to 2.3 percent in 2018, largely from a rebound in oil production. However, end-September BEAC's net foreign assets (NFAs) were significantly below projections, caused by delays in external financing, mixed program performances, and slow repatriation of export proceeds. The BEAC responded by tightening its policy rate from 2.95 to 3.5 percent on October 31 and enhancing implementation of the existing foreign exchange regulation. On October 25 in N'djamena, CEMAC heads of state reiterated their commitment to the Yaoundé summit's regional strategy, and to strengthen their cooperation to restore external and fiscal stability in the region.

RECENT DEVELOPMENTS

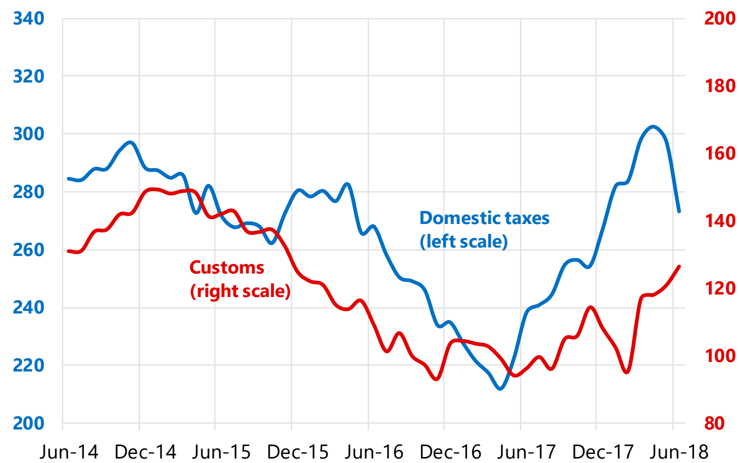
4. Non-oil economic activity is expected to start recovering in 2018 after three years of decline, amid a very difficult social context. Oil production rebounded in 2018 and is in line with projections. However, the recovery in non-oil economic activity has not been as strong as initially expected with non-oil growth forecast at 1 percent this year. This primarily reflects the sharp reduction in public sector wages and low budget execution so far in 2018. Further, the prolonged strikes in the public sector and low social spending added to the difficult social situation. Inflation picked up in 2018mainly due to raising water utility rates in May 2018 and higher prices in the services sectors.

Figure 1. Chad: Recent Economic Developments, 2010-18p



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

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



Sources: Chadian authorities, and IMF staff calculations.

5. **The fiscal position continued to improve in 2018 reflecting spending prudence and sustained efforts to increase non-oil revenues.** Tax revenues has been broadly in line with projections and customs revenues are encouraging (Text Figure 2). Oil revenues have been broadly in line with projections, reflecting favorable oil tax revenue performance. On the spending side, the wage bill has been firmly below the budgeted amount. In addition, despite increasing in the second and third quarter, other primary spending has been low (about 65 percent of the budget envelope at end-September), particularly public investment and social spending.

6. **Good progress has been made in clearing external arrears and paying external debt obligations on time.** The authorities signed a rescheduling agreement with India in October, which reduced outstanding external arrears by $10.3 million. Arrears remain amounting to about $56 million particularly to the Rep. of Congo (about $47 million), Equatorial Guinea (both under negotiations), the European Investment Bank, and a bank from Taiwan Province of China (that the authorities are making good faith efforts to clear). To ensure timely payment of external debt, an escrow account for external debt service payment at the BEAC was reactivated and is now funded by a dedicated share of non-oil revenue. Ring-fencing funds is expected to lower incentives to delay authorization, and coordination will improve with monthly meetings of all parties relevant for external debt service.

7. **The debt sustainability analysis (DSA) indicates that Chad remains at high risk of external debt distress despite the Glencore debt restructuring and measurable arrears clearance**. The Glencore debt restructuring targeted the old DSA threshold of 18 percent for external debt service to revenue to bring the external risk rating to moderate. However, with the new DSA framework a lower threshold of 14 percent became applicable to Chad. This threshold is expected to be exceeded for many years.

8. **Despite a slight improvement in its liquidity position, the banking sector's vulnerabilities remain elevated.** Deposits increased by 2.5 percent in August (y-o-y) due to a rise in public sector deposits that offset the decline in private sector deposits. Credit stabilized in August due to low economic activity and the deterioration of banks portfolio. At end-August 2018, overdue loans accounted for 30.7 percent of gross loans, against 28 percent in December and provisions

dropped to 52.7 percent. The continued deterioration in banks' asset quality is linked to the relatively slow progress in clearing domestic arrears by the government during the first half of the year. While the solvency of the banking sector appears overall satisfactory, the authorities have mandated a review to assess *inter alia* the impact of this deterioration on the two systemic public banks. The increase in deposits helped to reduce banks' use of BEAC refinancing, which declined by CFAF 24 billion (y-o-y) to reach CFAF 160 billion in August 2018. In addition, the improvement in Chad's external risk rating led to the application of a lower haircut on government securities used as collateral for BEAC refinancing, which helped the largest public banks significantly reduce advances at penalty rate.

9. The external position is expected to improve in 2018 due to higher oil production and high oil prices. The current account deficit for 2018 is forecast to decline to 4.2 percent of GDP compared to 5.7 percent in 2017, reflecting an increase in oil exports. Chad's NFA position at the regional central bank improved to around CFAF -220 billion at end September (from about CFAF -257 billion at end- 2017) and is expected to reach CFAF -170 billion by end 2018, lower than expected at the time of the second review primarily because of lower than expected budget support from the World Bank.

10. The security situation has deteriorated while social tensions are moderating following an agreement between the government and labor unions. Deadly attacks by Boko Haram took place in July and at end-September on the Chadian side of Lake Chad and attacks in northern Chad near the border with Libya have occurred since August by armed groups. A five-month strike by public sector workers, which delayed the start of the school, ended in late October after an agreement was reached with the government to restore part of the benefits and bonuses cut earlier this year. After the adoption of the new constitution in May which moved Chad to a full presidential system, the authorities plan to organize parliamentary elections in 2019.

PROGRAM PERFORMANCE

11. All performance criteria (PC) at end-June were met and preliminary data suggest that the favorable performance continued into the third quarter with most end-September indicative targets (IT) met. The ceilings on non-oil primary balance (NOPB) for end-June and end- September were met with a large margin, primarily because of the low wage bill and low budget execution. Customs revenue targets were met, despite still weak economic activity and imports. The PCs and ITs on net domestic government financing from BEAC and the banking sector have been met reflecting the increase in deposits at the BEAC (in line with a better NOPB and lower repayment of external arrears which were restructured instead) for the former and reduction in the rollover of domestic securities for the latter. Recognized domestic arrears payments were in line with the end-June adjusted PC and end-September IT.

12. The end-June and end-September ITs on social spending and regularization of emergency spending procedures (DAO) were missed. The former was missed by a small margin, reflecting the reduction in the wage bill which disproportionately impacted the education and health ministries that have a large share of the civil service. The ITs on the regularization of DAO were missed in large part because of the large volume of DAO relative to the capacity at the ministry of finance to regularize them.

13. The continuous zero ceiling on new external arrears was missed. One minor and temporary arrear (for a payment of $60,000) occurred due to technical difficulties that delayed the payment in spite of timely issuance of the payment order.[1] The authorities request a waiver for the missed continuous PC on the basis of its minor size.

14. One out of three structural benchmarks (SBs) was met on time and progress is underway on the other two. The government continues to publish quarterly notes on the oil sector, in line with the agreed template. Although the SB on the hiring of external consultants to review and prepare a reorganization plan for the two public banks was missed, the government has since selected two consulting firms and one review has started. The preparation and adoption of the domestic arrears clearance strategy (end-October SB) is awaiting the conclusion of the audit of unverified arrears which started later than expected.

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-June 2018				End-Sept. 2018			
	PC	PC/IT w/ adjustor	Actual	Status	IT	IT w/ adjustor	Actual	Status
Performance Criteria								
Floor on non-oil primary budget balance	-125		-71	met	-175		-121	met
Floor on customs revenue	45		56	met	85		87	met
Ceiling on net domestic government financing excluding BEAC	-5		-22	met	-15		-24	met
Ceiling on net government financing from the BEAC	70		-71	met	35		15	met
Ceiling on the stock of domestic payment arrears by the government	170	188	176	met	155		153	met
Ceiling on new external arrears of the government and non-financial public enterprises[2]	0		0	not met	0		0	not 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)	70		48	not met	75		41	not met
Floor for poverty-reducing social spending	107	92	88	not met	160	139	131	not met
Memo item:								
New domestic payment arrears by the government	*0*		*...*		*0*		*...*	
External concessional borrowing (US$ million)	*52*		*51*		*103*		*79*	
Oil Revenue	*161*		*143*		*239*		*212*	
Grants	*45*		*46*		*114*		*46*	

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

[1] Given the significant low capacity of the country as a fragile state and the nature of the technical difficulties (reflecting heightened compliance standards by the BEAC and Banque de France), the TMU (¶16) was revised to exclude technical arrears that are less than six weeks old (from two weeks).

Text Table 2. Chad: Structural Benchmarks for the Program under the ECF Arrangement
Status as of End-October 2018

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-June 2018	Met
2. Hire external consultants to review and prepare a reorganization plan for two public banks.	End-July 2018	Not met
3. Adopt a clearance strategy of domestic arrears based on the audit results.	End-October 2018	Not met
4. Develop an action plan with timebound measure to improve VAT collection.	End-December 2018	...
5. Deliver report of external consultants on the review and reorganization plan for two public banks.	End-January, 2019	...
6. Based on the audit of 47 tax conventions, remove exemptions not in line with legal texts and ensure that others are adequately implemented.	End-February 2019	...

Sources: Chadian authorities and IMF staff.

POLICY DISCUSSIONS

15. The authorities' stabilization and reform agenda continue to be anchored on a medium term macroeconomic framework that reflects a gradual increase in growth, a steady improvement in non-oil revenue, and a decline in public debt. Despite some improvements in 2018, the economic, financial, and social situations remain difficult. Continued efforts to stabilize the fiscal position will allow space to gradually increase primary spending and repay domestic arrears, helping to alleviate social pressures and strengthen the banking sector. Measures to diversify the economy and support private sector activity will strengthen non-oil economic growth and support regional stabilization. The authorities remain strongly committed to implement the necessary reforms to further stabilize the fiscal position and support the economic recovery.

A. Medium-Term Macroeconomic Framework

16. The macroeconomic outlook continues to be shaped by the projected fiscal improvement and the gradual recovery in oil production. Oil production began to recover in 2018 and is expected to increase gradually in 2019 before jumping to higher levels in 2020 as new extraction technologies are implemented and new fields start to produce. Higher oil production, and the full materialization of the effect of the Glencore debt restructuring are expected to lead to higher oil revenues starting in 2019. The recovery in non-oil activity is also expected to strengthen in

2019 reflecting an increase in discretionary spending and domestic arrears repayment. Privatization of the cotton public enterprise is likely to support the cotton sector's contribution to growth.

17. The current account deficit is expected to improve gradually over the medium term. Oil production is expected to rise through 2025, supported by an expansion in cotton exports. Imports are expected to rise moderately, reflecting higher domestic demand and planned increases in oil capital expenditures. Chad's NFA position at the BEAC is estimated to turn positive around 2020 due to expected increases in foreign direct investment and lower external debt amortization.

B. Fiscal Policy for the Remainder of 2018

18. Fiscal policy for the remainder of 2018 is expected to remain aligned with program objectives. On the revenue side, sustained strong collection efforts will be needed, especially on tax and customs revenues. On the spending side, given low budget execution so far in 2018, the authorities should aim to increase non-wage primary spending, especially social spending and investment, and paying domestic arrears. The windfall from the lower than projected wage bill is expected to help to help offset the effect of lower external budget support. It is important that the rollover of securities be kept at 90 percent to ensure the end-year target for domestic financing is met.

C. Fiscal Policy for 2019 and the Medium Term

19. Fiscal policy in 2019 and the medium term will be guided by the need to improve non-oil revenue mobilization and maintain spending prudence.

The authorities are committed to submit to the National Assembly a budget fully in line with program parameters (prior action). The non-oil primary deficit is expected to be larger than projected (4.5 percent of non-oil GDP versus 4.1 percent in the second review), given additional spending for the planned parliamentary elections financed by higher oil revenues.

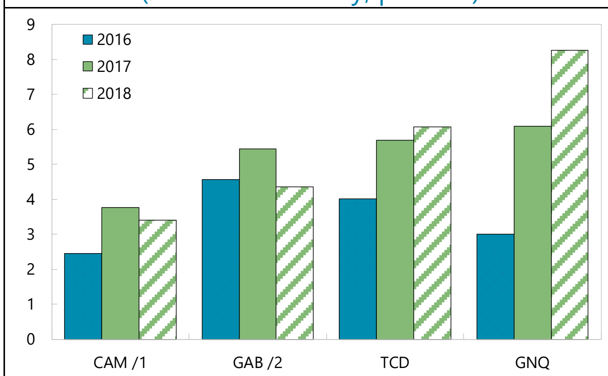
- On the revenue side, measures to raise non-oil revenues to 8.3 percent of non-oil GDP include; (i) reducing tax exemptions (existing SB) and (ii) improving tax administration notably for personal income tax and corporate income tax (MEFP ¶20). Efforts should continue to further widen the tax base, reform VAT, and enhance tax and customs administrations. Oil revenues are also expected to increase. There are good prospects for a larger than projected increase in oil revenue due to the expected start of payment of profit tax by a major oil producer in Chad., However, they have not been included in the budget given the uncertainty related to the amount and timing of this payment.

- On the spending side (MEFP ¶22), the wage bill is expected to increase following a much lower than projected wage bill so far in 2018 but would remain within the program objectives. This reflects (i) resolving the labor strike by partly restoring bonuses and benefits cut earlier this year and (ii) new civil service and security hires. Non-wage primary spending is also set to increase, ensuring an adequate allocation in the social sectors (at least 34 percent of total primary spending).

- The authorities estimate the cost of the parliamentary elections to be up to about 1.3 percent of non-oil GDP (CFAF 70 billion) of which CFAF 33 billion has been budgeted. The authorities agreed that additional election-related spending will have to be financed through external budget support or higher oil revenues in line with program parameters.[2]

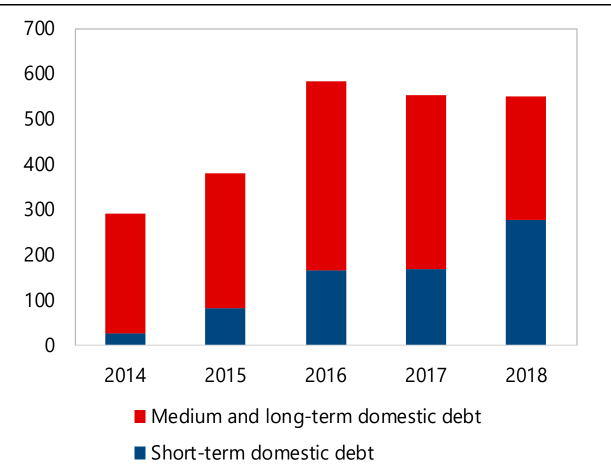
20. Policies regarding domestic financing will aim to reduce public banks' exposure to the government and avoid the bunching of maturities (Text Figures 3 and 4). This will include limiting the rollover of maturing securities to at most 90 percent under the baseline and using additional resources to further reduce domestic debt. The structure of domestic debt has recently shifted towards 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 accessing longer maturities and lower interest rates.

Text Figure 3. 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 4. Chad: Domestic Debt, 2014-18
(CFAF billion)



D. Fiscal Governance

21. Strengthening non-oil revenue mobilization is a major element of the government program to improve fiscal sustainability. Under the program, the authorities target an increase in non-oil tax revenue to about 9 percent of non-oil GDP by 2020. This will be achieved through (i) a widening of the tax base, (ii) VAT reforms, and (iii) enhanced tax and customs administrations

[2] To provide additional structure to the non-oil primary balance PC, the adjustor in case of excess budgetary receipts (TMU ¶23) now itself has a floor, and the balance can be adjusted by 35 percent of excess receipts (from 25 percent).

building on recent efforts to better secure tax revenues and continue the efforts to computerize the customs process.

22. Widespread exemptions considerably narrow the tax base and warrant strong actions by the authorities. The authorities should continue to adjust and remove exemptions which are not in line with legal texts (existing SB), based on the 2017 audit of 47 exemptions. The authorities are firmly committed not to extend or renew tax and customs exemptions to existing oil production and refining activities. In addition, to shed transparency on exemptions, the authorities have committed to periodically publish a list of newly extended and renewed exemptions (proposed new SB)**.**

23. Increasing revenues from VAT is paramount. Revenue from VAT is about 1 percent of non-oil GDP and is among the lowest in Africa. A recent audit of customs exemption agreements revealed that many inadvertently also exempted VAT collection. Based on recent TA reports, the authorities will put in place an action plan to improve VAT collection (existing SB).

24. Notwithstanding some progress, public financial management (PFM) remains weak in Chad. 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 regularization of DAO. Recognizing the persistent problem posed by the use of DAO, the authorities will issue a decree to set a ceiling on its use (new SB) in line with Fund TA recommendation. This ceiling will limit the share of DAO to primary spending and will apply on a quarterly basis (MEFP ¶33 and Table 1).

25. Developing and implementing a clear and transparent domestic arrears clearance strategy is key to supporting the economic recovery. While the authorities have been paying recognized domestic arrears in line with the program, there is merit in accelerating the payment when additional resources are available. It is important that the authorities refrain from repaying unrecognized arrears (arrears not recorded at the Treasury) at this time. Clearance of those arrears should await the completion of the ongoing audit and the elaboration of a clearance strategy (new SB). This strategy should be transparent and well-communicated to the private sector.

E. Financial Sector and Monetary Policies

26. Despite some delays, satisfactory progress has been made in implementing the authorities' strategy to address public banks' vulnerabilities. Planned reforms aim to improve the financial intermediation role of the banks. The authorities initiated a major step to strengthen financial resilience by changing the management of one of the banks and engaging external consultants to review its financial situation and strategy and prepare a reorganization plan (prior action). Similar external consultants work is expected to start shortly for the other public bank. The aim is to complete and share the reports of the consultants for both banks by end-February with IMF staff and the COBAC (modified SBs) with a view to implement quickly the necessary reforms including in the area of governance. In the meantime, it is important that efforts to improve the liquidity position of the banks continue.

27. Chad has demonstrated leadership in implementing policies that support the stability of the regional financial and the monetary arrangement, especially the recovery of BEAC's reserves. BEAC's reserve accumulation suffers from the non-repatriation of all export earnings, including oil and mining revenues, so it is seeking stricter enforcement of existing foreign exchange regulation by all members. In this regard, the government has provided all the contracts and agreements with oil companies to the secretariat of the PREF-CEMAC COPIL and other relevant committees. It will further support BEAC's efforts by: (i) ensuring all public entities repatriate and surrender all their forex receipts to resident banks, (ii) ensuring that all public administrations including customs enforce foreign exchange requirements for domiciliation of export proceeds, providing BEAC with copies of all exports licenses ("Titres d'exportation"); (iii) closing all foreign accounts held by public entities (including those in the extractive industries) except those authorized by the BEAC, whose statements will be regularly reported to BEAC; (iv) reviewing its hydrocarbon and mining codes to align them with the forex regulation by June-2019; and (v) sending to the CEMAC Commission by end-2018 the 2019-21 convergence plan for Chad that is consistent with the ECF arrangement and the regional convergence framework, including external arrears clearance.

F. Anti-Corruption and Other Structural Reforms

28. Ongoing efforts to improve fiscal governance are being accompanied by steps to strengthen the anti-corruption framework and governance more generally, which are central challenges in Chad (Annex I). Steps to strengthen transparency and accountability will help to alleviate an important constraint to private sector growth and government effectiveness. The recent ratification of the United Nations Convention Against Corruption (UNCAC) and its upcoming implementation review will help raise the profile for the anti-corruption strategy and orient efforts. Implementing legislation for the asset declaration regime for public officials is being developed. Chad is currently undergoing an assessment under the Extractive Industries Transparency Initiative (EITI) on the 2016 standard on transparency and oversight in the oil sector.

29. Progress is underway to implement the National Development Plan (NDP). The authorities have made progress in raising some financing for public investment from multilateral and regional creditors. Private sector participation is still lacking given the zero limit on nonconcessional borrowing under the program. The authorities are aware of the need to improve the level of electricity production and its efficiency and are committed to seek concessional financing to support investment in this sector (MEFP ¶42). Recently, a national week of reflection on private sector contribution to economic recovery called for actions by the authorities to improve the business climate in Chad (MEFP ¶39).

G. Financing, Program Modalities, and Risks

30. The program is fully financed, with firm assurances in place for the next 12 months and good prospects for the rest of the program (Text Table 3). Most of the budget support planned for 2018 is expected to be disbursed in the fourth quarter. Initially planned additional budget support from the World Bank in 2018 is not likely to materialize, given the long delays in effecting the first disbursement because of delays in finalizing the Glencore restructuring. This is not likely to affect the program performance for this year, given the lower than expected wage bill and the rescheduling of most of the remaining external arrears. While not likely, delays in disbursement of external support could affect the program through lower spending, increased net domestic financing, and lower NFA.

Text Table 3. Chad: Sources of Financing
(US$ million)

	2017	2018	2019	2020	2021
Budget support	**143**	**268**	**130**	**123**	**65**
Multilateral	86	209	95	…	…
Bilateral	56	59	35	…	…
IMF financing	**49**	**149**	**79**	**40**	**0**
percent of quota	*25*	*75*	*40*	*20*	*0*

Source: Chadian authorities; IMF staff calculations.

31. Staff and the authorities reached agreement on end-June 2019 PCs and on (i) two prior actions related to the 2019 budget and the review of the largest public bank; (ii) three new SBs (to publish lists of exemptions, limit the use of DAO, and adoption of a domestic arrears clearance strategy originally planned for end-October 2018); (iii) one modified SBs related to banking sector reform. ITs for end-March, September, and December 2019 were also agreed. 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).

32. While the outlook for the economy has improved, the program remains subject to risks, including new ones. On the one hand, a significant drop in oil price remains an important risk to the program even though the contingencies under the new Glencore debt will help partly mitigate the negative impact. In this case, a combination of additional external support and adjustment may be needed to limit the potential impact on the government position towards the BEAC. On the other, given the potential for an increase in oil revenue and the overall easing of liquidity pressure on the government, the risks of overruns in primary spending, including the wage bill, have increased, particularly given significant social pressures and upcoming parliamentary elections. Similarly, there is a risk of nonconcessional borrowing in light of the significant pressure, as infrastructure investment needs are enormous. The usual risks associated with the tense security situation are still present. Lastly, the continuing high turnover of mid and high-level officials within ministries complicates the conduct of economic policies and present a risk to the program. The authorities' strong and demonstrated commitment to the program provide key risk mitigating factors.

33. Chad's capacity to repay the Fund remains adequate. Outstanding obligations to the IMF based on existing and prospective drawings would peak at 3.5 percent of GDP and 10.2 percent of exports of goods and services in 2019, while annual repayments will peak at 0.4 percent of GDP and 5.1 percent of tax revenue in 2025.

34. The BEAC and COBAC have pursued the implementation of their policy commitments and provided updated policy assurances in support of CEMAC countries' programs. In view of lower NFA accumulation and stronger macroeconomic prospects, the BEAC increased its policy rate in October. Consistent with regional policy assurances provided in June 2018, by end-year the BEAC will submit for adoption new foreign exchange regulations to the UMAC ministerial committee and start using a new accounting scheme for recording monetary operations, thereby making the new monetary policy framework fully operational. The updated policy assurances present new projections for regional NFA, with a downward revision to the end-2018 level but upward revision to the end-2019 projection. To achieve these projections, the updated policy assurances reiterate BEAC's commitment to implement an adequately tight monetary policy together with the commitment by the member states to implement adjustment policies in the context of IMF-supported programs. The BEAC and national authorities agreed to the principle of semi-annual consultations, starting in the first half of 2019, to review implementation of the regional strategy and identify and adopt any additional corrective measures that would be deemed necessary at the national and/or regional policy levels to allow the continuation of (or approval of new) IMF financial support as part of the IMF-supported programs with CEMAC members. These policy assurances are critical for the success of Chad's program as they will support rebuilding sufficient external reserves cover for the external sustainability of the region.

35. 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.

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36. The fiscal situation improved in 2018 but the economic and social situation remains very difficult. Fiscal performance continued to be encouraging with the increase in non-oil tax revenues and the reduction in the wage bill. However, low budget execution has slowed the recovery in the non-oil economy.

37. The program is on track and the authorities remain strongly committed to the reforms program. All but one PCs were met and preliminary data suggest that the program remained on track at end-September. Notwithstanding some delays, the structural reforms agenda remains broadly on track.

38. Public debt vulnerabilities declined but remain high. With the restructuring of the Glencore debt and the significant reduction in the stock of public debt in 2018, vulnerabilities have declined substantially this year. However, Chad remains at high risk of debt distress under the new LIC-DSF due to the application of lower debt service to revenue threshold to Chad (relative to the previous framework). In order to preserve debt sustainability and further reduce vulnerabilities, the authorities should i) avoid unduly adding to the existing external debt burden, including by eschewing nonconcessional borrowing and seeking concessional loans for high priority projects; ii) keep domestic debt on a declining trend (notwithstanding the potential increase in the stock of domestic debt after the conclusion of the audit of domestic arrears); and iii) improve debt management.

39. Fiscal policy in 2019 and the medium term must remain focused on non-oil revenue mobilization and maintaining fiscal prudence while improving budget execution. Sustained efforts are needed to meet the program objectives of a steady increase in non-oil revenue, notably by widening the tax base including avoiding renewing expiring exemptions, and not renewing or extending exemptions for existing oil production and refining activities. On the spending side, the authorities should focus on maintaining control over the wage bill while allowing for a pickup in other primary spending notably in social sectors. It is essential that spending beyond what is included in the budget be effected only if external budget support is available or additional oil revenues materialize (in line with the program).

40. Despite some delays, satisfactory progress has been made in implementing the authorities' 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, which will strengthen their position. Efforts to pay domestic arrears and reduce domestic debt would further ease liquidity pressures.

41. Risks to the program have declined but remain high. The usual risks associated with lower oil prices and a deterioration in the security situation are still very important. Additional risks to the program include overruns in spending, especially in case of higher than expected oil revenues, and resort to nonconcessional borrowing. Lastly, high turnover among mid- and high-level officials within ministries complicates the conduct of economic policies. The authorities' strong and demonstrated commitment to the program and the contingencies under the new Glencore debt contract provide key risk mitigating factors.

42. The CEMAC regional strategy has helped to avert an immediate crisis but continues to face headwinds. Uneven program implementation, insufficient repatriation of export proceeds and delays in securing IMF-supported programs with two member countries have contributed to the underperformance of reserve accumulation, despite higher-than-projected oil prices. Regional socio-political and security conditions remain difficult, and growth weak. However, the BEAC and COBAC have made progress in delivering on their policy assurances, including by further tightening liquidity conditions to support regional reserves.

43. Based on Chad's performance under the program and the adequate implementation of the regional policy assurances, staff recommends the completion of the third review under the ECF arrangement. Staff also support the authorities' request for a waiver of nonobservance of the continuous PC on non-accumulation of external arrears, and the request for modification of the external arrears and non-oil primary balance PCs. Staff proposes the completion of the financing assurances review. Staff proposes that completion of the fourth ECF review be conditional on the implementation of critical policy measures at the union level, as established in the December 2018 union-wide background paper.

Table 1. Chad: Selected Economic and Financial Indicators, 2016-22

	2016	2017	2018		2019		2020		2021		2022
	Prel.	Prel.	2nd Rev.	Proj.	2nd Rev.	Proj.	2nd Rev.	Proj.	2nd Rev.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)										
Real economy											
GDP at constant prices	-6.4	-3.1	3.5	3.1	3.6	4.6	6.9	6.1	4.8	4.9	5.4
Oil GDP	-8.4	-16.2	15.2	15.2	8.0	12.7	21.9	16.8	8.2	8.2	10.6
Non-oil GDP	-6.0	-0.5	1.5	1.0	2.7	3.0	3.8	3.8	4.0	4.0	4.0
GDP deflator	-1.2	-0.9	2.2	2.3	2.5	2.7	3.0	2.9	3.0	3.0	2.9
Consumer price index (annual average)[1]	-1.1	-0.9	2.1	2.5	2.6	2.9	3.0	3.0	3.0	3.0	3.0
Oil prices											
Brent (US$/barrel)[2]	44.0	54.4	73.3	71.9	72.5	72.3	68.7	69.4	66.0	66.8	65.0
Chadian price (US$/barrel)[3]	36.2	49.4	67.6	66.2	68.5	67.3	64.7	63.4	62.0	60.8	59.0
Oil production for exportation (millions of barrels)	44.4	35.9	39.8	39.8	42.6	44.8	53.5	53.5	58.5	58.5	65.5
Exchange rate CFAF per US$ (period average)	592.7	580.9	...	...	...	...	...	...	...	...	...
Money and credit											
Net foreign assets	-38.2	0.5	11.8	8.2	6.3	10.1	10.7	10.5	9.5	10.5	5.3
Net domestic assets	30.5	-4.7	-4.6	-3.1	1.2	-0.3	-3.1	-1.7	-2.4	-3.7	1.5
Of which : net claims on central government	26.5	-4.4	-0.2	-0.2	0.0	1.1	-4.5	-2.9	-3.9	-4.9	0.2
Of which : credit to private sector	-2.7	-1.7	1.0	0.8	1.2	1.3	1.4	1.2	1.5	1.2	1.3
Broad money	-7.7	-4.3	7.2	5.0	7.5	9.8	7.7	8.8	7.1	6.8	6.9
Velocity (non-oil GDP/broad money)[4]	5.1	5.3	5.1	5.2	5.1	5.1	5.0	5.0	5.0	5.0	5.0
External sector (valued in US dollar)											
Exports of goods and services, f.o.b.	-15.4	10.5	37.8	34.0	7.0	9.8	15.4	11.9	5.0	5.0	8.6
Imports of goods and services, f.o.b.	-15.3	3.0	20.3	17.4	6.3	6.8	10.2	8.5	5.7	6.3	10.7
Export volume	-3.9	-15.1	7.5	7.5	5.7	10.0	20.1	16.2	7.8	7.8	10.3
Import volume	-10.4	1.3	18.1	14.7	4.9	5.6	8.9	8.0	4.1	5.9	10.7
Overall balance of payments (percent of GDP)	-8.6	-1.1	1.3	0.9	0.6	1.0	1.1	1.1	0.9	1.0	-0.3
Current account balance, including official transfers (percent of GDP)	-9.2	-5.7	-4.2	-4.7	-5.5	-5.2	-4.4	-4.4	-4.6	-5.3	-5.5
Terms of trade	-6.9	28.1	25.8	21.8	-0.1	-1.2	-5.1	-4.2	-4.2	-3.0	-1.5
External debt (percent of GDP)[5]	27.1	27.3	26.2	26.9	24.9	25.4	22.2	22.8	19.7	20.3	17.8
NPV of external debt (percent of exports of goods and services)	97.2	94.9	72.0	69.8	66.8	64.5	56.6	56.2	51.3	51.2	44.3
	(Percent of non-oil GDP, unless otherwise indicated)										
Government finance											
Revenue and grants	14.9	17.1	19.4	18.9	18.5	18.9	20.0	20.0	19.5	19.7	19.8
Of which : oil revenue[6]	3.5	4.1	6.3	6.4	5.9	6.8	7.2	7.5	7.0	7.2	7.1
Of which : non-oil revenue	8.4	8.7	8.3	8.3	8.8	8.8	9.2	9.2	9.6	9.6	9.9
Expenditure	18.0	18.0	18.3	17.8	18.3	18.7	18.4	18.4	18.0	18.0	17.4
Current	14.2	13.7	12.9	12.3	12.4	12.6	12.4	12.3	11.8	11.7	11.1
Capital	3.7	4.4	5.5	5.5	5.9	6.1	6.0	6.1	6.2	6.3	6.3
Non-oil primary balance (commitment basis, excl. grants)[7]	-4.4	-3.8	-4.4	-3.8	-4.1	-4.5	-3.7	-3.7	-3.0	-3.0	-2.3
Overall fiscal balance (incl. grants, commitments basis)	-3.0	-1.0	1.0	1.1	0.2	0.2	1.6	1.6	1.5	1.7	2.4
CEMAC reference fiscal balance (in percent of GDP)[8]	...	0.4	-1.2	-1.2	-1.2	-1.9	-0.4	-0.5	0.2	0.4	1.1
Total debt (in percent of GDP)[5]	51.2	52.4	49.2	49.8	45.4	45.6	40.8	41.2	36.9	37.5	33.9
Of which : domestic debt	24.0	25.1	23.0	22.9	20.5	20.1	18.6	18.4	17.2	17.2	16.1
Memorandum items:											
Nominal GDP (billions of CFA francs)	5,984	5,746	6,079	6,062	6,455	6,514	7,103	7,109	7,669	7,676	8,319
Of which: non-oil GDP	4,838	4,829	5,011	4,995	5,283	5,290	5,631	5,637	6,028	6,035	6,449
Nominal GDP (billions of US$)	10.1	9.9	11.1	11.0	11.8	11.6	13.1	12.9	14.2	14.0	15.3

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

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

[2] WEO projections for Brent crude oil price.

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

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

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

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

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

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

Table 2. Chad: Fiscal Operations of the Central Government, 2016-22

(In billions of CFAF, unless otherwise indicated)

	2016	2017	2018		2019		2020		2021		2022
	Prel.	Prel.	2nd Rev.	Proj.	2nd Rev.	Proj.	2nd Rev.	Proj.	2nd Rev.	Proj.	Proj.
Total revenue and grants	721	825	971	944	975	1,000	1,126	1,130	1,178	1,186	1,275
Revenue	576	619	732	735	778	827	922	941	1,000	1,016	1,096
Oil[1]	171	199	318	320	312	359	403	420	421	434	455
Non-oil	405	420	414	414	466	468	519	521	579	582	641
Tax	339	373	397	397	439	441	491	493	549	551	602
Non-tax	66	47	18	18	26	26	28	28	30	30	39
Grants	145	206	239	210	197	173	204	189	178	170	178
Budget support	65	102	151	122	84	60	83	68	43	36	35
Project grants	81	103	88	88	113	113	121	121	135	135	143
Expenditure	869	871	919	887	966	989	1,035	1,038	1,087	1,086	1,123
Current	689	659	644	613	656	666	696	694	712	706	718
Wages and salaries	365	376	354	324	359	350	363	355	367	358	362
Goods and services	96	88	87	87	97	109	112	114	119	121	129
Transfers and subsidies	108	103	112	112	123	131	135	137	145	147	153
Interest	121	92	91	90	78	77	87	88	82	80	74
Domestic	12	34	27	27	22	22	27	30	30	29	27
External	109	58	64	63	56	55	60	58	52	51	47
Memo: Glencore loan (after restructuring)		*51*	*53*	*48*	*43*	*43*	*46*	*47*	*38*	*39*	*36*
Investment	180	212	274	274	310	323	339	344	375	380	405
Domestically financed	51	36	83	83	105	118	119	124	130	135	145
Foreign financed[2]	129	176	191	191	205	205	220	220	245	245	260
Overall balance (incl. grants, commitment)	-147	-47	52	57	9	10	92	92	92	101	152
Non-oil primary balance (excl. grants, commitment)[3]	-214	-183	-222	-192	-217	-240	-209	-209	-180	-179	-148
Float from previous year[4]	-103	-80	-12	-12	-43	-43	-75	-75	-79	-79	-91
Float at end of period[4]	80	12	43	43	75	75	79	79	91	91	80
Var. of Arrears[5]	-10	6	-60	-60	-50	-50	-35	-35	-35	-35	-15
Repayment of other arrears[6]	-72	-13	-54	-54	-10	-10	-10	-10	-20	-20	-45
Overall balance (incl. grants, cash)	-253	-122	-31	-26	-19	-18	51	51	49	58	81
Non-oil primary balance (excl. grants,cash)	-320	-259	-304	-275	-245	-268	-250	-250	-223	-222	-219
Financing	252	122	30	25	18	18	-51	-51	-49	-57	-81
Domestic financing	299	45	21	9	28	14	-8	-11	6	-6	-11
Bank financing	50	9	11	8	69	56	-27	-24	-14	-24	-65
Central Bank (BEAC)	61	-11	11	8	69	56	-27	-24	-14	-24	-65
Deposits	-6	-24	-72	-74	25	12	-47	-45	-8	-17	-4
Advances (net)	30	-14	0	0	0	0	0	0	0	0	-48
IMF	37	27	83	83	44	44	20	20	-6	-6	-13
Commercial banks (deposits)	-11	20	0	0	0	0	0	0	0	0	0
Other financing (net), of which:	250	-37	1	-8	-41	-43	18	13	21	18	55
Amortization	*-53*	*-71*	*-192*	*-192*	*-85*	*-85*	*-189*	*-149*	*-91*	*-76*	*-78*
Commercial banks loans	*-10*	*11*	*54*	*54*	*0*	*0*	*10*	*10*	*10*	*10*	*15*
Non-bank loans (gross)[7]	*60*	*2*	*45*	*45*	*30*	*32*	*32*	*35*	*35*	*39*	*41*
Treasury bills (net)	*79*	*-6*	*32*	*85*	*-35*	*-45*	*-5*	*-5*	*-4*	*-5*	*18*
Treasury Bonds (gross)	*174*	*27*	*62*	*0*	*49*	*56*	*170*	*122*	*71*	*50*	*58*
Privatization and other exceptional receipts	0	73	9	9	0	0	0	0	0	0	0
Foreign financing	-47	77	10	17	-10	4	-42	-40	-56	-52	-70
Loans (net)	-104	30	-9	-10	-36	-23	-67	-65	-80	-77	-95
Disbursements	18	159	85	85	62	73	67	64	76	72	76
Budget borrowings	0	88	26	26	0	13	0	0	0	0	0
Project loans	18	71	58	58	62	60	67	64	76	72	76
Amortization	-122	-128	-94	-95	-98	-96	-134	-129	-156	-148	-171
Memo: Glencore loan (after restructuring)		-59	-40	-40	-35	-35	-66	-64	-79	-77	-93
Debt relief/rescheduling (HIPC)	30	30	26	27	26	27	24	25	24	25	25
External arrears[8]	27	17	-7	0	0	0	0	0	0	0	0
Financing Gap		0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Non-oil GDP	4,838	4,829	5,011	4,995	5,283	5,290	5,631	5,637	6,028	6,035	6,449
Poverty-reducing social spending	196	202	214	214		245					
Bank deposits (including BEAC)	114	119	190	193	165	181	212	225	220	243	247
(In months of domestically-financed spending)	1.9	2.0	3.1	3.3	2.6	2.8	3.1	3.3	3.1	3.5	3.4
BEAC advances[9]	485	480	480	480	480	480	480	480	480	480	432

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, 2016-22

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

	2016	2017	2018		2019		2020		2021		2022
	Prel.	Prel.	2nd Rev.	Proj.	2nd Rev.	Proj.	2nd Rev.	Proj.	2nd Rev.	Proj.	Proj.
Total revenue and grants	14.9	17.1	19.4	18.9	18.5	18.9	20.0	20.0	19.5	19.7	19.8
Revenue	11.9	12.8	14.6	14.7	14.7	15.6	16.4	16.7	16.6	16.8	17.0
Oil[1]	3.5	4.1	6.3	6.4	5.9	6.8	7.2	7.5	7.0	7.2	7.1
Non-oil	8.4	8.7	8.3	8.3	8.8	8.8	9.2	9.2	9.6	9.6	9.9
Tax	7.0	7.7	7.9	7.9	8.3	8.3	8.7	8.7	9.1	9.1	9.3
Non-tax	1.4	1.0	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6
Grants	3.0	4.3	4.8	4.2	3.7	3.3	3.6	3.4	3.0	2.8	3.4
Budget support	1.3	2.1	3.0	2.4	1.6	1.1	1.5	1.2	0.7	0.6	0.7
Project grants	1.7	2.1	1.8	1.8	2.1	2.1	2.1	2.1	2.2	2.2	2.7
Expenditure	18.0	18.0	18.3	17.8	18.3	18.7	18.4	18.4	18.0	18.0	17.4
Current	14.2	13.7	12.9	12.3	12.4	12.6	12.4	12.3	11.8	11.7	11.1
Wages and salaries	7.5	7.8	7.1	6.5	6.8	6.6	6.5	6.3	6.1	5.9	5.6
Goods and services	2.0	1.8	1.7	1.7	1.8	2.1	2.0	2.0	2.0	2.0	10.0
Transfers and subsidies	2.2	2.1	2.2	2.2	2.3	2.5	2.4	2.4	2.4	2.4	2.4
Interest	2.5	1.9	1.8	1.8	1.5	1.5	1.5	1.6	1.4	1.3	1.1
Domestic	0.2	0.7	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.4
External	2.3	1.2	1.3	1.3	1.1	1.0	1.1	1.0	0.9	0.8	0.7
Memo: Glencore loan (after restructuring)		*1.1*	*1.1*	*1.0*	*0.8*	*0.8*	*0.8*	*0.8*	*0.6*	*0.7*	*0.6*
Investment	3.7	4.4	5.5	5.5	5.9	6.1	6.0	6.1	6.2	6.3	6.3
Domestically financed	1.1	0.7	1.7	1.7	2.0	2.2	2.1	2.2	2.1	2.2	2.2
Foreign financed[2]	2.7	3.6	3.8	3.8	3.9	3.9	3.9	3.9	4.1	4.1	4.0
Overall balance (incl. grants, commitment)	-3.0	-1.0	1.0	1.1	0.2	0.2	1.6	1.6	1.5	1.7	2.4
Non-oil primary balance (excl. grants, commitment)[3]	-4.4	-3.8	-4.4	-3.8	-4.1	-4.5	-3.7	-3.7	-3.0	-3.0	-2.3
Float from previous year[4]	-2.1	-1.6	-0.2	-0.2	-0.8	-0.8	-1.3	-1.3	-1.3	-1.3	-1.4
Float at end of period[4]	1.6	0.2	0.9	0.9	1.4	1.4	1.4	1.4	1.5	1.5	1.2
Var. of Arrears[5]	-0.2	0.1	-1.2	-1.2	-0.9	-0.9	-0.6	-0.6	-0.6	-0.6	-0.2
Repayment of other arrears[6]	-1.5	-0.3	-1.1	-1.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.7
Overall balance (incl. grants, cash)	-5.2	-2.5	-0.6	-0.5	-0.4	-0.3	0.9	0.9	0.8	1.0	1.3
Non-oil primary balance (excl. grants, cash)	-6.6	-5.4	-6.1	-5.5	-4.6	-5.1	-4.4	-4.4	-3.7	-3.7	-3.4
Financing	5.2	2.5	0.6	0.5	0.3	0.3	-0.9	-0.9	-0.8	-0.9	-1.3
Domestic financing	6.2	0.9	0.4	0.2	0.5	0.3	-0.2	-0.2	0.1	-0.1	-0.2
Bank financing	1.0	0.2	0.2	0.2	1.3	1.1	-0.5	-0.4	-0.2	-0.4	-1.0
Central Bank (BEAC)	1.3	-0.2	0.2	0.2	1.3	1.1	-0.5	-0.4	-0.2	-0.4	-1.0
Deposits	-0.1	-0.5	-1.4	-1.5	0.5	0.2	-0.8	-0.8	-0.1	-0.3	-0.1
Advances (net)	0.6	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.7
IMF	0.8	0.6	1.7	1.7	0.8	0.8	0.4	0.4	-0.1	-0.1	-0.2
Commercial banks (deposits)	-0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing (net)	5.2	-0.8	0.0	-0.2	-0.8	-0.8	0.3	0.2	0.3	0.3	0.8
Privatization and other exceptional receipts	0.0	1.5	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	-1.0	1.6	0.2	0.3	-0.2	0.1	-0.8	-0.7	-0.9	-0.9	-1.1
Loans (net)	-2.2	0.6	-0.2	-0.2	-0.7	-0.4	-1.2	-1.1	-1.3	-1.3	-1.5
Disbursements	0.4	3.3	1.7	1.7	1.2	1.4	1.2	1.1	1.3	1.2	1.2
Amortization	-2.5	-2.7	-1.9	-1.9	-1.9	-1.8	-2.4	-2.3	-2.6	-2.5	-2.7
Memo: Glencore loan (after restructuring)		*-1.2*	*-0.8*	*-0.8*	*-0.7*	*-0.7*	*-1.2*	*-1.1*	*-1.3*	*-1.3*	*-1.4*
Debt relief/rescheduling (HIPC)	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
External arrears[7]	0.6	0.3	-0.1	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
Memorandum items:											
Non-oil GDP	4,838	4,829	5,011	4,995	5,283	5,290	5,631	5,637	6,028	6,035	6,449
Poverty-reducing social spending	4.1	4.2	4.3	4.3		4.6					
Bank deposits (including BEAC)	2.4	2.5	3.8	3.9	3.1	3.4	3.8	4.0	3.7	4.0	3.8
(In months of domestically-financed spending)	1.9	2.0	3.1	3.3	2.6	2.8	3.1	3.3	3.1	3.5	3.4
BEAC advances[8]	10.0	9.9	9.6	9.6	9.1	9.1	8.5	8.5	8.0	7.9	6.7

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, 2016-22
(In billions of CFAF, unless otherwise indicated)

	2016	2017	2018		2019		2020		2021		2022
	Prel.	Prel.	2nd Rev.	Proj.	2nd Rev.	Proj.	2nd Rev.	Proj.	2nd Rev.	Proj.	Proj.
Current account, excl. budget grants	-638	-382	-403	-408	-426	-398	-312	-312	-356	-410	-470
Trade balance	135	177	513	483	523	582	731	725	733	710	729
Exports, f.o.b.	1,318	1,432	1,886	1,855	2,032	2,072	2,337	2,301	2,442	2,401	2,593
Of which : oil	955	1,045	1,477	1,446	1,596	1,649	1,879	1,841	1,959	1,919	2,072
Oil Export Volume (million barrel)	44	36	40	40	43	45	53	53	58	58	65
Doba Price (thousand CFAF)	21.5	29.1	37.1	36.3	37.5	36.8	35.1	34.4	33.5	32.8	31.7
Imports, f.o.b.	-1,184	-1,255	-1,373	-1,372	-1,509	-1,490	-1,605	-1,576	-1,709	-1,692	-1,864
Services (net)	-1,034	-978	-1,159	-1,130	-1,197	-1,220	-1,355	-1,333	-1,408	-1,385	-1,524
Income (net)	-107	-75	-183	-186	-204	-201	-226	-234	-190	-244	-211
Transfers (net)	370	495	425	426	452	441	537	530	509	510	536
Official (net)	85	149	108	108	122	112	182	168	148	141	146
Private (net)	285	346	317	318	330	329	355	363	361	369	390
Financial and capital account	34	171	308	312	382	390	391	388	425	489	486
Capital transfers	77	100	84	84	109	109	117	117	131	131	139
Foreign direct investment	145	211	263	268	324	332	321	321	355	391	383
Other medium and long term investment	-131	-71	-49	-50	-61	-56	-82	-98	-95	-82	-97
Public sector (excl. budget support loans)	-119	-58	-35	-36	-46	-36	-67	-65	-80	-77	-95
Private sector	-12	-13	-14	-14	-15	-21	-15	-33	-15	-5	-2
Short-term capital	-57	-69	10	10	10	5	34	47	33	48	60
Errors and omissions	0	0	0	0	0	0	0	0	0	0	0
Overall balance	-604	-211	-95	-95	-44	-8	78	75	68	79	16
Financing	421	-81	-193	-171	-110	-135	-123	-120	-91	-104	-42
Change in official reserves (decrease +)	421	-81	-193	-171	-110	-135	-123	-120	-91	-104	-42
Exceptional Financing	57	119	28	35	26	27	24	25	24	25	25
Debt relief (HIPC)	30	30	26	27	26	27	24	25	24	25	25
Other Exceptional Receipt	0	73	9	9	0	0	0	0	0	0	0
External arrears accumulation	27	17	-7	0	0	0	0	0	0	0	0
Financing gap	-126	-173	-260	-231	-128	-117	-20	-20	2	0	0
Financing gap (percent of GDP)	*-2.1*	*-3.0*	*-4.3*	*-3.8*	*-2.0*	*-1.8*	*-0.3*	*-0.3*	*0.0*	*0.0*	*0.0*
Expected financing (excl. IMF; incl. expected budget loans and grants)	88	145	177	148	84	73	0	0	0	0	0
Residual gap/IMF financing, *of which*	-37	-28	-83	-83	-44	-44	-20	-20	2	0	0
IMF ECF	37	27	83	83	44	44	20	20	…	…	…
Memorandum items:											
Current account (incl. expected budget grants; percent of GDP)	-9.2	-5.7	-4.2	-4.7	-5.5	-5.2	-4.4	-4.4	-4.6	-5.3	-5.6
Overall Balance of Payment (incl. expected budget support; percent of GDP)	-8.6	-1.1	1.3	0.9	0.6	1.0	1.1	1.1	0.9	1.0	0.2
Exports (percent of GDP)	22.0	24.9	31.0	30.6	31.5	31.8	32.9	32.4	31.8	31.3	31.2
Of which : oil	16.0	18.2	24.3	23.9	24.7	25.3	26.4	25.9	25.5	25.0	24.9
Imports (percent of GDP)	-19.8	-21.8	-22.6	-22.6	-23.4	-22.9	-22.6	-22.2	-22.3	-22.0	-22.4
FDI (percent of GDP)	2.4	3.7	4.3	4.4	5.0	5.1	4.5	4.5	4.6	5.1	4.6
Gross imputed reserves (billions of USD)	-0.3	-0.2	0.2	0.1	0.4	0.4	0.6	0.6	0.8	0.8	0.8

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

Table 5. Chad: Monetary Survey, 2016-22

(In billions of CFAF, unless otherwise indicated)

	2016	2017	2018				2019				2020	2021	2022
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
	Prel.	Prel.	Prel.	Prel.	Proj.	Proj.	Proj.				Proj.	Proj.	Proj.
Net foreign assets	-303.7	-299.4	-267.1	-248.8	-285.8	-225.4	-210.0	-185.0	-178.0	-129.2	-19.2	100.9	165.6
Central bank	-302.2	-257.0	-232.0	-203.1	-220.8	-170.4	-165.0	-140.0	-130.0	-79.2	20.8	130.9	185.6
Foreign assets	13.0	12.5	12.9	29.8	12.0	54.6	60.0	110.0	120.0	190.8	310.8	415.9	455.6
Foreign liabilities	-315.2	-269.6	-244.9	-232.8	-232.8	-225.0	-225.0	-250.0	-250.0	-270.0	-290.0	-285.0	-270.0
o/w. IMF financing	-75.2	-97.3	-96.7	-126.6	-154.3	-181.8	-179.5	-201.0	-201.0	-226.0	-246.4	-240.0	-226.8
Commercial banks	-1.5	-42.3	-35.1	-45.8	-65.0	-55.0	-45.0	-45.0	-48.0	-50.0	-40.0	-30.0	-20.0
Net domestic assets	1251.7	1207.1	1119.4	1090.2	1180.8	1178.6	1190.0	1180.0	1198.0	1175.7	1158.0	1115.8	1134.5
Domestic credit	1365.6	1308.1	1229.3	1249.8	1315.8	1313.6	1350.0	1340.0	1358.0	1335.7	1318.0	1275.8	1294.5
Claims on the government (net)	852.3	810.9	740.5	731.6	811.5	808.9	883.0	905.1	875.1	818.9	788.2	732.0	734.5
Treasury (net)	796.6	757.2	691.3	711.5	756.5	753.9	833.0	855.1	835.1	788.9	760.7	702.0	696.5
Banking sector	796.6	757.2	691.3	711.5	756.5	753.9	833.0	855.1	835.1	788.9	760.7	702.0	696.5
Central bank	592.7	584.5	542.7	507.4	597.5	594.9	674.0	696.1	676.1	650.9	626.7	603.0	537.5
Claims on general government	603.9	609.5	608.7	639.3	666.5	694.0	694.0	716.1	716.1	738.2	758.6	752.2	691.0
o/w. Advances[1]	494.0	479.9	479.9	479.9	479.9	479.9	479.9	479.9	479.9	479.9	479.9	479.9	431.9
o/w. IMF financing	75.2	97.3	96.7	126.6	154.3	181.8	179.5	201.0	201.0	226.0	246.4	240.0	226.8
Liabilities to general government	-11.2	-25.0	-65.9	-131.9	-69.0	-99.1	-20.0	-20.0	-40.0	-87.3	-131.9	-149.3	-153.6
Commercial banks	203.9	172.7	148.6	204.1	159.0	159.0	159.0	159.0	159.0	138.0	134.0	99.0	159.0
Claims on general government	331.1	263.7	262.6	317.6	250.0	250.0	250.0	250.0	250.0	229.0	225.0	190.0	250.0
Liabilities to general government	-127.3	-91.0	-114.0	-113.5	-91.0	-91.0	-91.0	-91.0	-91.0	-91.0	-91.0	-91.0	-91.0
Other non-treasury	55.8	53.7	49.2	20.1	55.0	55.0	50.0	50.0	40.0	30.0	27.5	30.0	38.0
Credit to the economy	513.3	497.1	488.8	518.2	504.3	504.6	467.0	434.9	482.9	516.8	529.8	543.8	560.0
Other items (net)	-114.0	-101.0	-109.9	-159.6	-135.0	-135.0	-160.0	-160.0	-160.0	-160.0	-160.0	-160.0	-160.0
Money and quasi money	948.0	907.7	852.3	841.3	895.0	953.2	980.0	995.0	1020.0	1046.5	1138.8	1216.7	1300.1
Currency outside banks	399.6	406.5	380.7	378.6	400.8	426.9	438.9	445.6	456.8	468.7	510.0	544.9	582.3
Demand deposits	438.2	404.0	384.2	366.9	398.3	424.2	436.1	442.8	453.9	465.7	506.8	541.5	578.6
Time and savings deposits	110.2	97.2	87.5	95.8	95.9	102.1	105.0	106.6	109.2	112.1	122.0	130.3	139.2
Memorandum items:													
Broad money (annual percentage change)	-7.7	-4.3				5.0				9.8	8.8	6.8	6.9
Credit to the economy (annual percentage change)	-5.1	-3.2				1.5				2.4	2.5	2.7	3.0
Credit to the economy (percent of GDP)	8.6	8.7				8.3				7.9	7.5	7.1	6.7
Credit to the economy (percent of non-oil GDP)	10.6	10.3				10.1				9.8	9.4	9.0	8.7
Velocity (non-oil GDP)	5.1	5.3				5.2				5.1	5.0	5.0	5.0
Velocity (total GDP)	6.3	6.3				6.4				6.2	6.2	6.3	6.4

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

[1] Include statutory and exceptional advances.

Table 6. Chad: Financial Soundness Indicators, 2011-2018Q2

(Percent)

	2011	2012	2013	2014	2015	2016	2017	2018Q2
Capital Adequacy								
Regulatory capital / Risk-weighted assets	20.0	18.1	22.0	13.4	14.7	13.2	18.0	19.4
Asset Quality								
Gross credits in arrears/Gross banking loans	7.6	7.4	9.8	11.7	17.0	20.9	…	…
Provisions / Credits in arrears	89.0	64.5	65.3	68.3	56.1	52.4	…	…
Net credits in arrears/Gross banking loans	0.8	2.6	3.4	3.7	7.3	…	…	…
Profitability								
Return on assets	2.6	2.2	2.8	2.1	1.6	1.4	1.1	1.4
Return on equity	19.2	15.5	21.1	19.4	15.2	14.6	9.0	11.7
Liquidity								
Liquid assets / Total assets	29.9	31.8	28.6	30.8	26.0	23.1	27.5	18.2
Liquid assets / Short term liabilities	149.3	146.6	139.3	152.9	142.1	155.0	188.9	115.0

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, 2018–32

(Percent)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Fund obligations based on existing credit															
Principal	0.0	0.0	2.0	8.1	17.0	29.7	33.7	29.0	22.9	14.0	3.5	0.0	0.0	0.0	0.0
Charges and interest	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Fund obligations based on existing and prospective credit															
Principal	0.0	0.0	2.0	8.1	17.0	29.7	50.5	57.1	53.8	44.9	34.4	14.0	2.8	0.0	0.0
Charges and interest	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Total obligations based on existing and prospective credit															
SDR millions	0.3	0.5	2.5	8.6	17.5	30.2	51.0	57.6	54.3	45.4	34.9	14.5	3.3	0.5	0.5
CFAF billions	0.2	0.4	2.0	6.7	13.6	23.5	39.7	44.8	42.2	35.3	27.1	11.3	2.6	0.4	0.4
Percent of exports of goods and services	0.0	0.0	0.1	0.3	0.5	0.8	1.3	1.4	1.2	1.0	0.7	0.3	0.1	0.0	0.0
Percent of debt service[1]	0.1	0.3	1.2	3.7	6.6	10.7	16.4	17.5	27.5	30.6	26.5	14.1	3.2	0.5	0.4
Percent of GDP	0.0	0.0	0.0	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.2	0.1	0.0	0.0	0.0
Percent of tax revenue	0.0	0.1	0.4	1.1	2.1	3.3	5.0	5.1	4.3	3.3	2.3	0.9	0.2	0.0	0.0
Percent of quota	0.2	0.4	1.8	6.1	12.5	21.5	36.4	41.1	38.7	32.4	24.9	10.4	2.4	0.4	0.4
Outstanding IMF credit based on existing and prospective drawings															
SDR millions	230.1	286.1	312.2	304.1	287.0	253.9	203.4	146.3	92.5	47.7	16.8	2.8	0.0	0.0	0.0
CFAF billions	180.4	225.0	244.1	237.4	223.6	197.8	158.3	113.9	72.0	37.1	13.1	2.2	0.0	0.0	0.0
Percent of exports of goods and services	8.8	10.2	9.7	9.0	7.8	6.7	5.1	3.5	2.1	1.0	0.3	0.1	0.0	0.0	0.0
Percent of debt service[1]	127.4	175.6	144.7	129.8	108.1	90.2	65.4	44.4	46.8	32.1	12.8	2.7	0.0	0.0	0.0
Percent of GDP	3.0	3.5	3.4	3.1	2.7	2.3	1.7	1.1	0.7	0.3	0.1	0.0	0.0	0.0	0.0
Percent of tax revenue	42.4	47.1	46.1	40.4	33.9	27.4	19.8	12.9	7.4	3.4	1.1	0.2	0.0	0.0	0.0
Percent of quota	164.1	204.1	222.7	216.9	204.7	181.1	145.0	104.3	66.0	34.0	12.0	2.0	0.0	0.0	0.0
Net use of IMF credit (SDR millions)	105.2	56.1	26.0	-8.1	-17.0	-29.7	-50.5	-57.1	-53.8	-44.9	-34.4	-14.0	-2.8	0.0	0.0
Disbursements	105.2	56.1	28.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.0	0.0	2.0	8.1	17.0	29.7	50.5	57.1	53.8	44.9	34.4	14.0	2.8	0.0	0.0
Memorandum items:															
Exports of goods and services (CFAF billions)	2,047	2,199	2,510	2,623	2,852	2,956	3,108	3,271	3,443	3,624	3,817	4,023	4,122	4,107	4,102
External Debt service (CFAF billions)[1]	142	128	169	183	207	219	242	257	154	116	102	80	79	83	88
Nominal GDP (CFAF billions)	6,079	6,455	7,103	7,669	8,256	8,747	9,341	9,982	10,698	11,428	12,211	13,042	13,778	14,534	15,351
Tax revenue (CFAF billions)	426	478	530	588	660	722	798	883	976	1,076	1,176	1,285	1,403	1,519	1,644
Quota (SDR millions)	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2

Source: IMF staff estimates and projections.

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

Annex I. Governance and Corruption in Chad[1]

A. Motivation

1. Improving governance and addressing corruption have been identified as central challenges in Chad. Chad performs poorly across a range of governance and corruption indicators when compared with other countries in sub-Saharan Africa and on the basis of surveys of the private sector. Based on the Worldwide Governance Indicators, government effectiveness, rule of law and control of corruption in Chad are assessed as lower than sub-Saharan Africa average and the country scores low on the corruption perception index produced by Transparency International. Within Chad, corruption is considered as the second most problematic factor for doing business according to the Global Competitiveness Report and is one of the most important constraints for doing business according to the 2018 World Bank Enterprise Survey. Data on the incidence and depth of bribes for firms in Chad is larger than the average in sub-Saharan Africa although it has declined since 2009 (Figure 1).

B. The Cost of Weak Governance and Corruption

2. Weak governance and corruption introduce inefficiencies in the economy that undermines macroeconomic performance and inclusive growth. It creates an unfavorable business environment by undermining operational efficiency and raising the costs and risks associated with running a private firm. The incidence of corruption and weak governance in the Chadian economy contributes towards:

- **Weak fiscal performance.** A low level of non-oil tax revenues as a share of GDP mainly due to large tax exemptions, weak capacity in customs and low compliance of tax payers. In addition, the lack of transparency in contracts and the licenses distributed in the oil sector has complicated the management and oversight of government oil revenues.

- **Low efficiency of public spending.** Despite the increase in public investment due to the boom in oil revenue in the 2000s, the positive impact on macroeconomic performance was held back due to limited institutional capacity.[2]

- **Poor business climate environment.** Based on the World Bank's Doing Business Survey, the business environment is very challenging, with paying taxes and starting a new business being particularly problematic (Figure1). In addition, the complexity and opacity of the regulatory environment, especially in the area of trade, create incentives for corruption and more generally hinder private business.

[1] Prepared by Moez Ben Hassine and Preya Sharma.

[2] See Selected Issue Paper on Public Investment Efficiency in Chad (IMF 2016).

- **Weak financial sector.** Governance issues in public banks have undermined the quality of their portfolio and affected their performance.

- **Large informal sector.** Most firms in the informal sector pay bribes to solve disputes with public administration according to the 2011 survey on consumption and the informal sector in Chad.

- **Volatile growth and large dependence on oil sector.** The poor business climate has undermined the emergence of sectors which could boost growth and employment.

C. Strategies to Improve Governance and Tackle Corruption: Recent Initiatives and Policy Recommendations for Future Actions

3. Improving governance and tackling corruption has the potential to considerably improve development outcomes in Chad. The following areas have been identified as needing reform; (i) strengthening fiscal governance, (ii) improving transparency and oversight of the oil sector, (iii) criminalization of corruption and strengthening of the asset declaration framework, (iv) improving financial sector resilience, and (v) strengthening the AML/CFT framework. Efforts are ongoing, and progress has been made in many areas including in the context of the ECF arrangement. In addition, the authorities consider strengthening anti-corruption efforts to be a key element of their national development strategy.

(i) Strengthening Fiscal Governance

- **Tax and customs administrations need to be further strengthened.** The yield of the non-oil tax system is weak in large part due to governance issues that create distortions. Reform priorities include improving the VAT framework particularly collection, modernizing the excise good management system, rationalizing exemption and continuing the modernization of customs administration. Structural benchmarks in the Fund-supported program include reforms to improve VAT collection and customs.

- **Determined PFM reform efforts are needed to further improve spending control and transparency and prevent the accumulation of arrears.** Some progress has been made on cash flow projections, management of the wage bill and, albeit fragile, emergency spending procedures and their regularization. The authorities need to strengthen their efforts in these areas, improve public debt management and the reporting and monitoring of spending more generally, and limit the use of emergency spending. In addition, the authorities should aim to improve the efficiency and transparency of public procurement management by strengthening the capacity of the public procurement regulatory authorities.

- **Corporate governance, fiscal transparency and accountability of revenue generating agencies and state-owned enterprises should be strengthened.** Timely transfer of oil revenues to the Treasury account at the BEAC is crucial for a better transparency and monitoring of oil revenues. The Ministry of Finance identified a body that will oversee state owned enterprises (SOEs) and publish the most recent audited financial statements of nine identified SOEs on the Ministry of Finance and Budget website. This effort is supported by the World Bank. However, more effort is needed to improve SOE's governance with a particular focus on reforming the electricity sector where investment needs are very large.

(ii) Improving Transparency and Oversight of the Oil Sector

- **Chad is making progress in implementing the 2016 EITI standards.** Chad is being assessed against the 2016 EITI standards. The government issued a communique announcing its intention to develop and adopt a policy on disclosure of contracts and licenses in the petroleum sector with support from the World Bank. However, civil society oversight and participation is still missing.

- **The authorities intend to increase transparency and efficiency in oil operations, beginning with the public oil company, SHT**. The government has published certified and verified annual financial reports for 2015-2016 for the SHT (Societe des Hydrocarbures du Tchad) holding and its subsidiaries.

- **The authorities are preparing a new oil revenue management mechanism**. The authorities are planning to design, with support from the World Bank, a new oil revenue management mechanism aimed at supporting fiscal policy for long-term sustainability, insulating expenditure from oil revenue volatility, and supporting priority programs.

- **A quarterly note on oil sector is being regularly published by the Ministry of Finance and Budget.** The note, which is a structural benchmark under the Fund-supported program, describes recent developments in the oil sector, including information related to production, export and new exploration. It also provides information on government oil revenues and debt service to Glencore.

(iii) Implementation of UNCAC Obligations and Strengthening of the Asset Declaration Framework

- **Efforts to implement the United Nations Convention against Corruption (UNCAC) should be sustained.** Following ratification of the UNCAC (completed structural benchmark), the authorities are preparing to be assessed against the implementation of the convention by the UN. This includes ensuring that the Convention is enforced by implementing legislation, notably with respect to preventive measures, criminalization and law enforcement, international cooperation and asset recovery.

- **The asset declaration framework should be strengthened and effectively implemented.** The constitution requires that high officials declare their assets to the Supreme Court, however the rate of compliance seems to be very low. To improve the effectiveness of the framework, the authorities should develop implementation legislation including to specify the assets required to be declared, establish an effective verification mechanism and dissuasive sanctions for non-compliance.

- **Further empowerment of anti-corruption agencies and the independence of the judiciary system is needed for effective control of corruption.** The necessary resources should be allocated to the newly created judiciary pool for repression of economic and financial offenses (pool judiciaire pour la repression des infractions economiques et financieres) and the chamber of audit.

(iv) Improving Financial Sector Resilience

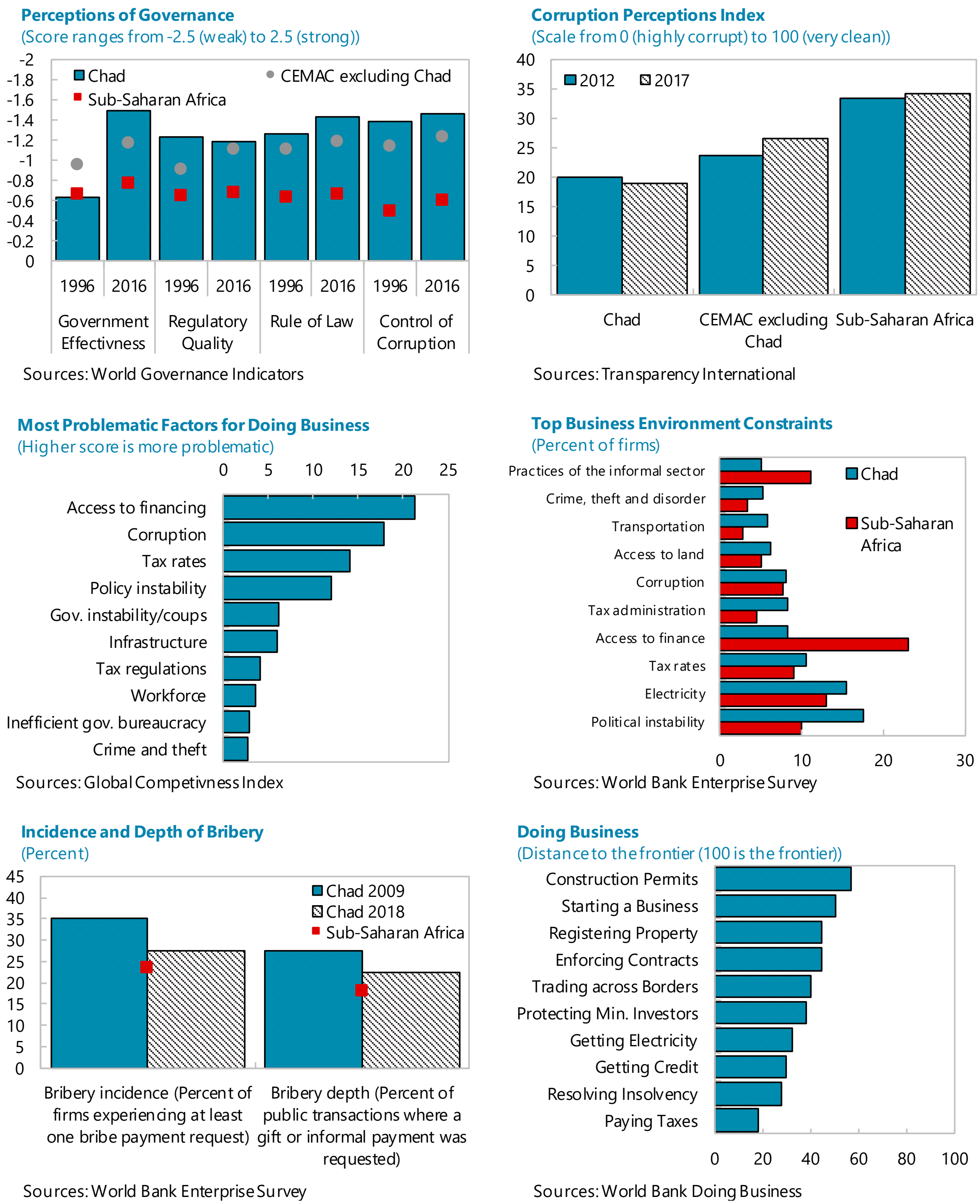
- **Governance issues in public banks should be carefully addressed.** The planned audit of the two public banks (structural benchmarks) are expected to guide the governance reform of public banks.

(v) Strengthening the AML/CFT Framework

- **The AML/CFT framework and its implementation should be strengthened**. An effective AML/CFT framework is a powerful tool to detect and trace the laundering of proceeds of corruption and assist in the investigation and prosecution of bribery. Specific elements of the AML/CFT framework such as enhanced due diligence requirements for domestic politically-exposed persons, identification of beneficial ownership and reporting of suspicious transactions should be improved and implementation strengthened.

- Through effective risk-based supervision of banks by the COBAC. Chad's assessment against the 2012 AML/CFT standard will be carried out in 2022.

Figure 1. Chad: Governance and Corrption



Appendix I. Letter of Intent

December 10, 2018

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. Each review led to the immediate disbursement of SDR 35.05 million, bringing total disbursements under the program to SDR 105.15 million.

Despite low oil revenues, 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, especially in the fiscal area, continued in 2018. After contracting for a third straight year in 2017, non-oil economic activity began to recover in 2018, but at a slower pace than expected. While oil production rebounded as projected, the upturn in non-oil economic activity was not as strong as initially expected due to the public-sector strike and low budget execution.

Fiscal prudence continued in the first half of 2018, reflecting efforts to raise non-oil revenue and control spending. In addition, the following factors were key in supporting the stabilization: (i) the financial support of development partners; (ii) the debt rescheduling agreement with Glencore; and (iii) the successful rollover of domestic public debt. These developments have helped to improve the liquidity position of the Treasury, enabling the government to pay wages on time and clear some domestic and external arrears. Nevertheless, the government is aware that the pace of reform must be maintained to firmly stabilize the country's fiscal and financial situation, as well as to ensure the effective resumption of growth in the non-oil sector.

Program implementation is broadly on track. All but one performance criteria (PC) for completion of the third review were met, but the two indicative targets were not achieved. The continuous criterion of zero accumulation of new external arrears by the government and non-financial public enterprises was missed by a very slim margin, despite efforts to avoid arrears. The indicative target on poverty-reducing social spending was narrowly missed, a reflection of the wage bill reduction that had more of an impact on the ministries of Education and Health. The indicative target on the regularization of emergency spending procedures (DAO) was missed, due mainly to the large volume of DAOs and coordination issues among the relevant agencies. All the quantitative targets for end-September were met, except those relating to DAO regularization and poverty-reducing social spending.

Despite a few delays, the government undertakes to pick up the pace in implementing the structural reforms program. Just one of the three structural benchmarks was implemented on time, but progress has been made on the others. The government continues to publish quarterly updates on the oil sector in line with the template agreed with Fund staff. While the structural benchmark concerning the recruitment of external consultants to review and prepare reorganization plans for two public banks has not been reached, the government has since retained the services of two firms, which began their work with the aim of completing their reports by end-February 2019. Moreover, due to the delay in launching and completing the audit of domestic arrears, a strategy for clearing these arrears has yet to be prepared or adopted. The government undertakes to adopt a comprehensive clearance strategy for domestic arrears by end-March 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 strong 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 and the repayment of domestic arrears. This should help strengthen financial sector stability and boost the non-oil sector.

Despite considerable challenges for 2019 and in the medium term, the government plans to focus on economic recovery and stabilization in 2019 to achieve a sustainable exit from the crisis. With appropriate policies and reforms as well as higher oil prices and production, non-oil GDP should rise again, and the economy should benefit more from the likely increase in oil revenues and the full effect of the Glencore debt restructuring.

The 2019 draft budget, which has been submitted to the National Assembly, is in line with the program. Non-oil revenue mobilization continues to be an important aspect of the overall effort to improve fiscal sustainability. The 2019 budget therefore 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. The government commits to not renew expiring 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. As regards spending, the 2019 draft budget law seeks fiscal prudence, including control over the wage bill, greater resource allocation to social sectors and investments, and strict limits on DAO use. As of March 2019, the government will therefore take the necessary corrective action in case the monthly wage bill exceeds the budgeted amount. Furthermore, the allocation to social sectors will have to be at least 34 percent of primary expenditures. Lastly, following budget approval by the National Assembly, in accordance with Decree 817 establishing general government accounting rules, the government will publish a decree adopted by the Council of Ministers limiting DAOs (for primary spending excluding the wage bill and security spending) to 22 percent of primary non-wage expenditures. The 2019 budget includes an allocation of CFAF 33 billion to cover the cost of parliamentary elections. Additional expenditures for the elections would be financed through higher-than-expected oil revenues or budgetary support, in accordance with program parameters. In the event of additional oil revenues (beyond what is projected under the program), the government commits to consult with the IMF on the use of such windfall in the context of a supplementary budget.

The program includes structural reforms to diversify the economy and its competitiveness, strengthen the private sector, improve governance, and fight corruption, including through the effective implementation of the UNCAC and the enforcement of the constitutional obligation imposed on senior officials to report assets. These goals are also enshrined in our National Development Plan 2017–21. With more determined program implementation efforts and continued technical and financial support from our development partners, we are confident in being able to achieve the goal of progressively lifting economic growth and reducing poverty. The government has undertaken to seek concessional financing to support priority investments.

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 is 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 at end-2018 from Treasury external accounts with Citibank to its 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 July 2018. It describes the economic and financial situation in 2017 and 2018, sets out the economic and financial policies that the government intends to implement during the remainder of 2018 and in 2019, and establishes the performance criteria, indicative targets, and structural benchmarks for 2019.

Based on program performance, the government requests that the Executive Board of the IMF approve the completion of the third review under the ECF-supported program. The government also requests a waiver for the nonobservance of the continuous performance criterion on external arrears accumulation, as it was missed by a small margin due to a single late payment. That payment had been made on time but was rejected. The government requests a change in the definition of external arrears for the purpose of the program to exclude arrears that are less than six weeks old (instead of only two weeks) given the limited capacity in the country and the nature of the technical difficulties that have recently arisen in making payments. With elections planned for 2019, the government requests modification of the adjustor related to the use of additional budgetary receipts (from higher oil revenue, additional budget support, and exceptional receipts) to help preserve its conservative fiscal approach. The government also requests to modify the date of the structural benchmark on public banks reform.

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 Akbar
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 region 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 reforms and stabilization strategy to lift the country out of the crisis.** A three-year ECF arrangement was approved on June 30, 2017 in support of the government's medium-term economic program; the first review of the ECF was approved by the IMF's Board on April 13, 2018 and the second review on July 27, 2018. The main elements of the program are to (i) reestablish debt sustainability through external commercial debt restructuring, (ii) achieve further gradual fiscal adjustment and create space for domestic arrears payment by maintaining a tight spending envelope and better mobilizing non-oil revenue, and (iii) limit reliance on domestic financing to help alleviate pressure on domestic banks.

3. **After more than two years of sharp economic contraction, signs of stabilization started to appear at the end of 2017 and 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 time 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 July 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 the remainder of 2018 and 2019.

RECENT DEVELOPMENTS AND IMPLEMENTATION OF THE 2017 ECF ARRANGEMENT

A. Recent Developments

5. **Economic activity is expected to have started to recover 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 this year and is in line with projections. Despite some

improvement relative to 2017, the recovery in non-oil economic activity has not been as strong as initially expected due to the strike in the public sector, low budget execution so far this year. After reaching a peak of 7.0 percent in May (y-o-y), inflation decelerated to 5.8 percent in September 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, and higher prices in the transportation, education, restaurants, and hotels sectors, while food prices declined.

6. The first six months were marked by continued fiscal prudence reflecting efforts to increase non-oil revenues and control spending. While the wage bill remained low, other domestically financed expenditures have started to pick-up in the second and third quarters. The lower monthly wage bill mostly reflects cuts in bonuses and benefits in 2018. Domestically financed investment and transfers and subsidies spending started to increase in the second quarter as the government made an effort to improve budget execution. However, social spending slightly underperformed partly due to the reduction in the wage bill which impacted the education and health sectors where the wage bill takes up a large share of the spending. Non-oil revenue performance was encouraging in the first six months despite strikes that erupted in the end of the second quarter, with tax revenues broadly in line with projections. This reflects strong efforts to secure revenues, including (i) channeling revenues through commercial banks (in which the Treasury opened four different accounts for tax, customs, land and non-tax revenues) rather than directly to the Treasury and (ii) reforms to improve VAT collection notably by increasing the threshold above which companies are considered large. In the third quarter, non-oil revenues have slightly declined but remained broadly in line with the projections.

7. Oil revenues have been driven by the satisfactory performance of oil tax revenues. Higher oil prices and production have contributed to a rebound of oil tax revenues so far in 2018. Government direct oil revenue (from royalties and government participation in oil companies) so far in 2018 has been in line with projections. It is not expected that higher oil prices will have a large impact on direct oil revenues that accrue to the treasury in 2018 (net of Glencore debt service) due to the contingencies included in the Glencore restructuring deal that allocate part of the windfall oil revenue to debt repayment which would help reduce the maturity of the debt.

8. Net government domestic financing in the first six months was in line with program objectives. The domestic treasury bills and bonds rollover rate during the first 6 months of 2018 has been broadly in line with the program objective (around 90 percent), although maturities have shortened. Deposits at the BEAC increased significantly, reflecting strong revenue performance and low budget execution.

9. The government made progress in paying domestic arrears. After declining by about CFAF 45 billion in the second half of 2017, payment of arrears was limited to CFAF 42 billion in the first three quarters of 2018.

10. In spite of minor accumulation of external arrears since the second review of the ECF, the government made considerable progress in clearing its arrears to external creditors and in paying external debt obligations in a timely manner. Following the agreement in principle signed with the Libyan Foreign Bank in May 2018, the government came to an agreement with Eximbank of India to reschedule external arrears (US$10.3 million) and upcoming maturities and is making an effort to clear the small arrears remaining to the commercial bank from Taiwan Province of China. The government is close to finalizing an agreement with the authorities of Equatorial Guinea to address outstanding arrears and has a draft agreement with the authorities of the Republic of Congo that is under negotiations. Finally, the government renegotiated Chad's debt to the Kuwait Fund—which was not in arrears—on more generous terms. In addition, an escrow account for external debt service payment was reactivated at the BEAC in September. Five percent of the balance of the Treasury account (that holds non-oil revenue) at the BEAC is transferred into the escrow account. The government expects that the dedicated funds for external debt payment—along with monthly meetings of all parties relevant for external debt service, including the IMF resident representative as an observer—will ensure that the occurrence of future arrears will stop.

11. Vulnerabilities in the banking sector remain elevated including because of continued portfolio deterioration. Overall banking sector liquidity is showing slight signs of improvement as deposits increased by 2.5 percent in August (y-o-y) thanks to the pick-up in government and state-owned enterprises' deposits that offset the decline in private sector deposits. Credit stabilized in August (y-o-y) as the deterioration of banks portfolio has limited their ability to support economic recovery. However, at end-August 2018, overdue loans accounted for 30.7 percent of gross loans, against 28 percent in December and provisions dropped to 52.7 percent. BEAC refinancing declined from CFAF 199 billion in December to CFAF 160 billion in August and advances at penalty rate declined significantly from CFAF 155 billion to around CFAF 82 billion.

12. The security situation has deteriorated recently while the social tensions are moderating. Deadly attacks took place in July and at end-September on the Chadian side of Lake Chad by Boko Haram and attacks in northern Chad near the border with Libya have occurred since August by armed groups. Concerns over security have necessitated an increase in security spending in 2018. A five-month strike by public sector workers (which delayed the start of the school) ended in late October after long negotiations between the government and unions culminating in an agreement to restore at the beginning of 2019 part of the benefits and bonuses cut that occurred in 2018. After the adoption of the new constitution in May (which moved Chad to a presidential system), the government plans to organize parliamentary elections in the fourth quarter of 2019, allowing time to secure the necessary financing and logistics.

B. Program Implementation

13. The government continued to show a strong determination to implement the program. All but one performance criteria were met (see text table XX), while the two indicative targets were missed at end-June. The continuous zero ceiling on new external arrears of the government and non-financial public enterprises has been missed by a very small margin.

- The ceiling on non-oil primary balance (NOPB) for end-June has been met with a large margin. The deficit stood at CFAF 71 billion compared to the quantitative performance criterion of CFAF

125 billion set in the program. This result was achieved primarily because of the government's efforts to contain spending including the wage bill.

- The floor on customs revenue has been met (CFAF 56 billion versus a target of CFAF 45 billion). Despite still weak economic activity and imports, the government strengthened its customs collection efforts.

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

- The criterion on net domestic government financing excluding BEAC was met. This reflects the government's efforts to reduce progressively its reliance on domestic market financing to alleviate liquidity pressures on banks.

- The adjusted criterion on domestic arrears payment was met. The stock of domestic arrears reached CFAF 176 billion against an adjusted target of CFAF 188 billion.

- The continuous zero ceiling on new external arrears of the government and non-financial public enterprises has been missed in spite of strong efforts to avoid such arrears. One small third-quarter payment ($60,000) was made with delay when the Banque de France rejected the first attempt to pay.

- 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 has been missed by a small margin, despite the reduction in the wage bill in the education and health ministries. In a context of spending restraints, the government remains strongly committed to protect spending on social sectors in line with the program, and will increase this spending in line with the program for the remainder of the year.

- The indicative target on the regularization of emergency spending procedures (DAO) has been missed. The regularization reached 48 percent at end June 2018 against a target of 70 percent. The authorities are committed to accelerate the regularization speed to meet the end of year target.

14. Performance at end-September 2018 remained broadly in line with the program. The non-oil primary deficit remained significantly below the program ceiling as all categories of domestically financed spending were low. 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, and the IT on net domestic financing from banks was also met with a small margin. While the ITs on the repayment of domestic arrears was met, the regularization of DAO was missed by a large margin as coordination issues continue to complicate this effort given the large level of DAO. The IT on poverty reducing social spending was also missed as lower spending on the wage bill was not completely compensated by higher spending on other categories in the social sectors.

15. Despite some delays, the government is committed to accelerate the pace of implementation of the structural reform agenda. One out three structural benchmarks was met on time, but some progress has been made on the missed ones. The government continues to publish quarterly notes on the oil sector, in line with the template agreed with IMF staff. Although the structural benchmark on the hiring of external consultants to review and prepare a reorganization plan for the two public banks was missed, the government has since selected two consulting firms. In addition, due to the delay in launching the audit of domestic arrears, an arrears clearance strategy has not been prepared and adopted yet.

16. The government requests a waiver for the missed continuous PC on non-accumulation of external arrears. The request is based on the small degree to which the continuous PC was missed. There was just one late payment which occurred due to a rejection of the initial payment, which was made on time.

ECONOMIC AND FINANCIAL POLICIES FOR THE REMAINDER OF THE PROGRAM

17. The government's economic reform strategy remains focused on stabilizing the economy and supporting a resumption in non-oil growth. Fiscal policy aims to preserve much of the adjustment in current spending of the past two 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 sustained to ensure that the government has a steady and reliable source of income, while enhancing the transparency of oil revenue flows and pursuing an effective taxation of the oil sector.

A. Fiscal Policy for the Remainder of 2018

18. For the remainder of 2018, the government is committed to continue to focus on non-oil revenue mobilization, increase primary spending in line with the budget and ensure that the 90 percent rollover objectives of domestic debt for the whole year is reached. On the revenue side, the government will continue to strengthen revenue collection efforts, particularly in the customs area. On the spending side, given low budget execution so far in 2018, the government will ensure that non-wage primary spending increases in the fourth quarter, most importantly in the social sector and investment, while increasing domestic arrears payment to help support the economic recovery and meet program targets. The fiscal space that resulted from the efforts to reduce the wage bill will be used to help offset the impact of lower than expected donor support. Given the tense security situation in the border areas, the government will likely have to increase security spending which it will do without undermining program objectives.

B. Fiscal policy in 2019 and the Medium-Term

19. While significant challenges remain in 2019 and the medium term, the government expects to build recovery and stabilization momentum in 2019 to durably lift the economy out of the crisis. With adequate policies and reforms and the improvement in oil prices, it expects that non-oil GDP will recover, and that the economy will benefit more from oil revenue set to accrue to the treasury following the restructuring of the Glencore debt, and the likely increase in oil tax revenues as more oil operators will begin paying profit taxes and some tax and customs exemptions will expire in 2019.

20. Strengthening non-oil revenue mobilization is a major element of the government program to improve fiscal sustainability. Within the 2019 budget, the government has taken additional dispositions to improve non-oil tax revenues in line with program objectives. These measures include: (i) removing and adjusting exemptions which are not in line with legal texts, based on the recommendations of the 2017 audit of 47 exemptions (existing SB); (ii) increasing income tax revenues by improving the collection of income tax, widening its base and increasing the rate of capital income tax; and (iii) reforming the corporate income tax (increase in the threshold of "regime reel"). 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.

21. The government expects significantly higher oil revenues in 2019 onwards, with the implementation of the new Glencore debt contract and the likely increase in oil tax revenue from the oil producers and the refinery. The government firmly commits not to extend or renew the tax and customs exemption (to oil production and refining activities) to ensure that the expected revenues accrue to the budget. Given the difficulties in projecting with certainty the amount and the timing of the start of the tax payments by the largest oil producer and the national refinery and the need for prudence, the 2019 budget does not reflect the associated increase in oil tax revenue. In the event this increase takes place in 2019, the government will discuss with IMF staff how to further allocate it. In addition, the effect of the new Glencore debt contract which is expected to lead to higher oil revenues relative to previous years, is expected to be felt throughout 2019.

22. The 2019 budget will be designed with a view to maintain fiscal prudence while efficiently using available resources to support economic recovery and improve the livelihood of Chadians. The budget, in line with the IMF supported program, is expected to be submitted for approval by the National Assembly by early December 2018 (prior action).

- **The government is determined to maintain 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. Following a much lower than projected wage bill so far in 2018, the government is committed to a wage bill in 2019 (CFAF 350 billion) that is lower than the initial target under the program. Compared with 2018, the increase in the wage bill in 2019 reflects the recent agreement with labor unions (October 2018) which will lead to an increase in bonuses and benefits of about CFAF 13 billion. In addition, the hiring of additional personnel in the security sector and civil service will lead to an increase in the wage bill by CFAF about 13 billion relative to 2018. The government commits to effecting this hiring only after concrete results derive from the ongoing efforts to update and clean the payroll. It also commits to taking new measures to control the wage bill by March 2019 if the monthly wage bill exceeds the budgeted amount.

- **The government will increase primary spending commensurate with available resources.** While spending needs are high in all sectors, particular emphasis will be placed on ensuring adequate allocation in the social sectors (to reach 34 percent of total primary spending) and investment whose allocation is increased by 40 percent relative to expected outcome in 2018. Given that parliamentary elections are likely to take place in the fourth quarter of 2019, the government has allocated CFAF 33 billion to cover their cost. 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.

23. With regard to domestic financing, the government will continue its budget financing strategy of limiting recourse to domestic banks only to roll over maturing treasury bills and bonds. In addition to paying maturities related to non-securitized debt, it will aim to repay at least 10 percent of maturing treasuries. 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.

24. The government considers the payment of domestic arrears as a priority and aims to reduce the stock of recognized arrears by at least the amount set under the program. The government firmly believes that the payment of arrears is key to the recovery of the non-oil sector and will therefore aim to pay more domestic arrears than programmed, 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. It will also aim to explain transparently to the public this strategy.

25. 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, including for externally financed investment projects, will be concessional (have at least 35 percent grant element, see TMU) and are consistent with debt sustainability. The government will respect the same parameters for potential budget loans. All draft loan agreements will continue to be submitted for prior approval to the National Commission for Debt Analysis (CONAD), which is supported by the technical and financial analysis of the Technical Team for Debt Sustainability Analysis (ETAVID).

C. External Sector

26. The government is determined to support the CEMAC's external policy objectives. Chad has helped underpin CEMAC's efforts to rebuild particularly low foreign exchange reserves and in October hosted a CEMAC summit focused on reinvigorating regional effort to address regional challenges. The government will continue to lead by example in its cooperation with regional foreign exchange-related measures.

27. The commitment to transparency will reflect in the government's management of the oil sector's capital flows. The government has provided all the contracts and agreements with oil companies to all relevant bodies, including the secretariat of the PREF-CEMAC COPIL. It will review the hydrocarbon and mining codes to align them with CEMAC foreign exchange regulations by end-2019.

28. The government will support the regional institutions' efforts to strengthen the repatriation of forex receipts, especially by government-controlled entities. It will ensure that all public entities—including SHT (Societe des Hydrocarbures du Tchad) —repatriate and surrender all their forex receipts to resident banks and do not hold deposit accounts abroad that were not authorized by BEAC. Balances of authorized accounts will be reported regularly to BEAC. The government will ensure that all concerned administrations, especially customs, strictly control the domiciliation by all exporters of all their exports receipts with resident commercial banks, and that customs provide BEAC with copies of all exports licenses ("Titres d'exportation"), as required in the forex regulation.

29. Regional integration will become a more prominent objective in Chad's economic policy priorities. The government will send its 2019-2021 convergence plan to the CEMAC Commission by end-2018 as part of the regional surveillance framework. The plan will be consistent with the framework and policies agreed to under the ECF arrangement, including external arrears clearance. The government remains cognizant that the CEMAC commission's assessment of the convergence criterion on arrears for 2018 will impact the risk-weighting by banks of Chad's sovereign debt.

D. Tax and Customs Reforms and Policies

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

- **Tax and customs exemptions.** The government is committed to reduce the high cost of exemptions. Most importantly it is firmly determined not to renew expiring exemptions 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. The minister of finance will ensure that any request for new or renewal of existing exemptions is subjected to analytical scrutiny to assess its effect on revenue and only approve such requests if the effect is neutral. Going forward, 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 (new structural benchmark). The government continues to follow up on the recommendations of the audit of 47 tax conventions. The government will redouble efforts to identify exemptions for removal or amendment if those are not in line with legal texts or have not been implemented correctly (existing structural benchmark).

- **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. A time-bound plan to strengthen the VAT regime is expected by year-end (existing structural benchmark). This plan will include 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 and boosting non-oil tax revenues collection. A penalty customs rate was introduced to incentivize acquiring a tax ID. Finally, legislative measures are expected to widen the base and reduce avoidance of income tax and stamp duties.

31. Administrative measures can 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 (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; and (iv) set the stage for transition to a single window system.

- **Non-oil taxes.** The government is reconsidering, with TA support from the IMF, the newly established VAT directorate to ensure the effectiveness of the administration of VAT. A new effort was recently launched within the Ministry of Finance to combat fraud and tax avoidance. This will support the efforts of customs agents to improve effectiveness of customs collection. In addition, the Directorate in charge of land and property tax has begun a new cadastral survey, starting in N'Djamena, which the government expects to improve its ability to apply the taxes effectively.

E. Structural Reforms on Public Financial Management

32. The government reaffirms that achieving the objectives of its economic program depends on sound and transparent public financial management. The government emphasizes the recent progress made in terms of budget execution, monitoring, and reporting, as well as the integration of CEMAC directives within the Chadian legislation. The government intends to continue the strong collaboration with its development partners to further improve PFM, including with further TA missions and long-term resident experts within the Budget and Treasury Directorate.

33. The improvement of the expenditure chain is a high priority for the government.

- The use of emergency spending procedures ("*dépenses avant ordonnancement*", DAO), has been extensive in the past two years. The government is committed to both reduce the use of DAO and to regularize them as soon as possible after they occur to limit the risks of over-spending and the accumulation of arrears. In order to achieve this objective, and recognizing the existing capacity constraints, the government is committed to (1) limit the use of DAO to a level lower than in 2017 and 2018. A limit of 22 percent of all primary spending excluding the wage bill, military spending and external debt service, will be set in a council of ministers decree by end-December (new SB), and will be monitored on a quarterly basis, (2) regularize within 45 days, 70, 75, and 80 percent of DAO after the second, third, and fourth quarter of 2019 respectively. This objective will be monitored through an indicative target (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). The government aims to more consistently implement the expenditure chain.

34. On the basis of an audit to be completed, the government is determined to adopt a holistic approach to clear domestic arrears. A well-defined clearance strategy will transparently explain the factors for prioritizing the clearance of arrears. 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 a key source of uncertainty regarding the repayment of arrears. Reforms envisaged to improve PFM (described above) would help avoid the recurrence of new arrears.

- In addition to the already validated arrears (CFAF 153 billion by end-September 2018) which are reported in the "*Reste à Payer*" table prepared by the Treasury, other potential claims that could be sizeable exist. An FAD technical assistance mission on managing and preventing domestic payment arrears in 2016 estimated the size of potential additional claims at CFAF 300 billion (on the basis of a sample of 8 ministries) although this estimate is subject to a wide variation.

- The government is committed to adopt a clearance strategy of domestic arrears by end-March 2019 (new structural benchmark, originally set for end-October 2018) based on audit results expected by end-December. The clearance of audited arrears will proceed at a pace consistent with resource availability and the medium-term fiscal framework. The government is committed to prioritize the payments on the basis of their economic and social impact, and the effect they are expected to have on the banking sector. Accordingly, the strategy will lay out transparent and objective factors for prioritization of payments. It will establish clear modalities for repayment after the audit is completed, which could include cash payment, securitization of arrears, and potential discounts.

- The government will reach out to the private sector and external stakeholders to clearly communicate the ongoing audit and the clearance strategy plans. The government is committed to earning the confidence of the public in the process of arrears clearance, thereby boosting the impact of these measures.

35. **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 and strengthening the responsiveness of the Committee to update revenue and expenditure forecasts.

36. **Strengthening public debt recording and monitoring capacity remains an important objective of the reform agenda.** The government is cognizant of its weak public debt management, monitoring and reporting, which led to recent misreporting of information on debt service to the IMF. To further improve public debt management, the government intends to draw on the ongoing AFRITAC Center's technical assistance missions to develop a medium-term debt strategy and strengthen debt monitoring. It will also seek follow-up TA support to improve debt management. Meanwhile, the government will continue to publish the annual public debt management report and will incorporate a section to elaborate on the short to medium term debt management strategy and a risk analysis. In addition, with a view to ensure that external debt service is paid on time and is adequately reported to the Fund, the ministry of finance will ensure that 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.

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

F. Banking Sector Reforms

38. **Despite some delays, the government is committed to implement its strategy to strengthen the position of public banks.** The government reconfirms that these public banks are solvent and continue to operate even though they face some challenges. Planned reforms aim to ensure that these banks improve their financial intermediation role, including deposit collection, proper allocation of resources to economic sectors and monitoring of risks related to credit, liquidity and solvency. The government began to implement the needed reforms and has identified external consultants to review the operations and business strategies of the two public banks. It hired the consultants to begin the work (prior action for CBT) with the aim of completing and sharing the reports on the review and the reorganization plan for CBT and BCC by end February to the IMF staff and the COBAC (modified SBs). In addition, based on the audit results, the government is committed to address all weaknesses identified and improve the governance structure of the two public banks

including if necessary replacing board members. In the meantime, the banks should continue to improve their liquidity position. Concerning the BAC, the Chadian and Sudanese authorities (the two shareholders) decided to recapitalize the bank and presented its strategic plan to the COBAC. The government aims to build on this plan to ensure that the bank has proper resources and a viable business plan. It was also decided to expand the BAC's activity to conventional intermediation in addition to Islamic finance.

G. Other Structural Reforms

39. Progress is under way in implementing the 2017-21 National Development Plan (NDP) which seeks to diversify the sources of economic growth. Two central economic axes of the NDP seek to strengthen governance and the rule of law and develop a diversified and competitive economy. 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. The government has adopted a streamlined committee under the responsibility of the Ministry of Economy, and Development Planning to regularly monitor and support implementation of the NDP within a transparent framework. Recently, 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.

40. Improving governance is a key element of the government's strategy to revive the private sector. In this regard, the government is committed to implement the United Nations Convention against Corruption (UNCAC), which was recently ratified by the National Assembly. The government will 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 aim for a strong implementation of asset declaration obligations set forth in the Constitution. The government through the ministry of justice, is seeking technical assistance from the IMF to support its efforts on asset declaration and the implementation of the UNCAC.

41. The government is committed to continue its effort to improve transparency and oversight of the oil sector. It expects Chad to be assessed to be compliant with the 2016 EITI standards**.** The government announced its intention to develop and adopt a policy on disclosure of 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 (Societe 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 is planned.

42. 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.

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 fourth review on end-December 2018, the fifth review on end-June 2019, the sixth review on end-Dec 2019. The government undertakes to adopt, in consultation with IMF staff, any new financial or structural measures, which may be necessary for the success of the program.

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

(in billions of CFAF, unless otherwise indicated)

	End-Dec 2018 QPC	End-Mar 2019 IT	End-June 2019 QPC	End-Sept 2019 IT	End-Dec 2019 IT
1. Floor on non-oil primary budget balance (NOPB)	-218	-80	-125	-180	-240
2. Floor on customs revenue	118	25	50	90	125
3. Ceiling on net domestic government financing excluding BEAC	-55	-20	-35	-45	-60
4. Ceiling on net government financing from the BEAC	35	110	125	125	65
5. Ceiling on the stock of domestic payment arrears by the government	150	140	130	120	100
6. Ceiling on new external arrears of the government and non-financial public enterprises	0	0	0	0	0
7. Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises	0	0	0	0	0
	IT	**IT**	**IT**	**IT**	**IT**
8. Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO)	80	50	70	75	80
9. Floor for poverty-reducing social spending	214	57	114	177	241
Memo item:					
10. Emergency spending procedures-DAO (Percent of primary spending)	*...*	*22*	*22*	*22*	*22*
11. Ceiling on new domestic payment arrears by the government	*0*	*0*	*0*	*0*	*0*
12. External concessional borrowing (US$ million)	*155*	*27*	*54*	*80*	*130*
13. Oil Revenue	*318*	*90*	*180*	*269*	*359*
14. Grants	*150*	*0*	*0*	*34*	*60*

Sources: Chadian authorities; and IMF Staff.

1. NOPB: Non-oil revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).

2. Customs revenue as given by the Treasury in the Table "Situation des Regies financières".

3. Includes net financing from Treasury bills / bonds and domestic banks direct loans net of amortization, see Technical memorandum of understanding.

5. Stock of verified arrears, as given in the Table "Restes à payer". In line with the TMU, the target for end-December 2018 is 150 (reflecting the actual end-December 2017 stock of domestic arrears of CFAF 195 billion). Starting end-March 2019, the target will be adjusted to reflect actual end-December 2018 stock.

6. Applies continuously.

7. Applies continuously.

8.DAO is defined as all expenditures which do not go through the standard spending procedure. Regularization of DAO consists in recording the expenditure in the correspondent line of the budget. This will be done within 45 days after the end of the quarter.

9. Expenditure of Ministries in charge of social sectors, as recommended by the World Bank in the absence of a budgetary functional classification. An adjustor will be defined in case of expenditure cuts, which will ensure an increase of the share of poverty-reducing social spending in the total of primary current expenditure (see TMU for details).

13. Oil Revenue is the sum of direct receipt and the sale revenue of government oil net of operating and transportation cost.

14. Budget grants.

Table 2. Chad: Prior Actions and Structural Benchmarks for the Program, 2018- 2019

Measures	Due Dates	Status
Prior actions		
1. Submission of the 2019 budget in line with the program to the National Assembly		Pending
2. Hire external consultants and begin work to review and prepare a reorganization plan for CBT.		Met
Structural Benchmarks		
1. Publication of a quarterly note on the oil sector, in line with the template agreed with the authorities, including detailed information on debt service to Glencore.	Quarterly, starting end-December 2018	...
2. Develop an action plan with timebound measure to improve VAT collection.	End-December 2018	...
3. Adopt a decree to limit the use of emergency spending procedures	End-December 2018	Proposed
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	...
5. Deliver report of external consultants on the review and reorganization plan for two public banks.	End-February 2019	Proposed (modified)
6. Adopt a clearance strategy of domestic arrears based on the audit results.	End-March 2019	Proposed (original date October 2018)
7. Publish a semi-annual note which lists all new exemptions (including renewal and extension of exemptions).	Semi-annual, starting end-July 2019	Proposed

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 December 10, 2018**. It describes the information requirements to monitor performance under the ECF arrangement. The authorities will consult with the IMF before modifying measures contained in this TMU or adopting new measures that would deviate from the goals of the program. It describes more specifically:

a) reporting procedures;

b) definitions and computation methods;

c) quantitative performance criteria;

d) indicative targets;

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

f) structural benchmarks.

A. Reporting Procedures to the IMF

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

B. Definitions and Computation Methods

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

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

[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).

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

[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

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other spending items are defined as in GFSM 2014 (Chapter 6). Total government expenditure also includes “*dépenses avant ordonnancement*” (DAO) which are not yet regularized (see paragraph 10 for details).

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

- The first category consists of DAOs which are made relative to a credit line in the budget. These DAOs can be regularized (i.e., recorded in the correspondent line of the budget) without difficulties.
- The second category consists of DAOs which are made regardless of the existence of a credit line in the budget. Their regularization requires either an adjustment in the revised budget, i.e., Amended Financial Law (LFR), or a ministerial order to transfer credit allocation within the budget.

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

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

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

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

- The term “debt” is as defined in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107) but also includes contracted or guaranteed commitments for which values have not been received.

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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.

For purposes of these guidelines, the term "debt" is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take several forms; the primary ones being as follows:

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

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

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

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

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

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

- Debt is considered **concessional** if it includes a **grant element** of at least 35 percent[3] and **non-concessional** if otherwise. The grant element is defined as the difference between the nominal value of the loan and its present value, expressed as a percentage of the nominal value of the loan. The present value of the debt at the date on which it is contracted is

[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.

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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 paragraph 23).

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

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

[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.

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 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.

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

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

- **A ceiling on the stock of domestic recognized expenditure payment arrears**. Domestic recognized expenditure payment arrears are defined in paragraph 15. As of end-December 2017, the stock of recognized expenditure payment arrears was at CFAF 195 billion based on information in the Table "*Reste à Payer*" (prepared by the Treasury). The ceiling set for end-March 2019 onwards would be adjusted to reflect the end-December 2018 actual stock of arrears when final data is available.

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

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

D. Indicative Targets

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

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

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

E. Adjustors to Performance Criteria and Indicative Targets

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

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

- If the total budgetary receipts and loans are larger than the programmed amount, because of higher oil revenue, additional budget support excluding grants to finance the parliamentary elections, or exceptional receipt, the floor for the non-oil primary balance can be adjusted downward by 35 percent of the excess amount up to CFAF 20 billion. The remainder of the larger-than-programmed budgetary receipts and loans will be used to reduce net domestic financing (either net domestic government financing excluding BEAC or net government financing from BEAC). The non-oil primary balance can be adjusted downward by the same amount of budget grants provided to finance the parliamentary elections. For the purpose of the TMU, baseline oil revenue, budget support and exceptional receipts are shown in the text table below.

Text Table 1. Baseline Projection of Selected Variables
(Cumulative on annual basis)

	2018	2019			
	End-Dec.	End-Mar.	End-Jun.	End-Sept.	End-Dec.
	(in CFAF Billion)				
Net Oil Revenue[1]	318	90	180	269	359
Budget Grants	150	0	0	34	60
Budget Loans	26	0	0	0	13
Exceptional Receipt	0	0	0	0	0
Total	494	90	180	303	432

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

F. Structural Benchmarks

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

- Submit the 2019 budget to the national assembly for approval in line with the program parameter.
- Start the audit of public bank CBT.

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-December 2018 (Table 2). The December note will cover developments up to September 2018 and will need to be issued by mid-February.

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.

Issue by end-December 2018 a decree by the council of ministers on the implementation of the 2019 budget that includes a limit on the use of emergency spending procedures of 22 percent of total primary spending excluding the wage bill. The ratio is defined as the share of total domestically financed primary spending excluding the wage bill and security spending (and debt service) in total domestically financed primary spending excluding the wage bill (and debt service).

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.

- Adopt a clearance strategy of domestic arrears based on the audit results by end-March 2019.

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

- Based on the audit of 47 tax conventions, remove exemptions not in line with legal texts and ensure that others are adequately implemented by end February 2019.

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

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

Table 1. 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.

Table 1. Summary of Data to be Reported (continued)		
Data	***Provider***	***Periodicity and Target Date***
Information on public procurement in the previous month and updating of payment maturity for the rest of the year.	Ministry of Finance and Budget (Financial Control)/SGG (OCMP/Procurement Directorate)	Monthly, within 45 days of month–end
Table on external debt (including those in local currency). The table should include previous month's due payments, payments made, and projected payments due for the next 3 months broken down by creditors.	Ministry of Finance and Budget	Monthly, within 45 days of month-end
Information on external debt arrears (including those in local currency): i) updated list of stock of arrears broken down by creditors (which incorporates any rescheduling agreement with creditors); ii) information on repayment of arrears including amount paid and date on which payments were made; iii) information on any rescheduling agreement on the stock of external arrears at the beginning of the program period.	Ministry of Finance and Budget	Monthly, within 45 days of month-end
In case of missed external debt service payment the following information will be needed: i) the date of the missed payment; ii) amount of the missed payment and iii) creditor involved.	Ministry of Finance and Budget	Within 14 days of occurrence
Details on the servicing of the domestic debt and payment arrears of the government[2]	Ministry of Finance and Budget (Debt Directorate, DCP)	Quarterly, within 45 days of the end of the quarter.

Table 1. Summary of Data to be Reported (continued)		
Details on the servicing of the external debt of the government[3]	Ministry of Finance and Budget DGTCP (Debt Directorate)	Quarterly, within 45 days of the end of the quarter.
Details on new loans contracted or guaranteed by the government and public non-financial companies	Ministry of Finance and Budget (Debt Directorate) Ministry of Plan and International Cooperation (DGCI)	Within 45 days of transaction completion.

Table 1. Summary of Data to be Reported (concluded)		
Data	***Provider***	***Periodicity and Target Date***
Monetary survey	BEAC	Monthly, within 45 days of month–end.
Provisional monetary data from the BEAC *(Exchange rates, foreign reserves, assets and liabilities of the monetary authorities, base money, broad money, central bank balance sheet, consolidated balance sheet of the banking system, interest rates[4])*	BEAC	Monthly, within 45 days of month–end.
Balance of SDR account at month end	BEAC NGP Committee	Monthly, within 3 months of month–end
Net banking system claims on the government (NGP)	BEAC	Monthly, within 30 days of month–end.
Consumer price index	INSEED	Monthly, within 45 days of month–end.
Gross domestic product and gross national product	Macroeconomic Framework Committee (SG MFB)	Annually, within 180 days of year end.
Balance of payments (External current account balance, exports and imports of goods and services, etc.)	BEAC	Annually, within 180 days of year end (preliminary data).
Gross external debt	Ministry of Finance and Budget DGT (Debt Directorate)	Annually, within 90 days of year end.

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

[2] Including maturities.

[3] Including the breakdown by currency and maturity.

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

Table 2. Summary of Oil Revenue

CFAF Million	2017 *Actual*	2017 *Projection*	2018 *Projection*	2019 *Projection*	2020 *Projection*	Unit
Production and Export Overeiew						
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

December 10, 2018

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

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

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

Chad **Joint Bank-Fund Debt Sustainability Analysis** Prepared by the Staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)	
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.[1] *Furthermore, while most external debt sustainability indicators are below their respective thresholds from 2018 onwards, one indicator – the debt-to-revenue ratio – 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 increase in non-oil revenues. Following the restructuring in 2018, the new Glencore debt contract helps contain the impact of oil price fluctuation 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. **The coverage of public debt is in line with the previous DSA.** It 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. Staff will continue to seek information on domestic debt of other public sector enterprises.

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 5 percent of GDP to account for the domestic debt of SOEs (2 percent) and domestic arrears that could potentially be validated by the ongoing audit (3 percent).

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

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
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	

The country's coverage of public debt	The central government, central bank		
	Default	**Used for the analysis**	**Reasons for deviations from the default settings**
Other elements of the general government not captured in 1.	0 percent of GDP	3	Domestic arrears could potentially be validated by an ongoing audit.
SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
PPP	35 percent of PPP stock	0	
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)		10	

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

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. This debt has since been restructured twice, most recently in early 2018 which has reduced considerably its burden. Falling oil prices over 2014-16 also contributed to the rising debt service burden by reducing revenues available to repay oil sales advances. At end-June 2018, outstanding PPG external debt stood at about$2.9 billion (26 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 11.4 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 24 percent in 2017, while the share of commercial debt, which was virtually non-existent in 2008, has risen to almost 50 percent, mostly to Glencore. Bilateral debt doubled over the decade but, as a share of total debt, it is still significantly less than commercial debt (Text Table 2). Consistent with the ECF arrangement, external debt is defined on a currency basis.

5. Domestic public debt has increased significantly in recent years (Text Table 3). This reflects in large part an increased reliance on domestic marketable securities. 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 (33.2 percent of total debt), debt denominated in local currency but held outside Chad includes debt to official bilateral partners and BDEAC (3.4 percent of total debt), and securities in CFAF that could be held by non-resident banks.

6. External payment arrears accumulated in 2016 and in 2017 but have nearly halved so far 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 creditor (Mega bank from Taiwan province of China). At end-2017, about $102 million (1 percent of GDP) remained outstanding, mainly to bilateral creditors. The authorities have since reduced this stock to $56 million by paying the amount owed to the Islamic Development Bank and through a rescheduling agreement with Libya and India. The bulk of remaining arrears are to the Rep. of Congo (about $47 million), with small amounts remaining to Equatorial Guinea (both under negotiations), Mega Bank and the European Investment Bank. The authorities have taken concrete steps to prevent the further accumulation of arrears—including measures to improve coordination and reactivate an escrow account for the payment of external debt at the BEAC—and are making a strong effort to address the remaining arrears.

Text Table 2. Chad: External Debt Stock 2015-2018[1]

			2015	2016	2017	2018p
Total	(Billions of $)		2.7	2.6	2.8	2.9
	(Billions of CFA francs)		1617	1622	1572	1644
	(Percent of GDP)		25	27	27	27
		Billions of CFA francs				
Multilateral			375	390	385	495
	IMF		38	77	96	173
	World Bank/IDA		113	110	101	104
	African Development Fund/Bank		69	56	56	66
	Others		155	147	133	151
Bilateral			366	370	419	428
	Paris Club official debt		2	…	25	50
	Non-Paris Club official debt		364	370	394	378
	of which:	China, People's Republic	144	156	132	
		Libya	158	164	150	
		India	27	30	27	
Commercial[2]			875	862	768	721
		Share of Total (percent)				
Multilateral			23	24	24	30
Bilateral			23	23	27	26
Commercial[2]			54	53	49	44

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 3. Chad: Domestic Debt Stock 2014-2017

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

Source: Chadian authorities.

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

[2]Issued through banks' syndication.

[3]Auctionned in regional securities' market.

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

B. Macroeconomic Forecast

7. **The DSA's baseline scenario reflects policies and financing assumptions underlying the ECF arrangement and the Glencore debt restructuring**. The macroeconomic outlook remains broadly unchanged compared to the previous DSA (July 2017). It 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. Oil production is expected to continue to increase in the medium term, leading to higher oil revenues, higher exports and overall GDP growth. The baseline scenario assumes full clearance of external arrears in 2018 and gradual repayment of domestic arrears.

8. Financing assumptions have been updated based on most recent information. Externally financed investment has remain 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 upward. Reflecting this shift, average interest rate on domestic debt has been revised upward slightly.

9. Realism tools point out some risks around the forecast. 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 realism tool suggests that the growth path could be optimistic given the projected consolidation. However, staff considers projected growth to be realistic given that the rebound this year and next is from a low base, and that confidence is expected to strengthen after the Glencore debt restructuring, the improvement in the fiscal position (including improvement in budget execution), the repayment of domestic arrears which has started, and the authorities ongoing efforts to implement the national development plan. This is consistent with expected private sector driven growth path, led by private investment in the oil sector, as shown in Figure 4. The recent privatization of the cotton public enterprise is likely to help strengthen private sector contribution to growth.

C. Country Classification and Determination of Stress Test Scenarios

10. The newly-introduced composite index (CI) based on October 2018 World Economic Outlook (WEO) projections and update of the CPIA index to 2017 levels indicates weak debt carrying capacity for Chad. In the previous DSA framework, the medium debt-carrying capacity classification was solely informed by the CPIA rating. The new methodology relies instead on a composite indicator (CI) combining the CPIA score, external conditions as captured by world economic growth and country-specific factors. The October 2018 data indicate weak debt carrying capacity, reflecting mainly a low CPIA and a low level of foreign reserves (Text Table 4).

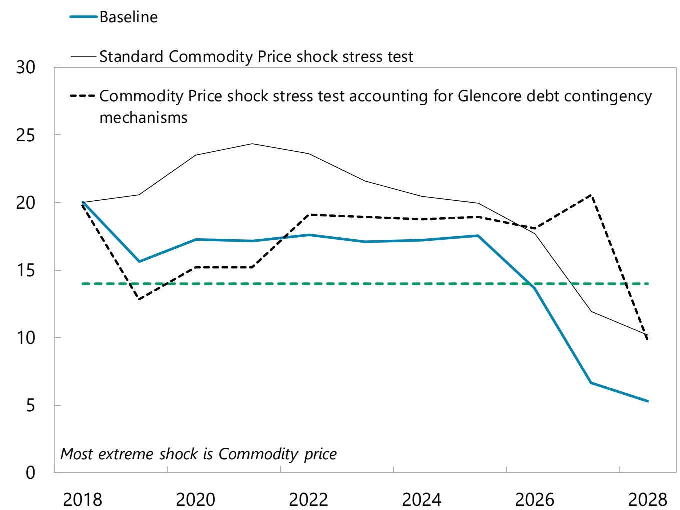
Text Table 4. Chad: CI Score

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.676	1.03	41%
Real growth rate (in percent)	2.719	2.752	0.07	3%
Import coverage of reserves (in percent)	4.052	34.000	1.38	55%
Import coverage of reserves^2 (in percent)	-3.990	11.560	-0.46	-18%
Remittances (in percent)	2.022	0.000	0.00	0%
World economic growth (in percent)	13.520	3.660	0.49	20%
CI Score			2.52	100%
CI rating			Weak	

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

11. The debt sustainability analysis relies on six standardized 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 2019 and 2024 and has been calibrated to account for contingency mechanisms under the Glencore debt contract which limit the negative effect of the shock (Text Figure 1). In particular, low oil proceeds trigger provisions that allow Chad to forgo advanced payment on principal and interest that otherwise would occur when applicable.

Text Figure 1. Debt Service-to-Revenue Ratios



Sources: Chadian authorities; IMF staff calculations.

DEBT SUSTAINABILITY

A. External Debt Sustainability

12. Chad is at high risk of external debt distress. Public external debt is projected to gradually decline over the forecast horizon 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 now appears above its threshold of 14 percent under the baseline scenario.

13. Under stress tests, the thresholds are breached for all indicators. The exports shock stress tests appear as the most extreme for all indicators except the debt service to revenue ratio, for which the growth 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 and the present value of PPG external debt to exports ratio are breached until 2023 and 2025 respectively, while the threshold for debt service to exports is breached throughout almost all the forecast horizon. Under the growth shock stress test, the debt service to revenue ratio breaches its threshold from 2018 to 2027.

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-2018 stands at 47 percent, which is about 12 percentage points above the 35 percent benchmark level associated with heightened public debt vulnerabilities with a weak debt carrying capacity. The threshold is breached from 2018 until 2021 under the baseline scenario.

C. Risk Rating and Vulnerabilities

15. Chad's debt sustainability is now less vulnerable to oil price fluctuations. The impact of a commodity price shock on debt sustainability is now limited, as the debt service to revenue ratio remains close to the baseline under a lower oil price scenario (Text Figure 1). This reflects contingency mechanisms under the new Glencore debt contract, which allow lower external debt service to Glencore when oil prices are lower.

16. Chad is at high risk of external debt distress and high overall risk of public debt distress despite a major debt restructuring. 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. However, out of four indicators of external debt sustainability, one is breached under the baseline. While the projected path of this indicator has improved relative to its path in the last DSA, under the new DSA framework, a lower threshold applies to this particular indicator (Text Table 5).[2] 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, but the true risk from this debt is much lower than foreign currency denominated debt due to lack of currency risk, strong institutional ties with the creditors, and the relative ease of rescheduling.

Text Table 5. Chad: Debt Thresholds

EXTERNAL debt burden thresholds		
PV of debt in % of	Current DSA	Previous DSA
Exports	140	100
GDP	30	30
Debt service in % of		
Exports	10	15
Revenue	14	18
TOTAL public debt benchmark		
PV of total public debt in percent of GDP	35	38

Source: IMF and World Bank staff calculations.

[2] Under the old DSA framework, none of the thresholds would have been breached under the baseline scenario over the 2019-2038 projection period.

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 all the remaining arrears. Finally, effective inter-agency coordination to strengthen the capacity to record and monitor public debt is very important to better manage public debt.

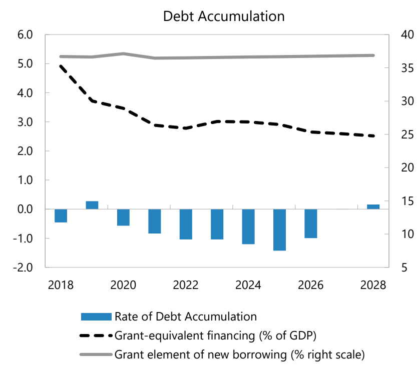
18. **While the authorities broadly agreed with staff's assessment, they expressed strong disappointment at the still high risk of external debt distress especially after the conclusion of the Glencore debt restructuring**. The aim of the restructuring was to reduce the risk rating to moderate. This would have been achieved under the previous DSA framework and would have paved the way for flexibility in accessing much needed external financing for priority investment project. They however remain committed to further reduce debt vulnerabilities going forward.

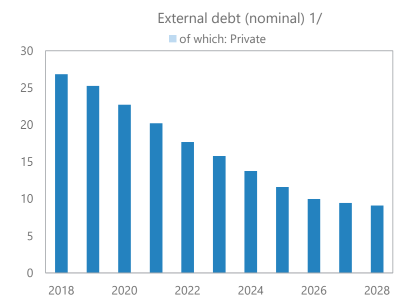
Table 1. Chad: External Debt Sustainability Framework, Baseline Scenario, 2015-2038

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
External debt (nominal) 1/	**25.0**	**27.1**	**27.3**	**26.8**	**25.3**	**22.7**	**20.2**	**17.7**	**15.8**	**9.1**	**8.6**	**23.9**	**16.6**
of which: public and publicly guaranteed (PPG)	**25.0**	**27.1**	**27.3**	**26.8**	**25.3**	**22.7**	**20.2**	**17.7**	**15.8**	**9.1**	**8.6**	**23.9**	**16.6**
Change in external debt	-4.2	2.2	0.2	-0.5	-1.6	-2.6	-2.5	-2.5	-1.9	-0.3	-0.2		
Identified net debt-creating flows	**16.6**	**8.9**	**2.5**	**-0.5**	**-1.1**	**-1.5**	**-0.8**	**0.0**	**0.9**	**-1.3**	**1.7**	**2.7**	**-0.6**
Non-interest current account deficit	**12.5**	**7.5**	**4.6**	**3.8**	**4.3**	**3.6**	**4.7**	**5.1**	**5.0**	**0.8**	**2.4**	**6.6**	**3.2**
Deficit in balance of goods and services	16.3	15.0	13.9	10.7	9.8	8.6	8.8	9.6	8.4	-30.5	-19.3	**10.5**	**-9.2**
Exports	26.5	24.4	27.5	33.2	34.4	34.8	33.7	33.5	32.8	30.5	19.3		
Imports	42.9	39.4	41.4	43.9	44.2	43.4	42.5	43.0	41.2	0.0	0.0		
Net current transfers (negative = inflow)	-7.1	-7.7	-9.6	-9.0	-7.7	-7.5	-6.6	-6.4	-6.4	-5.1	-4.0	**-6.4**	**-6.5**
of which: official	-2.5	-2.4	-3.1	-3.3	-2.1	-2.1	-1.6	-1.5	-1.6	-1.2	-1.2		
Other current account flows (negative = net inflow)	3.2	0.1	0.3	2.1	2.2	2.5	2.5	2.0	3.0	36.3	25.8	**2.4**	**18.9**
Net FDI (negative = inflow)	**-5.1**	**-2.4**	**-3.7**	**-4.4**	**-5.1**	**-4.5**	**-5.1**	**-4.6**	**-3.9**	**-1.8**	**-0.6**	**-4.7**	**-3.5**
Endogenous debt dynamics 2/	**9.3**	**3.8**	**1.6**	**0.2**	**-0.3**	**-0.6**	**-0.4**	**-0.4**	**-0.2**	**-0.2**	**-0.2**		
Contribution from nominal interest rate	1.1	1.7	1.1	1.0	0.8	0.8	0.7	0.6	0.5	0.1	0.1		
Contribution from real GDP growth	-0.7	1.7	0.9	-0.8	-1.2	-1.4	-1.0	-1.0	-0.7	-0.3	-0.3		
Contribution from price and exchange rate changes	8.8	0.4	-0.3	...	...	...	...	...	...	...	...		
Residual 3/	**-20.8**	**-6.7**	**-2.3**	**0.0**	**-0.5**	**-1.0**	**-1.7**	**-2.6**	**-2.8**	**0.9**	**-1.9**	**-1.8**	**-1.1**
of which: exceptional financing	-0.8	-1.1	-1.0	-1.8	-1.1	-0.6	-0.3	-0.3	-0.3	-0.2	-0.1		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**26.3**	**23.3**	**22.2**	**19.6**	**17.3**	**14.8**	**13.0**	**6.7**	**6.2**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**95.5**	**70.0**	**64.5**	**56.2**	**51.2**	**44.3**	**39.5**	**21.9**	**31.9**		
PPG debt service-to-exports ratio	**9.5**	**13.6**	**8.8**	**7.3**	**5.8**	**6.6**	**6.7**	**6.9**	**7.0**	**2.5**	**3.0**		
PPG debt service-to-revenue ratio	**24.0**	**34.5**	**22.5**	**20.0**	**15.6**	**17.2**	**17.1**	**17.6**	**17.1**	**5.3**	**4.0**		
Gross external financing need (Million of U.S. dollars)	1084.2	843.7	331.6	193.6	142.0	172.0	258.3	426.0	548.6	-58.9	955.7		
Key macroeconomic assumptions													
Real GDP growth (in percent)	1.8	-6.4	-3.1	3.1	4.6	6.1	4.9	5.4	4.1	3.9	3.2	**3.5**	**4.3**
GDP deflator in US dollar terms (change in percent)	-23.2	-1.5	1.2	7.5	1.3	4.3	3.6	3.7	2.2	2.9	3.1	**-1.3**	**3.4**
Effective interest rate (percent) 4/	3.1	6.4	3.8	3.9	3.3	3.6	3.2	3.1	2.7	1.2	1.2	**2.8**	**2.5**
Growth of exports of G&S (US dollar terms, in percent)	-34.0	-15.4	10.5	34.0	9.8	11.9	5.0	8.6	4.3	5.4	1.2	**-1.5**	**9.1**
Growth of imports of G&S (US dollar terms, in percent)	-23.7	-15.3	3.0	17.4	6.8	8.5	6.3	10.7	1.9	...	...	**2.3**	**-6.9**
Grant element of new public sector borrowing (in percent)	...	...	...	36.7	36.6	37.1	36.4	36.5	36.6	36.9	36.9	**...**	**36.7**
Government revenues (excluding grants, in percent of GDP)	10.5	9.6	10.8	12.1	12.7	13.2	13.2	13.2	13.4	14.4	14.5	**16.3**	**13.5**
Aid flows (in Million of US dollars) 5/	433.3	326.8	527.5	517.7	400.5	425.0	386.8	407.0	470.2	543.0	792.8		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.9	3.7	3.5	2.9	2.8	3.0	2.5	2.1	**...**	**3.1**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	73.8	76.5	81.9	82.9	82.7	83.2	81.1	80.6	**...**	**81.0**
Nominal GDP (Million of US dollars)	10,952	10,095	9,892	10,961	11,621	12,853	13,959	15,259	16,231	22,636	39,571		
Nominal dollar GDP growth	-21.8	-7.8	-2.0	10.8	6.0	10.6	8.6	9.3	6.4	6.8	6.4	**2.1**	**7.8**
Memorandum items:													
PV of external debt 7/	...	...	26.3	23.3	22.2	19.6	17.3	14.8	13.0	6.7	6.2		
In percent of exports	...	...	95.5	70.0	64.5	56.2	51.2	44.3	39.5	21.9	31.9		
Total external debt service-to-exports ratio	9.5	13.6	8.8	7.3	5.8	6.6	6.7	6.9	7.0	2.5	3.0		
PV of PPG external debt (in Million of US dollars)			2597.3	2552.4	2582.3	2516.1	2408.3	2263.2	2104.5	1512.7	2442.7		
(PVt-PVt-1)/GDPt-1 (in percent)				-0.5	0.3	-0.6	-0.8	-1.0	-1.0	0.2	0.2		
Non-interest current account deficit that stabilizes debt ratio	16.7	5.3	4.4	4.3	5.9	6.1	7.2	7.6	6.9	1.1	2.7		

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.

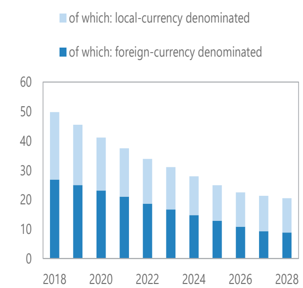
Table 2. Chad: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015-2038

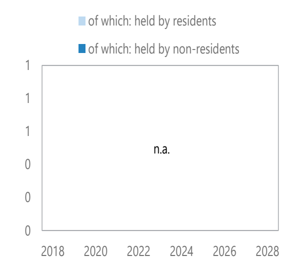
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
Public sector debt 1/	43.3	51.8	52.4	49.8	45.5	41.2	37.5	33.9	31.1	20.5	18.3	30.7	32.4
of which: external debt	25.0	27.1	27.3	26.8	25.3	22.7	20.2	17.7	15.8	9.1	8.6	23.9	16.6
Change in public sector debt	14.2	8.5	0.6	-2.6	-4.3	-4.3	-3.7	-3.6	-2.8	-0.8	-0.4		
Identified debt-creating flows	9.3	5.8	-2.7	-3.9	-4.5	-5.7	-4.7	-5.1	-4.2	-3.9	-16.9	1.3	-4.6
Primary deficit	2.7	-0.1	-1.4	-2.9	-1.7	-2.9	-2.7	-3.0	-3.3	-3.1	-16.3	1.1	-3.0
Revenue and grants	14.0	12.6	14.9	16.0	15.8	16.2	15.8	15.6	16.0	16.6	16.4	18.7	16.2
of which: grants	3.4	2.9	4.1	3.9	3.1	3.0	2.5	2.4	2.7	2.2	1.8		
Primary (noninterest) expenditure	16.7	12.5	13.6	13.2	14.0	13.4	13.1	12.6	12.8	13.5	0.0	19.8	13.2
Automatic debt dynamics	7.3	6.4	0.5	-0.5	-2.3	-2.5	-1.7	-1.8	-0.7	-0.7	-0.5		
Contribution from interest rate/growth differential	0.1	4.8	2.9	-1.0	-1.8	-2.1	-1.3	-1.5	-0.7	-0.6	-0.4		
of which: contribution from average real interest rate	0.6	1.9	1.2	0.6	0.4	0.5	0.6	0.4	0.7	0.2	0.2		
of which: contribution from real GDP growth	-0.5	3.0	1.7	-1.6	-2.2	-2.6	-1.9	-1.9	-1.3	-0.8	-0.6		
Contribution from real exchange rate depreciation	7.2	1.6	-2.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.7	-0.5	-1.8	-0.6	-0.4	-0.4	-0.3	-0.3	-0.3	-0.2	-0.1	-0.8	-0.3
Privatization receipts (negative)	-0.4	0.0	-1.3	-0.1	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		
Debt relief (HIPC and other)	-0.3	-0.5	-0.5	-0.4	-0.4	-0.4	-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		
Residual	4.9	2.7	3.3	1.8	-0.3	1.0	0.6	1.2	1.5	3.0	16.4	2.1	1.5
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	50.1	46.7	42.3	38.0	34.5	31.0	28.3	18.1	15.9		
PV of public debt-to-revenue and grants ratio	...	...	336.4	291.7	268.4	233.8	218.5	198.4	176.6	108.9	97.0		
Debt service-to-revenue and grants ratio 3/	22.6	39.2	46.6	63.6	56.6	55.6	47.2	49.3	48.2	36.6	33.3		
Gross financing need 4/	4.5	2.9	5.6	7.7	7.2	6.6	5.2	5.8	5.6	3.1	5.2		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	1.8	-6.4	-3.1	3.1	4.6	6.1	4.9	5.4	4.1	3.9	3.2	3.5	4.3
Average nominal interest rate on external debt (in percent)	3.3	6.5	4.0	3.7	3.4	3.5	3.1	3.0	2.7	1.2	1.2	2.9	2.5
Average real interest rate on domestic debt (in percent)	13.3	2.2	2.4	1.0	0.4	0.7	2.2	1.2	3.7	2.2	2.6	2.4	1.7
Real exchange rate depreciation (in percent, + indicates depreciation)	24.5	5.6	-8.4	...	...	...	...	...	...	...	...	4.1	...
Inflation rate (GDP deflator, in percent)	-8.0	-1.2	-0.9	2.3	2.7	2.9	3.0	2.9	1.7	2.9	3.1	0.2	2.8
Growth of real primary spending (deflated by GDP deflator, in percent)	-20.8	-29.8	5.0	0.0	11.4	1.2	2.9	1.3	5.5	6.0	-99.9	2.8	4.3
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-11.5	-8.6	-2.0	-0.2	2.6	1.4	1.0	0.6	-0.5	-2.2	-15.9	-7.3	-0.1
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		

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 government, 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.

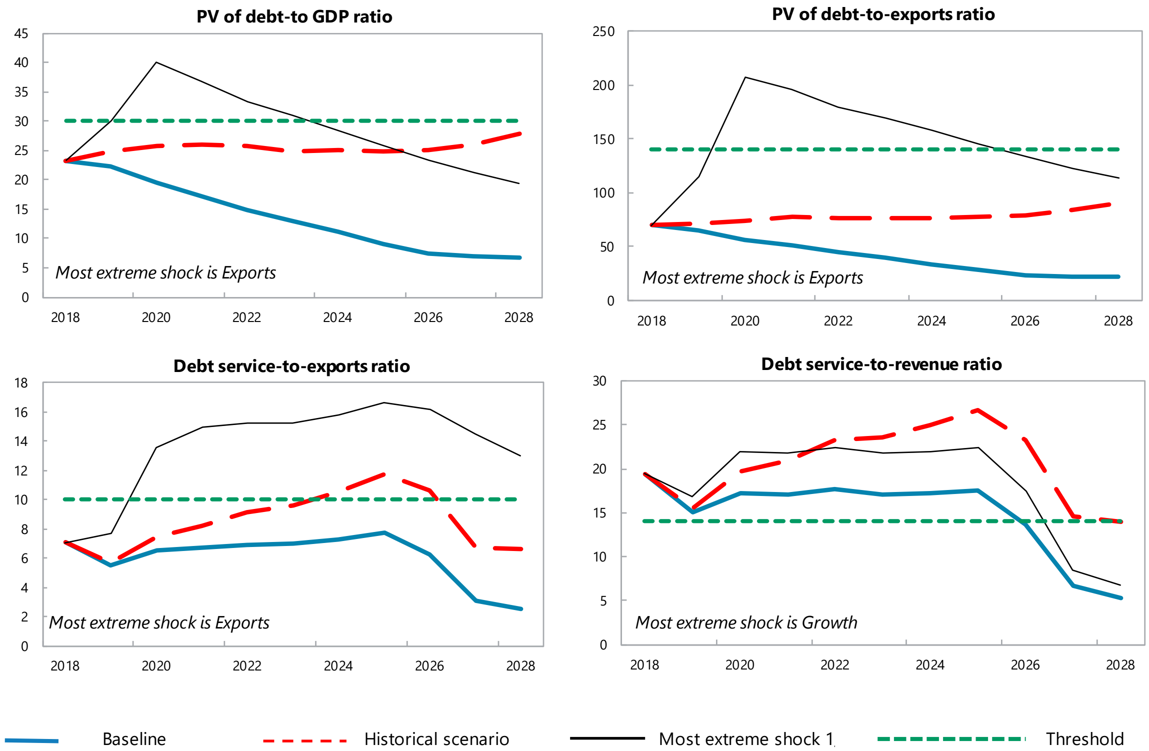
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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 stabilizes 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.

Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2018-2028



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	n.a.	n.a.
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	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	6	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.

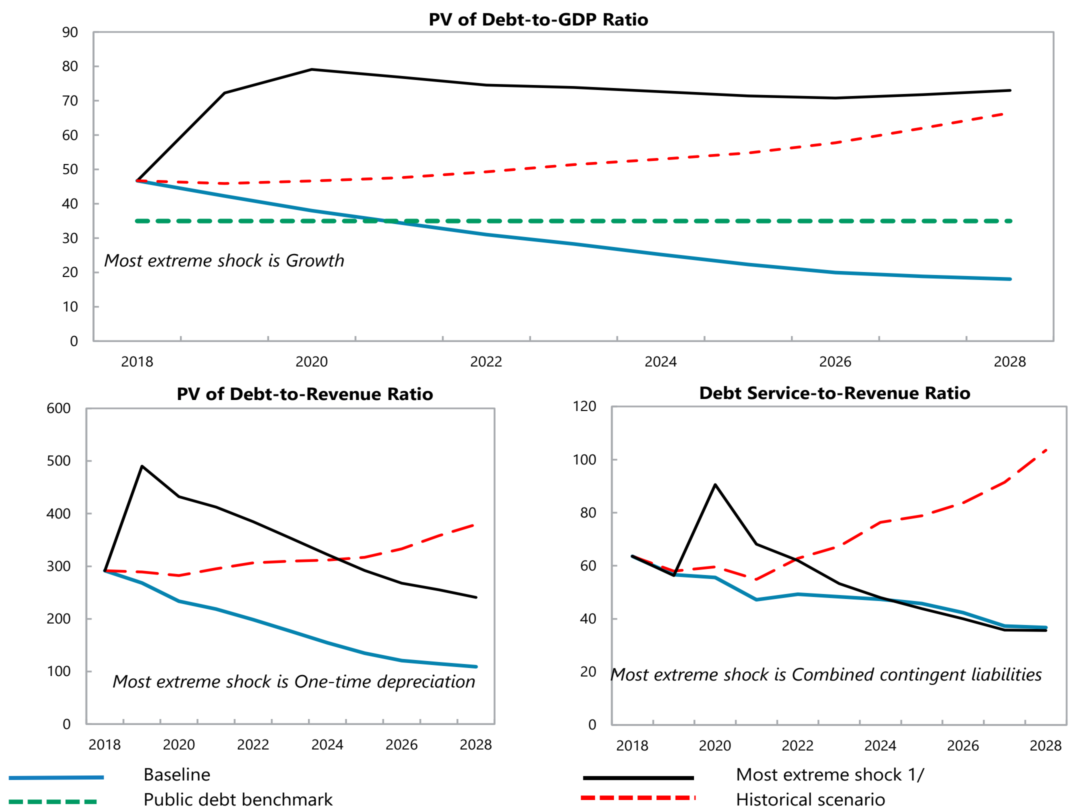
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. 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.

Note: Although the tailored commodity price stress test is applicable in Chad’s case, it has been replaced by a revised scenario that has the same commodity price shock, but accounts for the contingency mechanisms in the Glencore debt. As shown in Text Figure 1, this change does not affect the results shown in this figure.

Figure 2. Chad: Indicators of Public Debt Under Alternative Scenarios, 2018-2028



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	19%	20%
Domestic medium and long-term	22%	20%
Domestic short-term	57%	60%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.1%	6.0%
Avg. maturity (incl. grace period)	8	10
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	3%	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 2028. 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.

Table 3. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018-2028

	Projections 1/										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of debt-to GDP ratio											
Baseline	23	22	20	17	15	13	11	9	7	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	23	25	26	26	26	25	25	25	25	26	28
B. Bound Tests											
B1. Real GDP growth	23	25	25	22	19	17	14	11	10	9	9
B2. Primary balance	23	23	22	20	18	16	14	12	10	10	9
B3. Exports	23	**30**	**40**	**37**	**33**	**31**	28	26	23	21	19
B4. Other flows 3/	23	25	25	22	20	18	16	14	12	11	10
B6. One-time 30 percent nominal depreciation	23	28	21	19	16	13	11	9	7	6	6
B6. Combination of B1-B5	23	**32**	**32**	29	26	24	21	18	16	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	23	23	21	19	17	15	13	10	9	8	8
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	70	65	56	51	44	40	34	28	24	23	22
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	70	72	74	77	77	76	77	78	80	84	91
B. Bound Tests											
B1. Real GDP growth	70	65	56	51	44	40	34	28	24	23	22
B2. Primary balance	70	67	62	59	53	49	43	37	33	31	30
B3. Exports	70	115	**207**	**196**	**179**	**170**	**158**	**146**	134	123	114
B4. Other flows 3/	70	73	71	66	59	54	48	42	37	35	33
B6. One-time 30 percent nominal depreciation	70	65	49	44	37	32	27	21	17	16	16
B6. Combination of B1-B5	70	105	77	112	100	93	84	74	65	60	57
C. Tailored Tests											
C1. Combined contingent liabilities	70	68	61	57	50	45	39	33	28	26	25
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	7	6	7	7	7	7	7	8	6	3	2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	7	6	7	8	9	10	**11**	**12**	**11**	7	7
B. Bound Tests											
B1. Real GDP growth	7	6	7	7	7	7	7	8	6	3	2
B2. Primary balance	7	6	7	7	7	7	7	8	6	4	3
B3. Exports	7	8	**14**	**15**	**15**	**15**	**16**	**17**	**16**	**15**	**13**
B4. Other flows 3/	7	6	7	7	7	7	7	8	7	4	4
B6. One-time 30 percent nominal depreciation	7	6	7	7	7	7	7	8	6	2	2
B6. Combination of B1-B5	7	7	**11**	**11**	**11**	**11**	**12**	**13**	**12**	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	7	6	7	7	7	7	7	8	6	3	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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	**20**	**16**	**17**	**17**	**18**	**17**	**17**	**18**	14	7	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	**20**	**16**	**20**	**21**	**23**	**24**	**25**	**27**	**23**	**15**	14
B. Bound Tests											
B1. Real GDP growth	**20**	**17**	**22**	**22**	**22**	**22**	**22**	**22**	**17**	8	7
B2. Primary balance	**20**	**16**	**17**	**17**	**18**	**17**	**18**	**18**	**14**	8	7
B3. Exports	**20**	**16**	**20**	**21**	**22**	**21**	**21**	**21**	**20**	**18**	**15**
B4. Other flows 3/	**20**	**16**	**18**	**18**	**18**	**18**	**18**	**18**	**15**	10	8
B6. One-time 30 percent nominal depreciation	**20**	**20**	**22**	**21**	**22**	**21**	**21**	**22**	**17**	7	5
B6. Combination of B1-B5	**20**	**17**	**22**	**22**	**22**	**22**	**22**	**22**	**21**	13	11
C. Tailored Tests											
C1. Combined contingent liabilities	**20**	**16**	**17**	**17**	**18**	**17**	**17**	**18**	14	7	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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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.

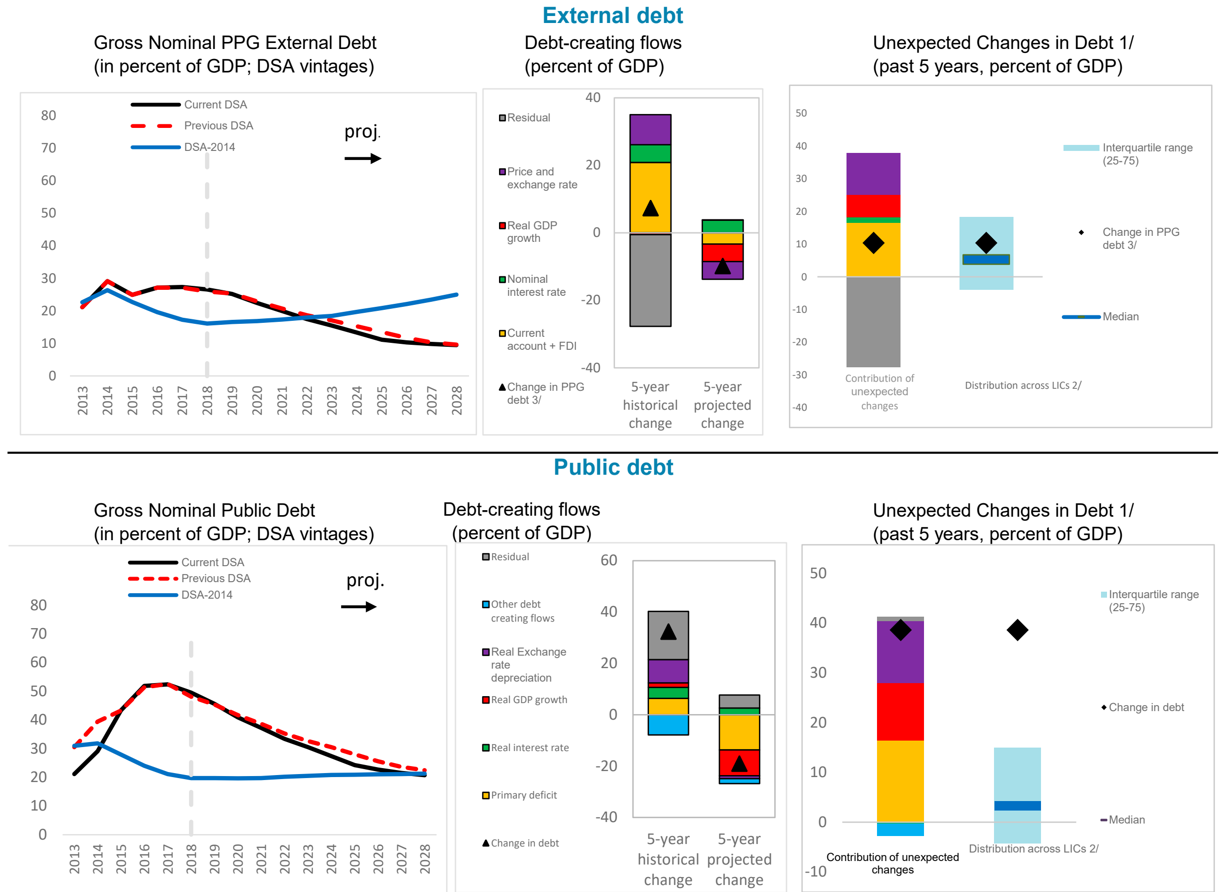
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Chad: Sensitivity Analysis for Key Indicators of Public Debt, 2018-2028

					Projections 1/						
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					PV of Debt-to-GDP Ratio						
Baseline	**47**	**42**	**38**	34	31	28	25	22	20	19	18
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	**47**	**46**	**47**	**48**	**49**	**51**	**53**	**55**	**58**	**62**	**66**
B. Bound Tests											
B1. Real GDP growth	**47**	**72**	**79**	**77**	**75**	**74**	**73**	**71**	**71**	**72**	**73**
B2. Primary balance	**47**	**49**	**51**	**47**	**43**	**40**	**37**	34	31	29	28
B3. Exports	**47**	**48**	**55**	**51**	**46**	**43**	**40**	**37**	34	31	29
B4. Other flows 3/	**47**	**45**	**43**	**40**	**36**	33	30	27	24	23	21
B6. One-time 30 percent nominal depreciation	**47**	**76**	**69**	**64**	**59**	**56**	**52**	**48**	**44**	**42**	**40**
B6. Combination of B1-B5	**47**	**47**	**47**	**42**	**38**	**36**	33	31	29	28	27
C. Tailored Tests											
C1. Combined contingent liabilities	**47**	**52**	**47**	**43**	**39**	**36**	33	30	27	26	25
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	292	268	234	219	198	177	155	135	121	115	109
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	292	289	282	295	306	310	312	317	333	358	380
B. Bound Tests											
B1. Real GDP growth	292	449	463	467	457	441	426	414	411	420	425
B2. Primary balance	292	308	314	298	276	251	226	203	187	179	170
B3. Exports	292	307	337	320	297	271	245	222	203	189	174
B4. Other flows 3/	292	287	266	251	229	206	183	162	146	138	129
B6. One-time 30 percent nominal depreciation	292	490	432	412	385	354	322	292	268	255	241
B6. Combination of B1-B5	292	298	284	265	244	222	201	185	171	167	162
C. Tailored Tests											
C1. Combined contingent liabilities	292	328	288	272	250	227	203	181	164	157	148
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	64	57	56	47	49	48	47	46	42	37	37
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	64	58	60	55	63	67	76	79	84	91	103
B. Bound Tests											
B1. Real GDP growth	64	61	71	70	78	78	79	80	81	81	86
B2. Primary balance	64	56	79	91	77	64	56	51	47	43	43
B3. Exports	64	57	56	49	51	50	49	47	46	45	44
B4. Other flows 3/	64	57	56	48	50	49	48	46	44	40	39
B6. One-time 30 percent nominal depreciation	64	55	58	46	52	50	49	48	43	36	34
B6. Combination of B1-B5	64	56	58	68	63	56	51	49	45	42	43
C. Tailored Tests											
C1. Combined contingent liabilities	64	56	91	68	62	53	48	44	40	36	36
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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.

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



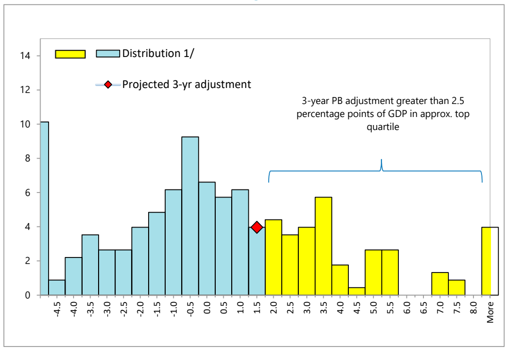
1/ Difference between anticipated and actual contributions on debt ratios.

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.

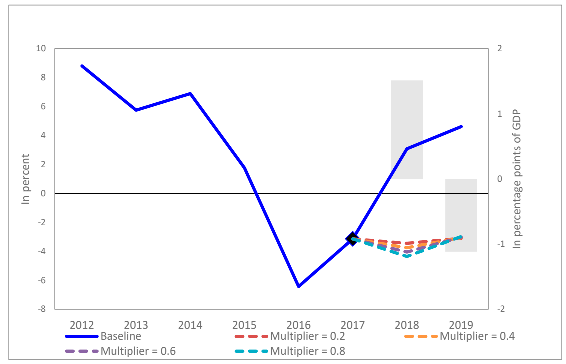
Figure 4. Chad: Realism Tools

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



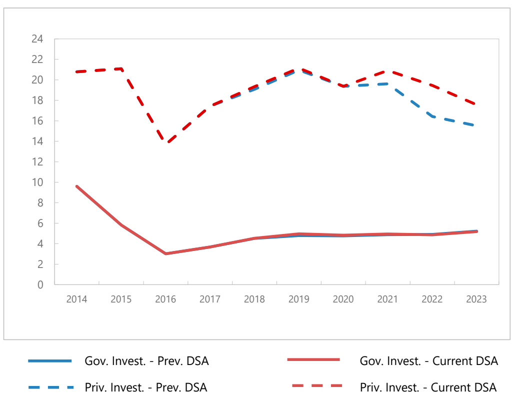
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

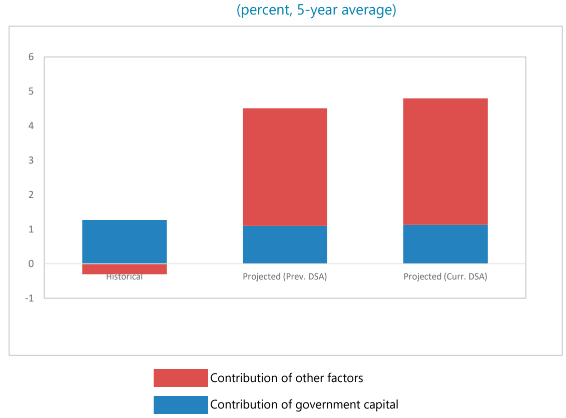


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



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



CHAD

December 19, 2018

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW— SUPPLEMENTARY INFORMATION, REVISED PROPOSED DECISION AND SUPPLEMENTARY LETTER OF INTENT

Approved By
David Owen (AFR) and Yan Sun (SPR)

Prepared by the African Department in consultation with SPR and LEG

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

2. **Based on information provided by the Chadian authorities, staff verified the completion of the remaining prior action established for the completion of the third review under the ECF.** Staff verified that the 2019 budget submitted to the National Assembly is in line with the program.

3. **The amount of new external arrears that accumulated since the Board concluded the second review under the ECF arrangement is $185,000 (an amount of $60,000 was reported in the staff report).** Besides the $60,000 already reported, a payment of $125,000 to Angola was missed in October. Furthermore, the July arrears payment that was made just before completion of the Second Review was routed to the central bank of Angola, but the bank was unable to credit the Angolan Treasury because of insufficient information regarding the beneficiary. The funds were returned after seven days. The October payment was awaiting communication on the necessary information, given problems with the July payment. Once the information became available, the authorities made the transfers to clear the arrears. Given the relatively small amount of the arrears—less than 0.01 percent of GDP—staff continues to support the authorities' request for a waiver of nonobservance of this PC.

4. **A revised proposed decision and a supplementary letter of intent** are attached to this supplement.

Supplementary Letter of Intent

N'Djamena, December 19, 2018

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

Madame Managing Director,

Further to the Chadian authorities' Letter of Intent dated December 10, 2018, we have communicated to staff that the amount of new external arrears that accumulated since the Board completed the second review under the ECF arrangement is $185,000 - and not $60,000 as reported in the staff report and the Memorandum of Economic and Financial Policies. The arrears occurred because the government did not have the necessary information to make the payment on time. Once the information was received, the government made the transfers to Angola to clear all the arrears.

Very truly yours,

/s/
Allali Mahamat Akbar
Minister of Finance and Budget

Statement by Mr. Mohamed-Lemine Raghani,
Executive Director for Chad and Mr. Madjiyam Herve Bangrim
Kibassim, Advisor to the Executive Director on Chad
December 21, 2018

1. The Chadian authorities would like to thank the Board, Management and Staff for their support in recent years. The ECF-supported program adopted in July 2017 is helping the economy progressively recover from the effects of the sharp oil price decline that started in 2014. Discussions during staff last mission in N'Djamena have highlighted major achievements of the reform agenda, including in furthering fiscal consolidation and improving debt sustainability. The authorities broadly share the thrust of the staff reports as a fair account of progress made thus far and challenges still facing the economy.

2. Chad's macroeconomic situation has improved owing to the authorities' strong adjustment efforts paired with a rebound in oil production in 2018. They remain committed to moving ahead with their agenda of strengthening the non-oil GDP, improving non-oil revenue and keeping external debt in check. On the regional front, Chad has made a significant contribution, including in the fiscal burden sharing for enhancing the CEMAC region's stability. The authorities are cognizant that heightened security conditions, delays in donors' support and in the implementation of the regional stabilization program, and oil price volatility represent major drawbacks to the ongoing recovery. In this context, the Fund's support and technical assistance in designing the policy responses are instrumental for enhancing the economy's resilience.

Recent Developments, Program Performance and Outlook

3. Economic activity in 2018 shows signs of an upturn and is sustained by a rebound in the oil sector and a good performance of non-oil activities albeit less than expected. Overall, GDP growth is projected to reach 3.1 percent in 2018, following two consecutive years of contraction; while non-oil GDP is forecasted at 1 percent. Due to high prices in services and an uptick in water utility rates, inflation is projected to rise to 2.5 percent in 2018 and 3 percent in the medium-term. The fiscal position has continued to improve because of both increasing non-oil revenue and stronger oil revenue and a spending restraint, especially

wages. The current account deficit has also bettered, falling from 5.7 percent in 2017 to a projected 4.2 percent in 2018, owing to an increase in oil exports. Chad's external position has also benefited from enhanced net foreign assets (NFA) at the BEAC.

4. Program performance was good amid many challenges. All but one performance criteria at end-June 2018 were met. The authorities request a waiver for the continuous PC on non-accumulation of external arrears, which was temporarily missed by a very small margin due to technical difficulties. The authorities have implemented the important structural benchmark related to the publication of a quarterly note on the oil sector, including detailed information on debt service to Glencore. The authorities have also immediately made steps to implement the indicative targets (IT) and structural benchmarks that were missed, some for capacity constraints. In this regard, the authorities have selected two consulting firms and the review is underway for reorganizing the two public banks. As well, upon the completion of the ongoing audit of unverified arrears, a domestic arrears clearance strategy will be adopted by the government. The authorities are committed to stepping up efforts to implement their reforms agenda going forward.

5. The authorities are optimistic about the outlook. Ongoing reforms in the non-oil sector should boost the recovery underway; coupled with the positive prospects of the oil sector, they should support economic growth expected to reach 4.6 percent in 2019 and 5.2 percent on average in the medium-term. The overall climate should also improve as the long period of strikes in the public sector comes to an end. The domestic outlook should be further enhanced by the positive developments in the region, notably with regional growth expected to improve to 2.3 percent in 2018.

Policies for the Remainder of 2018 and the Medium-Term

Fiscal Policy

6. Despite the deteriorated security conditions and the potential fiscal impact, the authorities are committed to pursuing fiscal consolidation. The 2019 budget targets an increase in non-oil revenue to 8.3 percent of non-oil GDP, while the non-oil primary deficit is expected to reach 4.5 percent of non-oil GDP. Thus, their efforts will be geared on further mobilizing non-oil revenue to support public investments and social spending, clearing domestic arrears and bringing debt on a sustainable path. On the revenue side, they are optimistic that measures taken in the 2018 budget notably efforts to optimize oil receipts and tax compliance in a context of increased production, will substantially improve domestic revenue mobilization. In the non-oil sector, measures will include reducing tax exemptions and improving collection of personal income tax and corporate income tax. The implementation of FAD Technical Assistance recommendations and the merge of DGI and DGDDI databases to enhance tax compliance will yield additional revenue. On the expenditure side, efforts will aim at a higher budget execution while ensuring a strict control

of the wage bill within the program limits. The envisaged increase in that regard include a partial restoration of bonuses and benefits cut earlier this year and new civil service and security hires. The authorities will also make steps to reduce the cost of their domestic financing by limiting short term maturity T-bills and reducing public banks' exposure to the government at the same time. These efforts will go hand in hand with enhanced public communication and transparency.

7. Going forward, the authorities are committed to making decisive steps to significantly improve fiscal governance with the view to ensure fiscal sustainability. They will target important areas including: (i) strengthening non-oil revenue mobilization through streamlining exemptions and increasing revenue from VAT; (ii) improving public financial management; and (iii) implementing a transparent strategy for domestic arrears clearance. Regarding non-oil revenue, the authorities' target is about 9 percent of non-oil GDP by 2020. The list of all exemptions will be published and streamlined, including those granted in the oil sector. Furthermore, a provision of the 2019 Finance Act recently submitted to Parliament will remove exemptions that are not economically justified, and a technical committee will be established within the ministry of finance for monitoring and preventing automatic renewals. Building on recent TA, the authorities are also considering implementing an action plan to raise the VAT revenue, which represent about 1 percent of non-oil GDP. Tax and custom administration will be enhanced with computerized services for securing revenue. As regards arrears, the completion of the ongoing audit will inform the elaboration of a clearance strategy.

The authorities are also committed to making efforts to improve PFM, including through better controlling the spending chain to avoid the accumulation of arrears and strengthening transparency in procurement management. In particular, the authorities intend to address the persistent problem posed by the use of DAO (*Dépenses Avant Ordonnancement*) by issuing a decree limiting its use.

Debt Management

8. The authorities take note of the assessment of the new DSA that Chad's risks of external and overall debt distress are high. They are confident that their actions underway, including in domestic revenue mobilization will help improve debt ratios, especially the debt-to-revenue ratio – which breaches its threshold under the baseline scenario. As well, the envisaged strategies to emphasize long term maturities on the domestic market and to clear arrears should contribute to reduce total public debt vulnerabilities.

The authorities are strongly committed to debt sustainability. They intend to build on Fund's technical assistance to develop a Medium-Term Debt Strategy (MTDS) and enhance debt management capacity. The Glencore debt restructuring agreement concluded in June 2018 was a milestone; the authorities will continue to maintain this favorable development by relying on concessional financing going forward.

Financial System

9. The financial system has bettered as a result of the authorities' efforts to address public banks' vulnerabilities. External consultant firms have been selected to review the financial situation of two banks (CBT and BCC) and prepare a reorganization plan; reports will be shared by end February to the IMF staff and the COBAC as planned. The authorities remain confident that the reforms in the sector will help improve banks' ratios and step up their financial intermediation role with limited risks. As regards the third bank, BAC a recapitalization has been decided and a strategic plan submitted to COBAC.

Monetary Policy and Regional Stabilization Strategy

10. The Chadian authorities have demonstrated strong leadership in implementing the regional stabilization strategy. The strategy adopted in 2016 and reaffirmed by CEMAC members in October 2018 in N'djamena emphasizes the adoption of a Fund-supported program, a swift recovery of international reserves and advocates policies aiming, among other objectives, to foster compliance with foreign exchange regulation. The authorities have provided all the contracts and agreements with oil companies to the relevant regional bodies in their efforts to enforce foreign exchange regulation. Going forward, the authorities are committed to continue to conduct policies that support the stability of the regional financial and the monetary arrangement, including by: (i) ensuring that all public entities repatriate and surrender all their forex receipts to resident banks, and (ii) communicating to the CEMAC Commission by end-2018, Chad's 2019-21 convergence plan that is consistent with the ECF arrangement and the regional convergence framework, including external arrears clearance. These measures and others are part of the regional strategy for crisis exit.

Structural Reforms

11. The authorities are well aware of the need to bolster structural reforms for supporting the non-oil economy and increasing the overall economic resilience. Their actions will emphasize improving the business climate for the development of the private sector. In particular, they will step up efforts to strengthen governance by fighting corruption. In this vein, the authorities are committed to the full implementation of the recently ratified United Nations Convention Against Corruption (UNCAC). In addition, they are in the process of developing legislation to implement the asset declaration regime for public officials. An ongoing assessment under the Extractive Industries Transparency Initiative (EITI) should also contribute to increase transparency and oversight in the oil sector. Finally, the implementation of the National Development Plan (NDP) is progressing well and should help secure key public investments and private sector participation to spur broad-based growth and reduce the dependency on oil.

Conclusion

12. Since the sharp fall in oil price started in 2014, the Chadian authorities have embarked on an adjustment program to stabilize the macroeconomic situation. The ECF arrangement concluded in 2017 has provided an appropriate anchor to help the authorities address the challenges facing the economy and exit the crisis. The strong reform agenda paired with the CEMAC's regional stabilization strategy in a conducive environment of rebound in oil production has started to bear fruit. Along a good program performance, macroeconomic stability is being enhanced with efforts in fiscal consolidation and external debt restructuring. Going forward, the authorities will further strengthen fiscal consolidation while stepping up efforts on structural reforms to advance the development of the non-oil economy and reduce the dependency on oil.

13. In view of the good performance and the authorities' continued commitment to the objectives of the program, we would appreciate Executive Directors' support for the completion of the third review under the ECF arrangement and for the authorities' request for a waiver for non-observance of a performance criterion.