IMF Country Report No. 23/7

CHAD

January 2023

FIRST AND SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHAD

In the context of the First and Second Reviews Under the Extended Credit Facility Arrangement, Requests for Waivers of Nonobservance of Performance Criteria and Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 22, 2022, following discussions that ended in October, 2022, with the officials of Chad on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 7, 2022.
- 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.

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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International Monetary Fund
Washington, D.C.

IMF Executive Board Completes First and Second Reviews of ECF Arrangement for Chad and Approves US$ 149.3 Million Disbursement

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the First and Second Reviews of the Extended Credit Facility arrangement with Chad, providing the country with access to SDR 112.16 million (about US$ 149.3 million). This will help put Chad's economy on a path toward sustainable economic growth and poverty reduction.
- Chad is the first country to reach a debt treatment agreement with official and private creditors under the G20 Common Framework. This agreement provides Chad with adequate protection against downside risks while bringing the risk of debt distress to moderate by the end of the IMF-supported program.
- While high oil revenues have improved the government's financial position, Chad continues to face considerable challenges, including food insecurity, oil price volatility, climate change, and security issues. Continued reform efforts are needed to enhance growth, poverty reduction, and resilience.

Washington, DC-December 22, 2022: The Executive Board of the International Monetary Fund (IMF) approved today the completion of the first and second reviews under the Extended Credit Facility (ECF) for Chad.

The completion of the two reviews enables the disbursement of SDR 112.16 million (about US$149.3 million), bringing total disbursements under the arrangement to SDR 168.24 million (about US$224 million). Chad's three-year ECF arrangement was approved on December 10, 2021, for SDR 392.56 million (about US$570.75 million at the time of program approval or 280 percent of quota) to help meet Chad's large balance-of-payments and budgetary needs, including by catalyzing financial support from official donors (see Press Release No. 21/377). Based on the policies and reforms to which the authorities committed, the planned corrective actions, and the regional policy assurances, the Board also approved waivers of non-observance of performance criteria on the non-oil primary balance and the stock of domestic arrears.

Over the longer term, policies under the ECF-supported program will help put the economy on a balanced and sustainable path towards inclusive green growth and poverty reduction. It will also contribute to the regional effort to restore and preserve external stability for the Central African Economic and Monetary Union (CEMAC).

After contracting in 2020 and 2021, economic activity is expected to gradually recover over the medium term. Growth is expected increase to 2½ percent in 2022 and 3½ percent in 2023, driven by a recovery in both oil and non-oil production. Average inflation is expected to rise to 5.3 percent in 2022—reflecting increasing food price pressures from the poor 2021 crop, the impact of the war in Ukraine, and recent floods—before gradually moderating over the medium term. Reflecting higher oil prices, the current account balance is expected to improve markedly in 2022, when it would register a surplus of 2.8 percent of GDP, before declining over the medium term as oil prices are expected to gradually recede. Public debt is expected to gradually decline over the next few years from 56 percent of GDP at end-2021 to about 40 percent of GDP in 2024.

Following the Executive Board discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair, made the following statement:

"Chad continues to face considerable challenges. Higher oil revenues improved the government's cashflow position. However, the pandemic remains a concern while last year's poor crop, Russia's war in Ukraine, and the recent floods have exacerbated food insecurity. The prolongation of the political transition has heightened social tensions while the security situation remains volatile. Reflecting in part these challenges, quantitative performance under the program has been mixed, although there has been significant progress on structural reforms.

"The medium-term outlook is projected to gradually improve, as reforms accelerate. Both oil and non-oil GDP growth is projected to pick up. After increasing rapidly in 2022 on account of higher food prices, inflation is expected to gradually moderate over the medium term.

"The debt treatment agreement reached with official and private creditors under the G20 Common Framework—the first in its kind— provides Chad with adequate protection against downside risks while bringing the risk of debt distress to moderate by the end of the program, as required under the IMF's exceptional access policies.

"Continued reform efforts are needed to enhance growth, poverty reduction, and resilience. Fiscal consolidation efforts remain key to Chad's efforts to ensure debt sustainability while creating the fiscal space necessary to meet its considerable social and investment spending needs. The authorities will continue to implement measures aimed at enhancing domestic revenue mobilization, containing the wage bill, and streamlining non-priority expenditures, such as fuel and electricity subsidies. Additional oil revenue will help rebuild buffers and repay domestic arrears and reduce domestic debt. Structural reforms will also aim at enhancing public financial management and fiscal transparency, improving governance, and strengthening the banking sector. Chad's program will continue to be supported by implementation of policies and reforms by the CEMAC regional institutions, which notably aim at supporting an increase in regional net foreign assets."

INTERNATIONAL MONETARY FUND

CHAD

December 7, 2022

FIRST AND SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. Growth was weaker than expected in 2021, reflecting primarily production disruptions in the oil sector, while inflation remained subdued. The poor 2021/2022 crop year, severe floods and Russia's war in Ukraine have exacerbated food insecurity and increased inflation in 2022. Security and social conditions remain difficult, while the political transition has suffered significant delays.

Program performance. Program performance has been mixed. The continuous QPCs on the non-accumulation of new external arrears and the non-contracting of new non-concessional external debt were met, while the end-December 2021 and end-June 2022 QPC on the non-oil primary balance, the end-December 2021 QPC on the stock of domestic arrears, and most of the indicative targets were missed. There has been significant progress in the implementation of structural reforms.

Macroeconomic prospects. The economy is projected to gradually recover, with a rebound in oil production and a slow pickup in non-oil growth. This outlook is subject to substantial risks, including: a possible resurgence of the pandemic; increased insecurity and social unrest during the political transition period; a possible oil price drop; and shortfalls in donor financing. Upside risks include sustained higher oil prices.

Key policies. Program parameters were recalibrated to reflect new shocks. Consistent with broad medium-term fiscal consolidation objectives, fiscal policy in 2022 aims at a substantial improvement in the non-oil primary balance while accommodating one-off costs related to the food security crisis. The first half of the year performance was consistent with these objectives. Fiscal consolidation efforts will continue in 2023 through measures to enhance non-oil revenue mobilization and streamline non-priority current spending. In 2023 onwards, structural reforms will also aim at enhancing public financial management and fiscal transparency, improving governance, and strengthening the banking sector. Additional oil revenue will also help rebuild buffers and reduce domestic arrears and external debt.

Staff views. Based on the envisaged policies and reforms, corrective actions, and regional policy assurances established in the June 2022 union-wide paper, staff supports the completion of the first and second reviews, the waivers of non-observance of three performance criteria, and the modification of end-December 2022 performance criteria.

Approved By
Vitaliy Kramarenko (AFR) and Maria Gonzalez (SPR)

Discussions took place in N'Djamena from March 16–30, 2022 and in Washington D.C. from April 18–22, 2022 and continued virtually till October. The staff team comprised Mr. Martin (head), Mses. Abdelrazek and Dordevic, Messrs. Mikhael and Ahmed (all AFR), and Mses. Garcia Martinez (SPR) and Chen (FAD) and was assisted by Mr. Ntamatungiro and Ms. Viseth (Resident Representatives) and Mr. Topeur (local economist). Mr. Fulbert Tchana Tchana (WB) joined the mission. Mr. Gemayel (former mission chief) attended the first two days of the mission. Mr. Kibassim (OED) attended some of the meetings. The team met with the President of the National Transition Council, the Ministers of Finance and Budget, Economy, Development Planning and International Cooperation, Justice, and Trade and Industry, the Minister Secretary General of the Government, the National Director of BEAC, other senior officials, as well as representatives of the private sector, civil society, and donor community. Mr. Gospel and Mr. Dominique supported the team with interpretation. Ms. Delcambre supported the preparation of the staff report.

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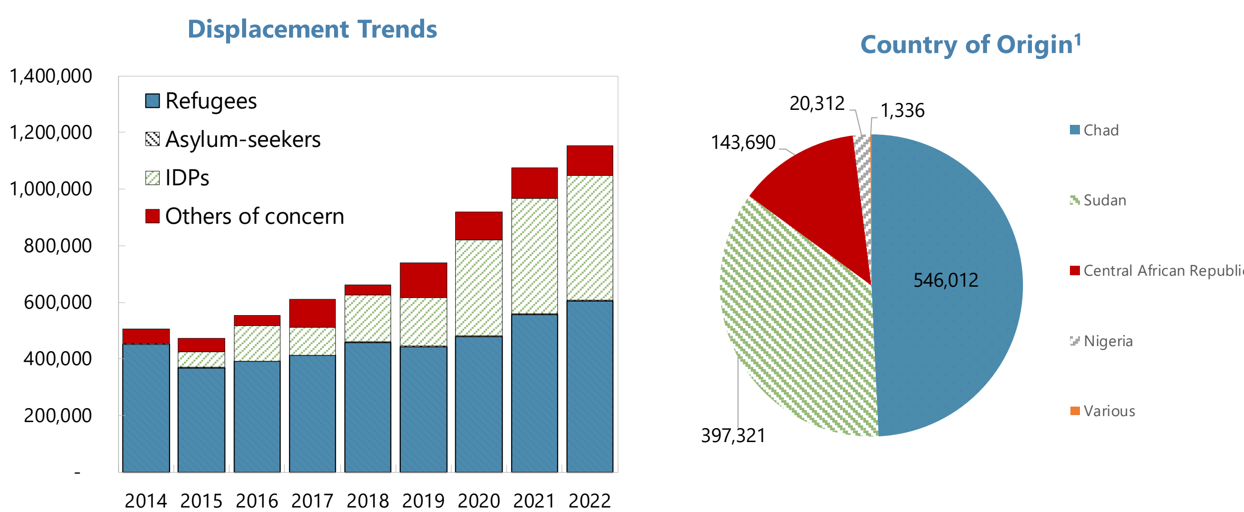
BACKGROUND

1. **The political transition has been extended by two years.** Following the adoption of a general amnesty law on December 30, 2021, some prisoners of war were released from prisons. The inclusive and sovereign national dialogue (ISND)—initially scheduled to start in February—took place August 24–October 8 following five months of preparatory discussions with politico-military groups in Doha. The ISND extended the transition by two years, dissolved the Military Transitional Council, designated President Deby as the Transition President, and provided for referendums on the constitution and the form of the state (decentralization vs. federalism) to be held ahead of the general and presidential elections, now postponed to 2024. While the social pact signed in early October 2021 with public sector unions has helped preserve social peace, dissent over the inclusiveness and the conclusions of the ISND has led to demonstrations by civil society and opposition organizations. The authorities have expressed concerns that donors have so far provided limited resources to the UNDP-managed basket fund to finance the transition roadmap.

Text Figure 1. Chad: Population Displacement, 2014-22[1]

(Number of Persons)



Source: UNHCR

1/ As of August 2022.

2. **The difficult security and social conditions have been compounded by food insecurity.** Boko Haram and persisting instability in neighboring countries remain serious security threats. Humanitarian needs have been heightened by the continued inflow of refugees and the sharp increase in the number of internally displaced persons (Text Figure 1). Inadequate rainfall during the 2021/22 crop year caused by climate change has aggravated food insecurity and conflicts between farmers and cattle herders, further exacerbating poverty and inequality, which have increased since

the start of the COVID-19 pandemic. The impact of poor agricultural production has been worsened by the war in Ukraine, with higher prices for imported food and fertilizers, and more recently by severe floods, which affected more than 1.2 million people in October and November.

3. **The reported incidence of the Covid-19 pandemic has declined, despite a low vaccination rate.** Following a pick-up from October 2021 to January 2022, the reported number of new cases has declined considerably. The share of the population having received at least one vaccine dose was, however, limited to 1.5 percent of population in February 2022. In March–April, the authorities conducted the first of the two phases of a major vaccination campaign financed by donors (including $38 million from the World Bank), with the aim of vaccinating 48 percent of the adult population by end-2022. As the involvement of media outlets and local authorities and community leaders helped reduce the prevailing vaccination hesitancy, the vaccination campaign had promising results, with 21 percent of the adult population fully vaccinated as of August 25.

4. **Chad became the first country to achieve a debt treatment agreement under the G20 Common Framework (CF).** This agreement is expected to be signed with G20 CF official creditors in the coming days and was signed with the largest private creditor on comparable terms on November 11. Securing the timely implementation of the restructuring agreements with key official and private creditors is essential for the success of the program. These agreements, combined with the implementation of the proposed fiscal adjustment and the structural reforms, guarantee that there will be no financing gaps during the program period. In the current context of high oil price volatility:

- *G20 official CF creditors committed to*: (i) providing Chad with adequate protection against downside risks, such as a significant decline in oil prices, during the program period by committing to reconvene without delay if such risks were to materialize and a residual financing gap was to reemerge and to provide the necessary debt relief based on the IMF-WBG debt sustainability analysis (DSA) and the participating official creditors' collective assessment and consistent with the parameters of the IMF program; and (ii) contributing, in proportion to their debt service, to bringing the debt service to revenue ratio below the 14 percent threshold in 2024 in the event that the main private creditor's contribution is not sufficient.
- *The largest private creditor also committed to* providing adequate protection against downside risks, while agreeing to the reprofiling of part of the debt service that is due in 2024, in line with program parameters and with the terms agreed with the Chadian authorities, so as to ensure Chad's public debt is sustainable with high probability (i.e., at moderate risk of debt distress) by the end of the program period.

The agreed conditional debt treatment provides adequate protection against downside risks and will be included in the baseline projections if these risks materialize. The terms of the 2024 reprofiling agreement with the main private creditor are now reflected in the baseline projections. The agreed debt treatment will strengthen Chad's debt sustainability and bring the risk of debt distress to "moderate" by the end of the program period, in line with the ECF program assumptions and exceptional access policies. However, the debt restructuring G20 CF agreements are not without implementation risks as creditors would need to reconvene if downside risks materialize and even if under the agreement creditors committed to timely address any possible residual financing gap, implementation delays remain a possibility.

RECENT DEVELOPMENTS

5. **Growth was weaker than expected in 2021, reflecting primarily a lower oil production, while inflation started increasing from low levels in early 2022 (Figure 1).** Growth was affected by the significant production disruptions suffered by one of the main oil producers, and delay in resumption of oil production in oil fields associated with an exit of another oil producer. As expected, non-oil growth remained subdued, reflecting economic scarring from the pandemic and a significant reduction in official financing. Average inflation was lower than projected in 2021 (-0.8 vs. +1.1 percent), reflecting mainly a correction of food prices in 2021Q4 (-3 percent) after the large price increase (+9.3 percent) observed in 2020 and very low non-food inflation (-0.7 percent). Inflation has since increased significantly, with consumer prices increasing by 7.2 percent y-o-y in September (vs. 1.0 percent in December 2021), on account of higher food prices (+12.3 percent y-o-y). The current account deficit is estimated to have been lower in 2021 (4.5 percent of GDP) than expected at the time of the ECF request (6.5 percent of GDP) owing mainly to higher oil exports. However, international reserves dropped more than expected, reflecting lower capital transfers (project grants) and the fact that additional external resources could not be mobilized to fill the residual financing gap.

Text Table 1. Chad: Recent Fiscal Developments, 2015-21

(Percent of non-oil GDP)

	2015	2016	2017	2018	2019	2020	2021	
							ECF Request	Prel.
Oil Revenue	**4.9**	**3.5**	**4.2**	**6.7**	**6.4**	**10.7**	**7.0**	**9.8**
Non-oil Revenue	**8.3**	**8.4**	**8.7**	**8.1**	**9.3**	**9.1**	**9.3**	**9.6**
Tax Revenue	7.8	7.0	7.7	7.5	9.0	8.6	8.9	9.2
Non-tax Revenue	0.4	1.4	1.0	0.6	0.4	0.5	0.3	0.4
Current Expenditure	**15.6**	**14.2**	**13.7**	**12.0**	**12.5**	**15.2**	**15.4**	**16.7**
Wages and Salaries	7.1	7.5	7.8	6.4	7.0	8.2	8.0	8.8
Goods and Services	1.8	2.0	1.8	2.0	1.6	2.2	2.5	2.4
Transfers and Subsidies	4.6	2.2	2.1	2.2	2.6	3.7	3.9	4.1
Investment	**7.3**	**3.7**	**4.4**	**4.5**	**5.6**	**7.2**	**7.2**	**6.3**
Domestically Financed	4.4	1.1	0.7	1.7	3.0	3.2	2.6	4.3
Foreign Financed	2.8	2.7	3.6	2.8	2.6	3.9	4.6	1.9
Overall Balance (incl. grants, commitment)	**-5.9**	**-3.0**	**-0.9**	**1.9**	**-0.8**	**1.9**	**-3.4**	**-2.4**
Non-Oil Primary Balance (excl. grants, commitment)	**-9.7**	**-4.4**	**-3.8**	**-4.2**	**-4.8**	**-8.1**	**-7.7**	**-10.0**

Sources: Chadian Authorities and IMF Staff Estimates.

6. **The 2021 non-oil fiscal deficit was substantially higher than targeted, reflecting spending overruns.** Non-oil revenue was slightly higher than projected, owing mainly to higher VAT receipts. The non-oil primary balance (NOPB) was, however, lower than targeted by about 2.3 percentage points of non-oil GDP, reflecting: (i) a one-off increase in investment in military

equipment (1.7 percent of non-oil GDP)—in response to the deterioration of the security situation in the Sahel region; (ii) higher spending on the civil and, to a lesser extent, military wage bill (0.6 percent of non-oil GDP); and (iii) higher transfers and subsidies.[1] Spending on goods and services was, however, lower than expected owing to delays in the transfers to the National food security office (ONASA) to help rebuild its food stock. The use of emergency spending procedures exceeded the thresholds under the program, with regularization significantly lower than targeted owing to capacity constraints.[2] Reflecting primarily higher oil revenue, lower externally financed investment, and slightly lower domestic arrears repayments, the overall fiscal balance was higher than expected.

7. As envisaged under the ECF, with the delay of a debt treatment the residual financing gap had to be filled primarily through domestic borrowing. Reflecting the government's reliance on domestic debt issuance to finance the budget in 2021, total public debt increased from 54.1 percent of the GDP at end-2020 to 55.9 percent of GDP at end-2021, with the stock of domestic debt increasing from 27.6 to 30.4 percent of GDP. Meanwhile, domestic arrears clearance was lower than targeted under the program (1.8 vs. 2.1 percent of non-oil GDP). Part of the 2021 SDR allocation was used to finance the payment of some of these arrears, including to the health sector, retirees, and small suppliers. As envisaged under the program, the allocation was also used to help ONASA start rebuilding its food stock, finance the payment of 2021 pensions, and clear external debt technical arrears.

8. In the first half of 2022, the NOPB was broadly in line with what staff had discussed with the authorities during the March 2022 review mission. Non-oil revenue was slightly higher than projected, owing mainly to higher VAT receipts. While oil revenue did not increase as much as could have been expected in the first half of 2022, preliminary third quarter data reflect a strong rebound in receipts, which is expected to be sustained for the rest of the year. Current spending was higher than envisaged at the time of the ECF request—reflecting mainly the need to address pressing security, political transition, and food security needs (with around CFAF 15 bill transferred to ONASA in 2022H1, out of CFAF 30 bill allocated - MEFP ¶23 - as part of the National Response Plan), as had been discussed with staff during the March 2022 review mission (see Annex I). While the reimbursement of domestic arrears accelerated, the authorities rolled over maturing T-bills and T-bonds at high interest rates.

9. While commercial banks' solvency indicators improved, and credit grew strongly in 2021, liquidity and loan quality weakened while credit slowed down during the first quarter of 2022 (Text Table 2)**.** After stagnating in 2020, credit to the private sector increased by 17.1 percent in 2021, before contracting slightly during the first five months of 2022. The sector's liquidity situation weakened over that latter period but remained adequate, with liquid assets

[1] This increase reflects the revaluation (by 0.5 percent of non-oil GDP) of the hitherto underestimated in-kind oil transfers to the national electricity company, while other transfers and subsidies were lower than projected.

[2] Emergency spending does not follow regular expenditure chain procedures, which include the following steps: engagement, liquidation, verification, and payment. The regularization is the process by which the DAO are reentered in the normal spending process.

equivalent to 102.1 percent of short-term liabilities at end-March. Loan quality remained poor in 2021 with the NPL ratio at 26 percent, further deteriorating to 28.5 percent in 2022Q1. After declining from 18 percent at end-2017 to 2.9 percent at end-2020, the banking sector's overall capital adequacy ratio (CAR) recovered strongly to 9.4 percent at end-March 2022, owing in part to COBAC's request that banks do not distribute dividends. However, the capitalization may be overstated judged by CAR alone, as COVID measures may have helped some banks to reduce provisions. Still, non-Covid NPLs are generally well-provisioned, while the lifting in July 2022 of the forbearance measures implemented by COBAC (especially on classification of NPLs and restructured loans) in response to the pandemic, along with the resumption of regular onsite supervision by COBAC, is expected to provide a more accurate assessment of banks' health.

Text Table 2. Chad: Financial Soundness Indicators, 2016-2022Q1

(end-of-period estimates, in percent)

	2016	2017	2018	2019	2020	2021	2022 Q1
Capital adequacy							
Total bank regulatory capital to risk-weighted assets	13.2	18.0	16.8	6.8	2.9	9.1	9.4
Total capital (net worth) to assets	7.7	8.8	7.5	2.8	1.6	5.0	5.2
Asset quality							
Non-performing loans to total loans	20.9	25.8	28.6	22.9	25.9	26.0	28.5
Non-performing loans net of provision to capital	65.7	77.4	96.5	154.0	373.3	122.0	144.6
Liquidity							
Liquid assets to total assets	23.1	27.5	20.2	26.1	25.7	25.0	23.4
Liquid assets to short-term liabilities	155.0	188.9	117.9	123.6	122.2	115.3	102.1

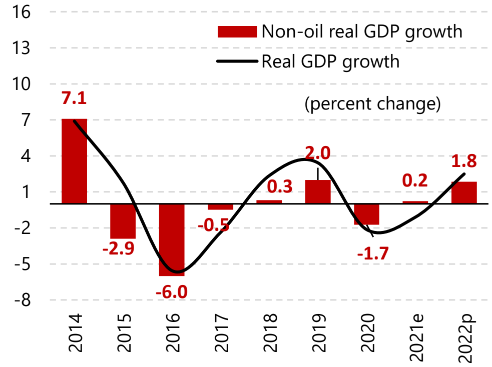
Sources: Chadian authorities and le Banque des Etats de l'Afrique Centrale (BEAC).

10. The two systemic public banks continue to implement their performance contracts, while the largest private sector bank has pursued the restructuring process started in 2021. Based on the end-June 2022 performance monitoring reports, the two public banks performed relatively well with regard to governance, while more needs to be done to strengthen the prudential ratios and their commercial practices through the development of new products. The government continued its monthly debt repayments to the two public banks, as well as the repayment of domestic arrears to the private sector. The partial recapitalization of one of the two banks in 2021 helped support its capital position, but further recapitalization would be needed. Following the engagement with COBAC, the largest private sector bank embarked on a restructuring process in 2021, in particular by increasing its capital. The bank also adopted a recovery plan deemed credible by COBAC, which should enable it to comply with all prudential standards by end-2024.

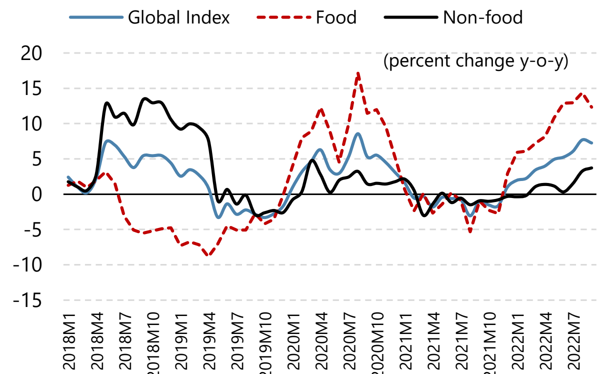
11. The authorities made further progress in addressing external arrears and renegotiating some of its other debts. A restructuring agreement with the Republic of Congo, including an extension of maturities, was signed in February 2022. A debt restructuring agreement with Libya is expected to be concluded in the coming weeks. The restructuring of official debt with Equatorial

Figure 1. Chad: Recent Economic Developments, 2014-22

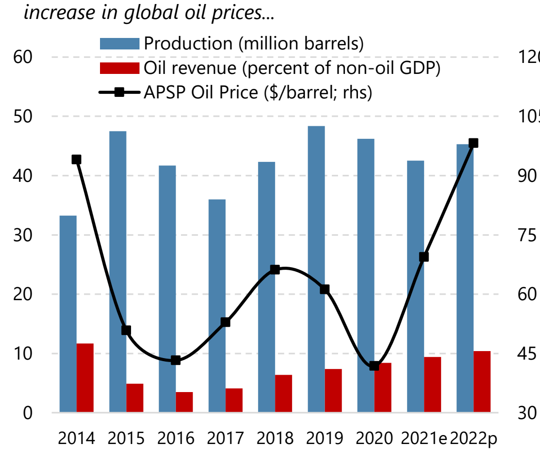
Non-oil GDP growth is expected to rebound after contracting in 2020 and remaining stagnant in 2021...



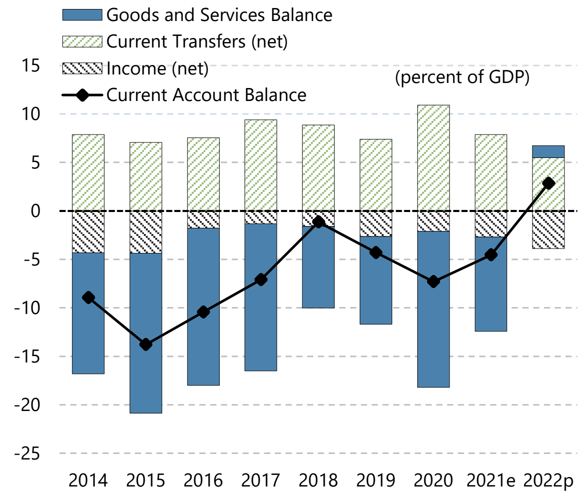
...while inflation is picking up after decreasing in 2021, mainly driven by food price dynamics.



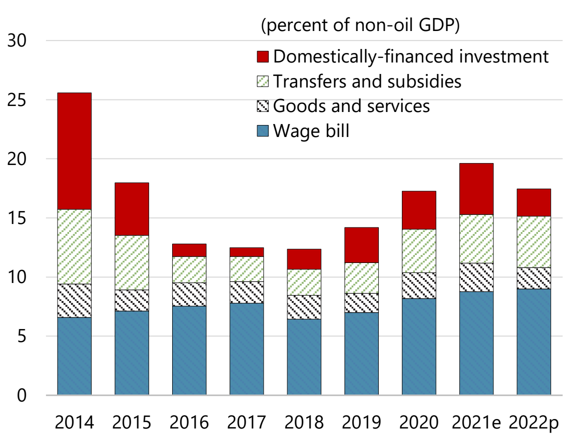
After decreasing in 2021, oil production is expected to reverse the recent downward trend amid a significant increase in global oil prices...



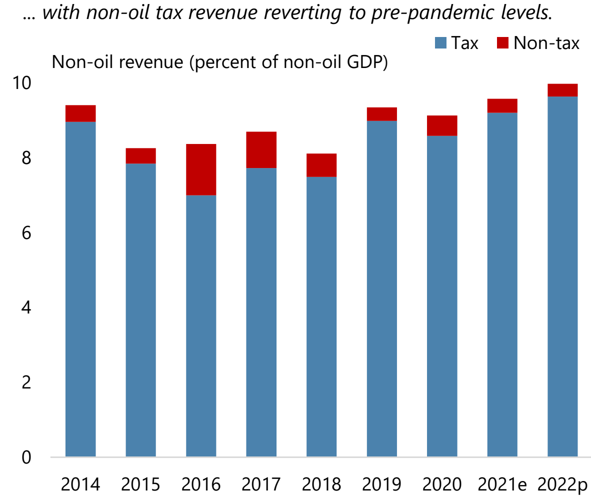
..and the current account is expected to improve accordingly.



Public spending increased in 2021 to accomodate the impact of the pandemic and elevated security needs...



... with non-oil tax revenue reverting to pre-pandemic levels.



Sources: Chadian authorities and IMF staff estimates and projections.

Guinea, is also under discussion. All debts (including outstanding arrears) with BDEAC were reprofiled in December 2021, extending their maturities by one year. According to the latest information provided by the authorities, all remaining external arrears were cleared, and new arrears were paid within the six-week grace period. The authorities met with the Belgian authorities to discuss a disputed claim presented by Belgium company and continue to take steps in consultation with their legal counsel to resolve the issue as soon as possible. Meanwhile, BEAC's statutory advances to CEMAC member states were restructured. While the authorities were supposed to repay these advances (amounting to 8.7 percent of non-oil GDP) over 10 years starting in 2022, the restructuring provides for their repayment to be spread from 2025-2051.

PROGRAM PERFORMANCE

12. **Quantitative performance under the program has been mixed, as the two continuous quantitative performance criteria (QPC) were met while the end-December 2021 and end-June 2022 QPC on the non-oil primary balance and the end-December 2021 QPC on the stock of domestic arrears were missed (MEFP, ¶15 and MEFP Table 2).** The end-December 2021 QPC on the NOPB was missed owing to higher investment in military equipment—in response to the deterioration of the security situation in the Sahel region—and higher spending on the civil and, to a lesser extent, military wage bill. The end-June 2022 QPC on the NOPB was missed on account of a higher wage bill and higher transfers to address food security, while the one on the stock of domestic arrears was missed owing to liquidity constraints related to this extra spending and the fact that oil revenue increased significantly only in the third quarter. The end-December indicative targets on domestic financing and the wage bill were missed owing to expenditure pressures. Those related to the stock of domestic arrears, and social spending were also missed, reflecting liquidity constraints and insufficient prioritization. The end-June ITs on social spending and tax revenue were met, while the ones on net domestic financing and wages and salaries were not met, owing to the higher military wage bill and food security spending.

13. **There has been significant progress in implementing the reforms covered by structural benchmarks (SBs):**

- **Three SBs were met**. The authorities published the quarterly note on the oil sector for December 2021, March 2022, and June 2022 in line with the template designed in consultation with Fund staff.[3] The end-January SB on the publication of a semi-annual note on the list of new tax exemptions was met, as the authorities reported that no new exemption had been granted, renewed, or extended during the second half of 2021. A list of extension of tax exemptions for 2022 was published on July 27, 2022, as well. The June 2022 SB on the adoption of the PFM reform strategy was also met, as the strategy was adopted by the authorities on June 28.

- **Two structural reforms covered by SBs were implemented with delays:** the completion and publication of an ex-post compliance audit of COVID-19 expenses by a reputable international

[3] These notes are available here. The note for the third quarter of 2022 will be published by end-December 2022.

auditing firm (end-December 2021 SB) was implemented on June, 3 2022; after issuing a decree on March 24, 2022 providing for the allocation of 15 percent of VAT revenue to the VAT escrow account at BEAC, the authorities started allocating VAT revenue to this account on June 22, 2022 (end-February 2022 SB).

- **The reforms covered by the three other SBs are being implemented:**

  - The publication of the full text of central government procurement contracts, including information on beneficial owners (end-March SB) could not be fully implemented, as the government currently does not collect this information. Accordingly, with the IMF technical assistance, the authorities adopted a decree (prior action) allowing the government to: (i) collect beneficial ownership information of legal persons bidding on central government procurement contracts; and (ii) periodically publish on an easily accessible governmental website the full text of these contracts along with the names and nationalities of the beneficial owners of the awarded legal persons. This publication will start in 2023 (end-July 2023 SB).

  - The implementation of employment ceilings in accordance with the provisions of the 2014 organic law on public finance was postponed to end-December-2022, as the Ministry of Finance clarified that the preparation of the draft 2023 budget law begins only in September and the number of employees is confirmed only after consultation with line ministries and agencies.

  - The ASYCUDA exemption module is expected to be fully operational by end-March 2023. It was deployed in three customs offices in early November 2022 with the support of UNCTAD. However, it will take 2-3 more months to deploy it fully in other main offices, and thereby to enable the customs to process all customs exemptions requests and authorizations.

14. The PRGT exceptional access criteria are assessed to be met:

- **Criterion 1:** "The member is experiencing or has the potential to experience exceptional balance of payment pressures on the current account or capital account, resulting in a need for resources under the Trust that cannot be met within the normal limits." Chad is a fragile country with enormous development needs, low buffers at the country and regional levels, and exposure to major external shocks—including the risks of persistent spillovers from the war in Ukraine, which could exacerbate the food security situation even further, and of a reversal of the recent increase in oil prices—which could absorb the already limited fiscal space. It continues to experience an exceptionally large balance of payments financing need given Chad's need to accumulate external buffers to be able to address the multiple external shocks to which the country is exposed. This exceptionally large balance of payments financing need cannot be met within the normal limits, given its outstanding cumulative credit to the Fund. The current high oil prices have not alleviated Chad liquidity pressures, especially given high uncertainty surrounding oil prices and the lack of other financing sources at relatively favorable terms besides donor support, as recent particularly high interest rates on new domestic financing from commercial banks have shown.

- **Criterion 2:** "Risks to the sustainability of public debt are adequately contained. Where the member's debt is assessed to be unsustainable ex ante, access to resources in excess of the normal limits will only be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, restores public debt sustainability with high probability (i.e., to a point where application of the LIC-DSF would yield a rating of low or moderate overall risk of public debt distress) within 36 months from Board approval." The agreed debt restructuring envelope, other expected debt restructuring agreements with non-Paris Club, non-G20 bilateral creditors, the proposed fiscal adjustment of 4.7 percent of non-oil GDP in 2022-24, and structural reforms are projected to reduce the risk of debt distress to a moderate level within the program period.
- **Criterion 3:** "The member does not meet the income criterion for presumed blending at the time of making a request for resources under this Trust in excess of the access limits". Chad has per capita GDP below the prevailing operational cutoff for assistance from IDA.
- **Criterion 4:** "The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment". Notwithstanding significant risks, staff estimates that the program has a reasonably strong prospects of success for several reasons, including: (i) the authorities' commitment to the program; (ii) the updated policy assurances provided by BEAC; (iii) the contingent debt treatment agreed by creditors, consistent with the program parameters; and (iv) the program is supported by extensive TA to continue building capacity in the Chadian administration.

POLICY DISCUSSIONS

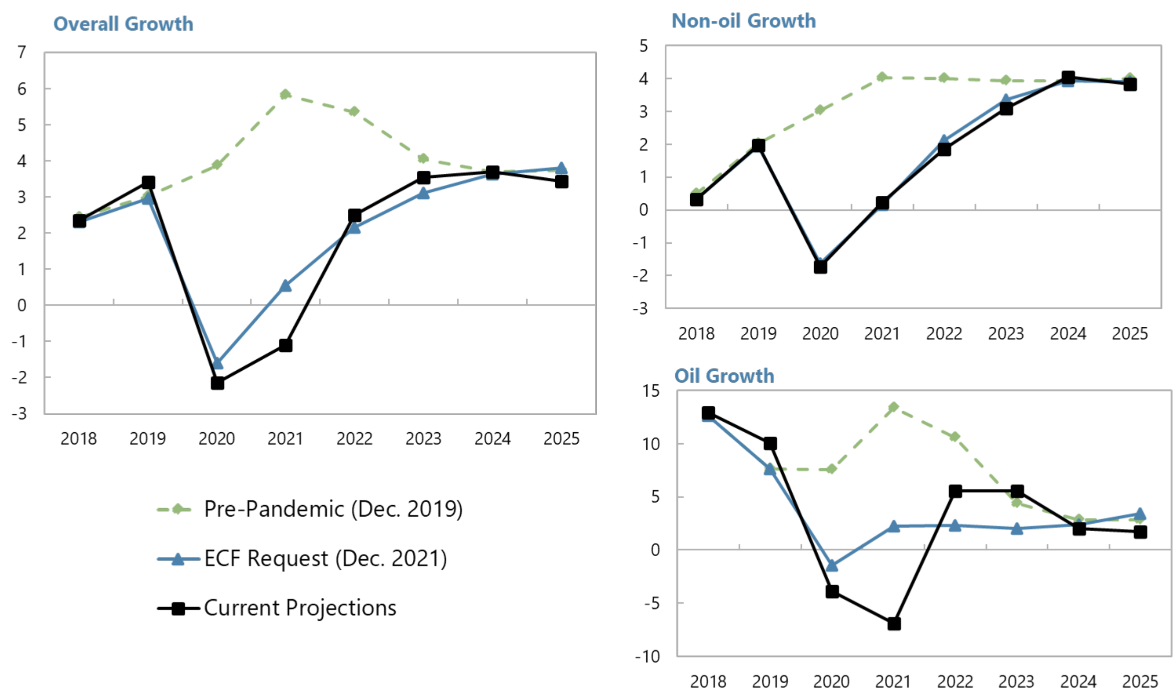
A. Medium-Term Macroeconomic Framework

15. While improving, the outlook for 2022 remains subdued (MEFP, ¶20). After contracting in 2020 and 2021, economic activity is expected to grow by 2½ percent in 2022, driven by a recovery in both oil and non-oil production (mainly the primary sector). Following the disruptions that occurred in 2020-21, oil production is expected to gradually recover over the medium term. Average inflation is expected to rise to 5.3 percent in 2022, reflecting increasing food price pressures from the poor 2021 crop, the impact of the war in Ukraine, the recent floods, and the continued influx of refugees fleeing conflicts in neighboring states.

16. The medium-term outlook is expected to gradually improve, with both oil and non-oil GDP growth picking up and inflation returning to the BEAC target (MEFP, ¶21)**.** After contracting by about 11 percent in 2020–21, oil production is expected to bounce back in 2022–23, as the one-off factors that affected production are not expected to recur, and as two new oil operators are expected to reopen some fields that had been temporarily closed. Non-oil GDP growth is expected to increase to 3.1 percent in 2023 and 4.1 percent in 2024. In 2023, the economy will continue to recover from the pandemic slump while benefiting from a steady increase in public investment and from the continued repayment of domestic arrears to the private sector, which will support the economy and strengthen the banking sector. Meanwhile, inflation is projected to revert to the BEAC ceiling of 3 percent from 2024 onwards.

Text Figure 2. Chad: Evolution of Medium-Term Growth, 2018-25

(Annual percentage change)

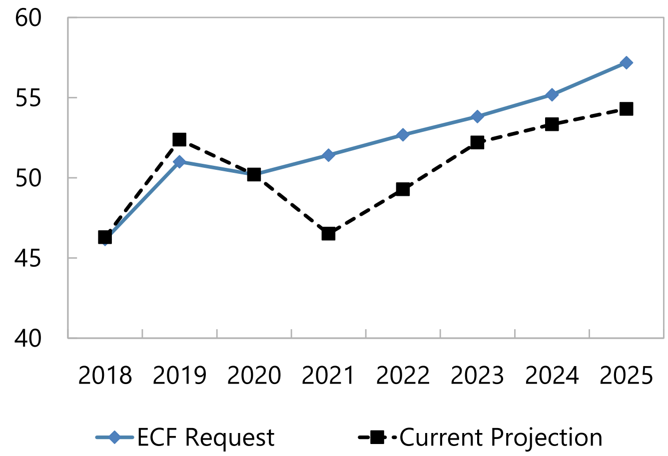


Sources: Chadian authorities, and IMF staff estimates and projections.

17. Reflecting higher oil prices, the current account balance (CAB) is expected to improve markedly in 2022 before worsening over the medium term (MEFP, ¶20)**.** The CAB is expected to improve to 2.7 percent of GDP in 2022 from -4.5 percent in 2021, driven mainly by an increase in the trade balance from 11.6 to 24.5 percent of GDP. This stronger trade balance would be partially offset by the increase in the external debt service to private creditors. Owing to Chad's dependence on oil exports, the current account is expected to gradually worsen over the medium term as oil prices are expected to gradually decline.

18. Chad's external position is expected to remain vulnerable to oil prices and donor financing support. Chad's current account position has improved from a 9.3 percent of GDP deficit in 2020 to a surplus in 2022 but it is expected to go back to deficits of around 5.5 percent of GDP in the medium term as oil prices gradually decline. The oil sector dominates the balance of payments to a much larger degree than the overall economy. FDI provides a major source of financing for the current account deficit, while the SDR allocation helped address the liquidity squeeze in 2021. As a member of the CEMAC currency union, Chad's best course of action is to undertake structural reforms to improve competitiveness. Monetary and exchange rate policy is not available and fiscal policy rightly focuses on building resilience by strengthening consolidation efforts while protecting the vulnerable. Instead, improvements to the business climate, governance and the banking system could all carry a large impact for local business' ability to compete.

Text Figure 3. Chad: Oil Production, 2018-25
(Millions of barrels)



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

B. Fiscal Policy

19. Fiscal policy will be anchored by the objective to bring the non-oil primary deficit down to about 5 percent of non-oil GDP by the end of the program period (MEFP, ¶22)**.** While the 2024 NOPB projection has been revised downward (from -4.1 to -5.3 percent of non-oil GDP), it still entails a substantial adjustment (4¾ percent of non-oil GDP) compared to the 2021 outcome. This adjustment will rely on measures to improve non-oil revenue mobilization (including facilitating taxpayers' payment of tax and strengthening tax administration) and to contain non-priority current spending. This composition of adjustment will support the reduction of the budget dependence on oil revenue and free up resources to finance Chad's considerable infrastructure, social, and security spending needs.

20. Consistent with these medium-term objectives, fiscal policy in 2022 will aim at a substantial improvement in the NOPB while accommodating one-off costs related to the political transition and food insecurity (MEFP, ¶23)**.** The NOPB would improve by 2.5 percentage points of non-oil GDP to -7.5 percent, reflecting an increase in non-oil revenue (backed by the improvement in VAT revenue), and the containment of expenditures, following the investment and wage bill overruns observed in 2021. However, the NOPB would be lower than envisaged at the time of the ECF request by about 1.6 percentage points, reflecting mainly: (i) one-off expenditures stemming from the national response plan to ensure food security (0.5 percent of non-oil GDP); (ii) an accounting revaluation (for 0.6 percent of non-oil GDP) of the in-kind transfers to the energy sector; and (iii) a higher wage bill (by 1.2 percent of non-oil GDP), mainly reflecting the government's decision to realign military wages with the minimum wage, which was adopted by the departing National Assembly in September 2021. Meanwhile, goods and services, as well as domestically financed investments, are expected to drop as non-priority expenditures are streamlined. For domestically financed investments, the drop in 2022 offsets the one-off increase in military investments during 2021 and brings domestically financed investments to a more sustainable path. It is expected to be complemented by a strong rebound in externally financed investment. A stronger adjustment in 2022 would not be advisable in view of the persistent security and social tensions and the deteriorating food insecurity situation (see Annex I).[4] The improvement in the NOPB compared to 2021 and higher oil revenue would still contribute to a substantial improvement in the overall fiscal balance, from -2.4 to +6.3 percent of non-oil GDP.

21. The authorities will pursue their fiscal consolidation efforts in 2023, with a continued emphasis on strengthening non-oil revenue and prioritizing spending.

- **Revenue-enhancing reforms will focus on addressing weaknesses in tax and customs administration,** through: (i) improved VAT management, including streamlining tax exemptions and establishing a proper VAT refund mechanism; (ii) modernization and strengthened collaboration between Customs and VAT administration, including greater use of information technology (IT) to achieve digitalization of tax filing and revenue collection through the banking system and mobile money; and (iii) better tax audits through strengthened collaboration between tax and customs administrations.

- **The draft budget law for 2023 will also aim at efficiently streamlining non-priority current spending to create more space for social spending and investment.** The authorities will notably implement the recommendations of the Fund TA mission to contain the wage bill (see ¶28). They will also strengthen budget implementation by ensuring that the use of emergency spending procedures is limited to actual emergency spending. Compared to 2022 and taking into account about 0.4 percent of non-oil GDP is one-off spending to prepare the elections, the NOPB is projected to improve by 0.7 percentage points of non-oil GDP and the overall balance by 2.5 percentage points of non-oil GDP, backed by higher oil revenue.

22. In view of substantial downside risks, higher oil revenue should be used to build buffers and accelerate the payment of debt (MEFP, ¶23)**.** Given the current oil price volatility, it will be important to take advantage of the current high prices to build cash reserves in case some of the downside risks materialize. Debt is expected to decline faster than envisaged at the time of the ECF request, as higher oil prices would result in accelerated repayments to Glencore, while higher net oil revenue will allow for a quicker reduction of the stock of T-bills and payment of domestic arrears. If oil revenue remains high till then, the scope for further deposit accumulation at BEAC, additional accelerated repayment of domestic arrears, and additional high-priority spending over the medium term could be discussed at the time of the third review.

23. The clearance of domestic arrears will contribute to strengthening further the banking sector and the economic recovery (MEFP, ¶56)**.** The authorities aim to reduce the stock of domestic arrears by CFAF 95 billion in 2022, and gradually repay the remaining stock throughout the program period. Since the 2019 audit, which estimated domestic arrears at CFAF 515 billion, other domestic arrears appear to have continued to arise in 2020 and 2021 and will need to be monitored

[4] It is worth noting that the new end-2022 NOPB projection (CFAF -415 billion) is in line with the ECF request one once adjusted for oil revenue and grants as provided in the TMU (CFAF -413 billion).

closely. The clearance of domestic arrears will help the private sector to pay their debt obligations to banks, improving their liquidity and ability to lend.

C. Public Debt Management and Restructuring

24. Debt management reforms aim at lifting Chad's debt carrying capacity (MEFP, ¶30)**.** Debt management continues to be weak owing to low capacity, low resources, and poor coordination among entities intervening in the debt contracting, management, and monitoring. The authorities are committed to continue implementing the IMF TA recommendations and augmenting resources allocated to debt management.[5] To avoid a recurrence of previous delays in external debt service payments, BEAC has taken some steps, including: (i) providing more flexibility in meeting the FOREX requirements on payments related to multilateral loans given that the risk of abuses in these loans is limited; (ii) finding ways to accelerate payments for other loans. In addition, coordination and information exchange channels between the national debt management divisions and BEAC have been strengthened by holding monthly debt meetings.

D. Fiscal Structural Reforms and Governance

25. The authorities will step up their efforts to strengthen non-oil revenue mobilization (MEFP, ¶26). Non-oil revenue amounted to 9.6 percent of non-oil GDP in 2021, one of the lowest levels in the CEMAC region. The government is committed to increase this ratio by about 1 percentage point by 2024 through tax administration reforms, including: (i) enhancing transparency in tax exemptions; (ii) modernizing VAT collection through greater use of information technology (IT) and supporting e-filing and payment via banks and mobile phones; and (iii) increasing the number of active taxpayers through strengthened collaboration between tax and customs administrations.

26. The authorities acknowledged that these efforts were currently hampered by numerous tax exemptions (MEFP, ¶27). Accordingly, they are committed to provide a comprehensive review of existent exemptions and publish a list of the tax exemptions arising from special tax regimes (including investment codes, the mining code, and ad hoc agreements), comprising the companies' name and the type and duration of each exemption (end-December 2022 SB). They will also continue the practice of publishing semi-annually a note listing all new tax exemptions (including renewals and extensions of existing exemptions) to track the development of tax exemptions. The authorities will also evaluate the evolution of VAT receipts over the last three years and conduct an administrative audit of VAT declarations of companies listed in 2022 that are responsible for VAT withholding (end-December 2023 SB). This comes in addition to the recently established VAT refund mechanism and the launch of the e-registration platform for taxpayers.

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[5] The TA provided over the next 24 months will notably aim at improving the authorities' capacity in the preparation of medium-term debt management strategies, assisting with the establishment of an investor relations program, improving capacity in the planning and execution of government securities issuances, and improving debt recording, monitoring, and reporting processes.

These steps will help strengthen confidence in the VAT system and support the streamlining of VAT exemptions.

27. The authorities will also strengthen VAT management (MEFP, ¶26–27). VAT revenue amounts to less than 2 percent of GDP in Chad, compared with a potential of more than 4 percent of GDP. A key reason for the very low level of VAT collection is weak administration, reflecting poor physical working conditions, paper-based filing, and low compliance. In addition to the progress in establishing the large taxpayer office (LTO) and the medium-sized taxpayer office (MTO) and in stabilizing taxpayers' file, the authorities aim to increase the number of active taxpayers by 20 percent in 2022. To achieve this target, a relocation of the tax administration to a permanent building equipped with a modern IT system is expected by end-2022. This will facilitate the procedures for large taxpayers to submit tax returns electronically (end-January 2023 SB). The modernization of IT systems will also allow the integration of tax administration into the Integrated Financial Management Information System (IFMIS) and for strengthening the information exchange with customs to identify potential taxpayers. In addition, the government will introduce and implement mobile phone taxpayment for small taxpayers by end-December 2022.

28. The government will intensify its efforts to contain the wage bill (MEFP, ¶35–37)**.** The authorities have made progress in incorporating the wage bill management into the (IFMIS) in 2021 and launched a pilot program to decentralize the management to the provincial level in January 2022. However, the wage bill remains high and reducing it by 1 percentage point of non-oil GDP over the program period will require strong efforts and commitment from the authorities. An IMF technical assistance mission on the wage bill (April 2022) provided recommendations on the next steps. In the near term, the authorities will continue to: (i) maintain the value of the index point (*point d'indice*) which enters into the calculation of base salaries at its current level and refrain from any discretionary increase in pay scales, allowances and the AGS (Augmentation *Générale Spécifique) salary uprating and other components of overall compensation*; and (ii) implement job ceilings by ministry and institution, and strengthen coordination between the human resources and the payroll departments through installing a civil service and payroll steering committee and a mechanism to exchange information regularly (end-January 2023 SB). In the medium term, the authorities will: (i) adopt a regulation to establish a consultation framework co-chaired by the ministers in charge of the Civil Service and Finance, responsible for drawing up medium-term staffing plans for each ministerial department and for calibrating the number of new students entering relevant training schools and anticipated civil servant recruitment (end-August 2023 SB); (ii) consider extension of the required tenure for promotion from 2 years at present to 3 years by revising the relevant law; and (iii) continue to strengthen human resource management and remove ghost workers (and ensure they are not rehired) by fully utilizing the IFMIS.

29. The government will continue its efforts to improve public finance management (PFM) reforms (MEFP, ¶31 and 37) and contain the use of emergency spending procedures (Dépenses avant ordonnancement – DAOs). The Minister of Finance issued in June a circular reminding the line ministries that the use of DAOs should be limited to emergency spending, while monthly meetings will be held to speed up their regularization. They will adopt a Decree in January

2023 to clearly establish the principle on the use of DAO (including limiting the use of DAO to certain spending categories and the maximum regularization time period) and the monitoring and reporting requirement. In addition, it will issue an executive order to establish a ceiling on the use of DAO, which will be equivalent to 18 percent of total primary spending in 2023, consistent with the new indicative target under the program (see ¶38). Following Covid-related delays, the government—with IMF technical assistance—finalized and adopted in June its PFM Reform Strategy for 2022-27 (end-June 2022 SB), which gives high priority to the computerization and decentralization of government procedures. An IMF resident advisor has been placed to support the authorities in implementing this strategy. The authorities will also focus on strengthening cooperation between various revenue agencies to improve tax compliance and modernizing the public procurement system. Following the recent Public Investment Management Assessment (PIMA) recommendations done by the IMF, the authorities will develop and consolidate a three-year public investment program (end-June 2023 SB). To pave the way for transferring to a treasury single account (TSA), the government will also adopt a strategy and timetable for the progressive consolidation to TSA (end-September 2023 SB). Over the medium term, the authorities aim to: (i) complete the implementation of IFMIS; (ii) improve budget preparation and execution, including by introducing medium-term program budgeting, with a pilot phase starting in 2023, and rationalizing transfers and subsidies spending; (iii) enhance budget execution and controls by decentralizing payment orders and financial control to line ministries; (vi) rationalize the institutional and technical framework of cash management by 2023; and (v) strengthen debt management.

30. The authorities will also cease the repayment of unaudited domestic arrears and audit the remaining ones. While most of the CFAF 14 billion repaid during the first half of 2022 predated 2015, they had not been reported by line ministers when an audit was conducted in June 2019. The authorities acknowledged the importance to strengthen fiscal discipline and will take quick corrective actions to address this issue, including strictly limiting the use of derogatory procedures for expenditure, sanctioning the responsible ministries/authorizing officers, adopting quarterly engagement plans in line with public procurement plans, and strengthening the role of Financial Controller. They also agreed to prioritize repayment of audited arrears and request line ministries to report any unaudited arrears immediately and include them in the total arrears after verification.

E. Financial Sector and Monetary Policies

31. The authorities will continue implementing their reform strategy to strengthen the banking sector and support the economic recovery (MEFP, ¶56–57). Further progress on the repayment of domestic arrears and continued monthly repayment of direct debt to one large systemic bank will help improve banking sector liquidity and free up banks' resources to finance domestic activities. The two public systemic banks will continue to implement their restructuring and financing plans, as embedded in their performance contracts. However, COBAC's unwinding of COVID-19-related special regulatory measures in July 2022 may further expose the weaknesses in banks' prudential ratios, which should be closely monitored by the government, and public banks should update their strategies to deal with the high NPLs, while provisioning adequately.

32. A review of regional policies assurances was conducted during a mission to CEMAC institutions in November 2022 and set forth in the December 2022 union-wide background paper. The policy assurance on regional NFA at end June 2022 was met. BEAC maintained an appropriate monetary policy and liquidity stance, hiking its policy rate to tame inflationary pressures and tightening further liquidity management. The adaptation of the foreign exchange (FX) regulation to the extractive sector came into effect in January 2022, although BEAC is not yet enforcing sanctions for non-compliance, pending resolution of concerns over technical difficulties raised by the sector. Going forward, BEAC will continue to work towards effective implementation of the FX regulation by finalizing adaptations to the extractive sector and continue discussions to finalize implementation of the framework for the repatriation of rehabilitation funds. COBAC normalized the prudential regulations, ending the temporary forbearance prudential requirements in place since mid-2020 and increasing the capital conservation buffer by 50 basis points to 2.5 percent. To contain the risks associated with crypto assets in CEMAC, BEAC will also lead a concerted approach in collaboration with GABAC, COBAC, COSUMAF. The regional assurances on NFA are critical for the success of the Fund-supported programs and will help bolster the region's external sustainability and resilience.

F. Anti-Corruption and Other Structural Reforms

33. Governance and anti-corruption reforms need to be accelerated and the implementation strengthened (MEFP, ¶52–55). As aforementioned, the end-December 2021 SB on the publication of a quarterly note on the oil sector was met, while the ex-post compliance audit of COVID-19 expenses was published in June 2022. Additionally, the authorities will adopt a decree (prior action) allowing the government to collect beneficial ownership information of legal persons bidding on central government procurement contracts and publish online the full text of central government procurement contracts along with the names and nationalities of the beneficial owners of the awarded legal persons. In response to the recent allegations of embezzlement in the state oil company (Societé des Hydrocarbures du Tchad, SHT), the authorities will conduct a forensic auditing by an international auditing firm on oil revenue collected by the Treasury, including through the Societé des Hydrocarbures du Tchad (SHT), to identify loopholes in corporate governance and publish the report to enhance transparency (end-June 2023 SB). The authorities also intend to engage with IMF staff to design an asset declaration regime in line with the applicable international good practices, including in the context of upcoming constitutional reforms.

34. The authorities aim to increase transparency and better assess the size of the in-kind transfers provided to the National Electricity Company (SNE) (MEFP, ¶47)**.** Access to electricity is very low in Chad (less than 11 percent of population in 2020), with electricity tariffs significantly below the cost of supply. SNE receives in-kind transfers from the authorities via the national refinery (SRN), which are reflected in the budget since 2020. In the medium term, the system of transfers in the form of diesel for electricity generation will be replaced by monetary transfers that will be made in the context of a performance contract. The authorities are also in the process of implementing increased transparency on the value of the subsidies provided to the electricity sector, making a clear distinction between subsidies provided and effective payments for electricity consumption of the public sector, with the aim to phase out subsidies with appropriate transfers to households to mitigate the impact on vulnerable ones. This will be implemented with IMF and World Bank TA to improve data collection and reporting.

35. The authorities are updating their National Development Plan (NDP) (MEFP, ¶2-3)**.** Following the completion of the 2017-2021 NDP, the authorities officially launched the elaboration process on 2022-2026 NDP in March 2022. The new NDP has not been completed yet owing to delays related to the pandemic and the insecurity and climate-related shocks that have impacted Chad, and to the need to organize the inclusive and sovereign national dialogue (ISND) as part of the political transition process. The NDP will be finalized by the time of the third review next year and will be in line with the 2030 vision “the Chad we want”. It aims at: (i) sustaining the stability of the economy; (ii) improving access to basic goods and social services, including water, health, education, and energy; (iii) building a strong economy while protecting the environment. The new NDP will put a special emphasis on the development of a dynamic private sector, an area that lagged behind under the previous NDP.

PROGRAM DESIGN AND MODALITIES

36. The program is fully financed with firm commitments for the next twelve months and good prospects thereafter (Text Table 3)**.** There are budget support commitments earmarked by the African Development Bank (AfDB), France, the EU and the World Bank. As anticipated at the time of the ECF request, budget support is forecasted to be below its pre-pandemic average over the medium term. Consistent with Fund’s general policy on arrears to official bilateral creditors, arrears to Libya are deemed away. There has been significant progress in finalizing a debt restructuring agreement with Libya.

Text Table 3. Chad: Budget Support, 2019–23
(Millions of U.S. dollars)

	2019	2020	2021	2022p	2023p
IMF Financing	**126**	**185**	**80**	**151**	**149**
Budget Support from other Donors	**34**	**224**	**53**	**21**	**100**
World Bank	0	100	0	0	75
African Development Bank	0	62	24	0	10
European Union	0	53	5	6	4
France	34	9	24	15	10

Sources: Chadian authorities, BEAC and IMF staff calculations.

37. The government requests waivers for the missed end-December 2021 QPC on the NOPB and end-June 2022 QPCs on the NOPB and the stock of domestic arrears (MEFP, ¶18) and for the modification of the end-December 2022 QPCs. The request is based on the corrective measures taken by the authorities to strengthen budget procedures and avoid the recurrence of the spending overruns observed in 2021 and early 20202, whose implementation will be assisted by the Fund's resident PFM advisor, including: (i) strengthening budget execution control procedures by preparing and communicating to line ministries quarterly expenditure ceilings; (ii) applying appropriate sanctions against circumventing the expenditure execution chain; (iii) limiting the use of emergency expenditure procedures (DAO) and accelerating their regularization; and (iv) auditing unaudited domestic liabilities, which will help prioritize the repayment of validated arrears. The new indicative targets on emergency spending procedures and their regularization and the conversion of the indicative target on net domestic financing to a QPC will also help to strengthen monitoring. The modification of all the end-December 2022 QPCs was necessary to align them with the updated macroeconomic framework.

38. The program will continue to be monitored through semi–annual reviews based on quantitative performance criteria, indicative targets, and structural benchmarks (MEFP, ¶59). Quantitative performance criteria and indicative targets for end-2022 have been adjusted to reflect the updated macroeconomic framework, while new targets have been set for 2023. The definition of the quantitative performance criterion related to the NOPB has been adjusted starting December 2022 to exclude in-kind transfers to SNE so as to avoid any ambiguity on their valorization. Also, starting with the third review, quantitative conditionality will include two additional indicative targets related to emergency spending procedures (DAOs): (i) a ceiling on their use; and (ii) a floor on their regularization.

39. Work has started on a fiscal safeguards' review, which will be conducted by the time of the third review. Under Fund's safeguards policy, such a review is necessary as: (i) 100 percent of Fund's resources are expected be directed to budget support, and (ii) the cumulative normal access level maximum of 435 percent of quota is breached in the course of the arrangement.

40. Program risks remain elevated. Risks include a possible resurgence of the pandemic, a decline in oil prices, a protracted war in Ukraine, further delays in the political transition leading to a deterioration of the security situation and social tensions, possible spending overruns or delays in reform implementation ahead of the elections, and delays in the implementation of debt treatment, and shortfalls in donor financing. These risks will be mitigated by the policies under the program, including the accumulation of liquidity buffers, and by the close engagement with the authorities, donors, and creditors.

41. Chad's capacity to repay the Fund is subject to risks and is expected to remain adequate, conditional on successful implementation of program conditionality, including implementation of the agreed debt treatment, and mitigation of downside risks (Table 7). Chad's Fund credit outstanding peaks at 504 percent of quota and 7.5 percent of GDP, both above the top quartile of past UCT-quality arrangements for LICs. Total obligations based on existing and prospective credit will peak at 0.8 percent of GDP and 2.5 percent of exports of goods and services in 2027. Overall debt service is expected to remain elevated during the program period due to the structure of repayments to the largest private creditor, however the majority of obligations to the Fund (based on existing and prospective credit) occur thereafter, with 69 percent of debt service due between 2026 and 2032. Chad's debt service projections will be improved by implementation of the debt treatment by official and private creditors under the G20 Common Framework. Chad's repayment capacity has been enhanced by the increase in oil revenue stemming from elevated global oil prices and by the debt treatment provided by official and private creditors under the G20 CF. Remaining risks would be mitigated by leveraging the Fund's' catalytic financing role. Because Chad shares BEAC regional reserves, and its capacity to repay the Fund is also affected by other CEMAC countries' capacity to repay the Fund.

42. The 2022 safeguards assessment update of BEAC was concluded in April 2022. BEAC has maintained strong governance arrangements following legal reforms in 2017. BEAC also completed its multi-year initiative in 2019 to transition to International Financial Reporting Standards, strengthening its financial reporting practices. The external audit arrangements continue to be robust. BEAC should continue to strengthen its risk management and resilience framework.

STAFF APPRAISAL

43. Chad continues to face considerable challenges. While appearing at least temporarily contained, the Covid-19 pandemic remains a concern as the vaccination rate, while improving, remains low. Last year's poor crop, the war in Ukraine and the recent floods have exacerbated food insecurity. The prolongation of the political transition has heightened social tensions while the security situation remains volatile. With the delay of a debt treatment and sufficient financing on concessional terms, the government struggled to finance its budget in 2021, having to rely heavily on expensive domestic borrowing to finance its budget and ending the year with limited cash reserves.

44. The authorities' reiterated their commitment to the ECF program. While the mixed program performance reflects to a large extent the numerous challenges faced by Chad, it also stemmed from weaknesses in spending procedures and delays in implementing some reforms. Addressing these weaknesses and stepping up program implementation will therefore be key to the program success.

45. The authorities should take advantage of the sharp increase in oil prices to address the most pressing challenges while rebuilding buffers. With the donors' help, they must address the food security crisis, including by providing support to the most vulnerable and using part of the SDR allocation to rebuild ONASA's cereal stock. Beyond meeting these urgent needs, and as oil prices are very volatile, fiscal policy should be prudent and remain anchored by the objective of significantly reducing the NOPB over the medium term. Higher oil revenue should also be used to build cash buffers and reduce more quickly the government's reliance on expensive domestic bank financing. Additional buffers and lower rollover needs will provide the government with more latitude to respond to a possible drop in oil prices. Would oil prices remain elevated till then, the scope for greater repayment of domestic arrears and additional high-priority spending over the medium term could be considered at the time of the third review.

46. The authorities also need to step up their efforts to strengthen domestic revenue mobilization, contain the wage bill, and streamline non-priority expenditures, including fuel and electricity subsidies. Reflecting a larger-than-projected impact of the revaluation of military wages in late 2021, the wage bill-to-non-oil GDP ratio will continue to increase in 2022 from an already high level. It will therefore be important to implement the recommendations of the recent Fund TA mission to ensure that this ratio declines significantly over the next two years. With World Bank and Fund technical assistance, the authorities will also need to step up their efforts to improve the financial viability of SNE, which places a considerable burden on the budget. They should notably aim at increasing its operational and commercial performance, at reducing its reliance on environmentally unfriendly fuel-fired power plants, at increasing access to electricity, and at gradually adjusting tariffs.

47. More impetus is also required in the implementation of public finance management (PFM) reforms. The elevated use of DAOs has contributed to the spending overruns observed in 2021 and early 2022 and must be contained. The recently adopted PFM strategy provides the government with a clear and ambitious roadmap to modernize and increase the efficiency of government processes and budget procedures. The prompt implementation of IFMS and the decentralization of payment orders and financial control to line ministries will be important steps in that regard.

48. Governance and business climate reforms, as well as efforts to close gender gaps, should help foster investment and growth. Governance and anti-corruption reforms need to be well-designed and sequenced, and their implementation accelerated (following the delays due to the transition period), to reduce the risk of misuse of resources, increase transparency and accountability. The finalization of the NDP will be a good opportunity for the government to articulate an exhaustive strategy to promote sustained inclusive growth and poverty reduction. Its increased focus on the development of the private sector is welcome and should encompass reforms to enhance governance and transparency, enhance the business climate, strengthen the banking sector, and promote digitalization.

49. Staff welcome Chad's creditors' agreement on a debt treatment that will, as required under the Fund's exceptional access policies, make debt sustainable with high probability and a moderate risk of debt distress by the end of the program. This agreement will not only ensure that the external debt service-to-revenue ratio does decline to sustainable levels in 2024 and beyond, but also provides Chad with adequate protection during the program period against downside risks, such as a significant decline in oil prices. Staff also welcome the progress made by the authorities in restructuring their debt with non-G20 bilateral creditors and encourage them to continue their good faith efforts to resolve outstanding external arrears.

50. Risks to the program remain elevated. Further delays in implementing the political transition roadmap could exacerbate social and/or security tensions. Higher oil revenue could test the authorities' ability to implement reforms ahead of the elections. A poor crop season and/or higher spillovers from the war in Ukraine and the recent floods could heighten food insecurity and social tensions. On the upside, a successful inclusive national dialogue could ease security and social tensions.

51. Based on the strength of the authorities' program, and the regional policy assurances established in the June 2022 union-wide paper, staff supports the completion of the first and second reviews under the ECF arrangement. Based on policies and reforms to which the authorities committed under the MEFP, the planned corrective actions, and the regional policy assurances established in the June 2021 union-wide paper, staff also supports the waivers of nonobservance of one end-December 2021 and two end-June 2022 QPCs and the proposed modification of the end-December 2022 QPCs. Staff proposes that completion of the third review under the ECF arrangement be conditional on the implementation of critical policy assurances at the union level established in the December 2022 union-wide background paper

Table 1. Chad: Selected Economic and Financial Indicators, 2020-26

	2020	2021		2022		2023		2024	2025	2026
	Prel.	ECF Request	Prel.	ECF Request	Proj.	ECF Request	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)									
Real Economy										
GDP at constant prices	-2.1	0.6	-1.1	2.2	2.5	3.1	3.5	3.7	3.4	3.8
Oil GDP	-3.9	2.3	-6.9	2.3	5.6	2.0	5.6	2.0	1.7	1.5
Non-oil GDP	-1.7	0.2	0.2	2.1	1.8	3.3	3.1	4.1	3.8	4.3
GDP deflator	-1.9	6.3	7.0	1.4	10.3	1.8	0.0	1.1	1.5	1.8
Consumer price index (annual average)	4.5	1.1	-0.8	2.8	5.3	2.8	3.4	3.0	3.0	3.0
Oil prices										
Brent (US$/barrel)[1]	43.3	61.7	70.8	58.2	100.5	56.1	88.6	83.4	79.6	76.8
Chadian price (US$/barrel)[2]	41.3	58.7	68.6	55.2	97.5	53.1	85.6	80.4	76.6	73.8
Oil production for exportation (millions of barrels)	46.2	47.4	42.5	48.7	45.3	49.8	48.2	49.3	50.3	51.1
Exchange rate CFAF per US$ (period average)	574.8	....	554.2	....	....	....	....	....	....	....
Money and Credit										
Net foreign assets[3]	-0.2	-2.0	-15.1	-3.7	19.0	-3.1	10.3	7.5	17.8	15.1
Net domestic assets[3]	17.8	13.3	33.7	5.4	-15.6	4.1	-7.2	-6.5	-12.4	-12.4
Of which : net claims on central government	8.9	11.4	29.4	2.6	-21.2	1.0	-12.1	-12.8	-15.7	-15.9
Of which : credit to private sector	4.7	0.6	9.1	2.8	1.1	3.1	4.9	6.3	3.3	3.5
Broad money	17.6	11.3	18.5	1.7	3.3	1.0	3.1	1.0	5.4	2.7
Velocity (non-oil GDP/broad money)	4.1	3.7	3.4	3.9	3.5	4.1	3.6	3.9	3.9	4.1
External Sector (valued in US dollars)										
Exports of goods and services, f.o.b.	-23.5	34.8	36.8	1.0	35.7	1.8	-4.4	-2.1	0.5	0.1
Imports of goods and services, f.o.b.	-3.7	12.2	10.8	3.3	3.1	4.4	5.8	6.1	-1.8	3.0
Overall balance of payments (percent of GDP)	-1.5	-2.4	-1.9	-3.3	2.4	-2.6	0.7	-0.3	1.7	1.1
Current account balance, including official transfers (percent of GDP)	-7.3	-6.5	-4.5	-5.8	2.8	-7.3	-1.4	-4.9	-4.4	-4.8
Terms of trade	-24.6	29.3	43.6	-6.3	15.9	-2.3	-12.1	-6.8	-3.7	-3.6
External debt (percent of GDP)[4]	26.4	26.1	25.5	27.7	23.8	28.3	21.7	21.6	20.8	20.3
NPV of external debt (percent of exports of goods and services)	84.7	65.6	60.2	70.1	41.0	73.0	39.4	40.0	38.9	39.3
	(Percent of non-oil GDP, unless otherwise indicated)									
Government Finance										
Revenue and grants	24.3	19.2	20.6	22.0	28.4	21.3	31.5	26.4	25.7	26.1
Of which : oil revenue	10.7	7.0	9.8	9.1	17.6	7.8	18.1	13.4	12.3	12.4
Of which : non-oil revenue	9.1	9.3	9.6	9.8	10.0	10.3	10.3	10.7	11.2	11.6
Expenditure	22.3	22.6	23.0	21.2	22.1	21.1	22.9	21.2	20.9	19.1
Current	15.2	15.4	16.7	14.1	17.1	13.7	16.1	14.5	14.3	12.9
Capital	7.2	7.2	6.3	7.1	5.0	7.4	6.8	6.7	6.6	6.2
Non-oil primary balance (commitment basis, excl. grants)[5]	-8.1	-7.7	-10.0	-5.9	-7.5	-5.2	-6.8	-5.3	-4.3	-3.1
Overall fiscal balance (incl. grants, commitments basis)	1.9	-3.4	-2.4	0.8	6.3	0.2	8.6	5.3	4.9	7.0
Total debt (in percent of GDP)[4]	54.1	49.1	55.9	50.6	50.4	48.9	43.7	40.1	36.4	33.0
Of which : domestic debt	27.6	23.0	30.4	22.9	26.6	20.5	21.9	18.5	15.5	12.7
Memorandum items:										
Nominal GDP (billions of CFA francs)	6,183	6,593	6,540	6,826	7,391	7,163	7,655	8,027	8,428	8,906
Of which: non-oil GDP	5,268	5,337	5,239	5,603	5,554	5,953	5,905	6,328	6,766	7,269
Nominal GDP (billions of US$)	10.8	12.0	11.8	12.6	11.9	13.4	12.0	12.6	13.3	14.1

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

[1]WEO projections for Brent crude oil price.

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

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

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

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

Table 2. Chad: Fiscal Operations of the Central Government, 2020-26

(In billions of CFAF, unless otherwise indicated)

	2020	2021		2022		2023		2024		2025	2026
	Prel.	ECF Request	Prel.	ECF Request	Proj.	ECF Request	Proj.	ECF Request	Proj.	Proj.	Proj.
Total revenue and grants	**1,278**	**1,026**	**1,080**	**1,230**	**1,578**	**1,267**	**1,859**	**1,316**	**1,673**	**1,740**	**1,894**
Revenue	1,043	868	1,015	1,061	1,530	1,080	1,676	1,114	1,527	1,593	1,746
Oil[1]	562	374	513	512	976	466	1,067	426	851	835	904
Non-oil	481	495	502	548	554	613	609	688	676	758	842
Tax	452	478	482	529	535	592	588	665	653	733	815
Non-tax	29	17	20	19	19	21	21	23	23	25	27
Grants	235	158	65	169	48	188	184	201	146	147	148
Budget support	124	23	29	26	13	28	64	28	26	26	26
Project grants	111	135	35	143	35	160	120	173	120	121	122
Expenditure	**1,177**	**1,206**	**1,205**	**1,187**	**1,226**	**1,256**	**1,354**	**1,314**	**1,340**	**1,412**	**1,386**
Current	800	821	877	787	951	816	951	838	918	965	936
Wages and salaries	431	425	459	437	500	452	496	465	491	496	501
Civil Service	305	299	329	309	327	323	323	335	318	323	328
Military	126	126	130	128	173	129	173	130	173	173	173
Goods and services	115	136	127	114	100	123	114	128	120	125	130
Transfers and subsidies[2]	194	206	215	190	241	195	242	197	230	237	243
Of which: In-kind transfers to National Electricity Company[2]	51	53	81	53	91	53	93	53	93	93	92
Interest	60	54	77	46	111	46	99	48	77	108	62
Domestic	26	26	36	17	68	18	64	21	59	56	54
External	34	29	40	29	43	27	35	27	18	52	8
Of which: Glencore	*22*	*19*	*28*	*19*	*35*	*16*	*27*	*14*	*10*	*44*	*0*
Investment	377	385	328	400	275	440	403	475	422	446	450
Domestically financed	170	140	227	140	129	150	160	160	170	188	196
Foreign financed[3]	207	245	100	260	146	290	243	315	252	258	254
Overall balance (incl. grants, commitment)	**101**	**-180**	**-125**	**42**	**352**	**12**	**505**	**2**	**333**	**329**	**508**
Non-oil primary balance (excl. grants, commitment)[4]	**-428**	**-412**	**-526**	**-333**	**-415**	**-307**	**-404**	**-262**	**-336**	**-288**	**-228**
Float from previous year[5]	-76	-34	-38	-34	-47	-33	-45	-21	-35	-35	-35
Float at end of period[5]	38	34	47	33	45	21	35	21	35	35	35
Var. of Arrears[6]	-124	-111	-94	-50	-95	-50	-75	-50	-40	-95	-115
Overall balance (incl. grants, cash)	**-60**	**-292**	**-211**	**-9**	**254.7**	**-50**	**420**	**-48**	**293**	**234**	**393**
Non-oil primary balance (excl. grants,cash)	**-589**	**-524**	**-612**	**-384**	**-512.3**	**-369**	**-489**	**-312**	**-376**	**-383**	**-343**
Financing	**58**	**180**	**203**	**-216**	**-348.2**	**-128**	**-515**	**-105**	**-388**	**-233**	**-393**
Domestic financing	61	220	240	-209	-184	-138	-358	-118	-366	-305	-469
Bank financing	78	67	20	-95	-241	-102	-193	-124	-261	-238	-433
Central Bank (BEAC)	78	67	11	-95	-241	-102	-193	-124	-261	-238	-433
Deposits	-27	-32	-130	-34	-227	-31	-112	-39	-164	-164	-350
Advances (net)	0	0	0	-48	0	-48	0	-48	0	-16	-16
IMF	105	-6	38	-13	-14	-23	-29	-37	-45	-58	-68
SDR Allocation		106	104	0	0	0	-52	0	-52	0	0
Commercial banks (deposits)	0	0	8	0	0	0	0	0	0	0	0
Other financing (net), of which:	-17	154	220	-114	57	-35	-164	6	-106	-67	-35
Amortization	*-139*	*-26*	*-23*	*-51*	*-64*	*-50*	*-97*	*-74*	*-74*	*-70*	*-58*
Commercial banks loans	*61*	*-9*	*42*	*11*	*129*	*10*	*9*	*10*	*28*	*10*	*-4*
Non-bank loans (gross)[7]	*25*	*39*	*22*	*41*	*22*	*46*	*36*	*50*	*38*	*39*	*32*
Treasury bills (net)	*0*	*78*	*68*	*-105*	*-222*	*-10*	*-54*	*-5*	*-40*	*-22*	*-5*
Treasury Bonds (gross)	*43*	*71*	*120*	*0*	*202*	*-21*	*-49*	*25*	*-56*	*-23*	*0*
Bank Recapitalization	*0*	*-10*	*-16*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Stabilization Funds	*-8*	*10*	*8*	*-10*	*-10*	*-10*	*-10*	*0*	*0*	*0*	*0*
Privatization and other exceptional receipts	0	0	0	0	0	0	0	0	0	0	0
Foreign financing	-3	-40	-36	-7	-164	10	-157	13	-22	72	76
Budget support	124	23	29	26	13	28	64	28	26	26	26
Project grants	111	135	35	143	35	160	120	173	120	121	122
Loans (net)	-29	-65	-101	-32	-192	-15	-187	-11	-51	42	47
Disbursements	71	72	43	117	78	125	87	132	142	136	136
Budget borrowings	0	0	0	41	0	40	0	40	48	37	37
Project loans	71	72	43	76	78	85	87	92	95	99	99
Amortization	-101	-137	-144	-149	-270	-140	-274	-143	-193	-94	-90
Of which: Glencore	-48	-76	-83	-81	-196	-74	-184	-73	-102	0	0
Debt relief/rescheduling (HIPC)	26	25	20	25	28	25	30	24	29	30	29
Financing Gap	**2**	**111**	**7**	**225**	**93**	**179**	**95**	**153**	**95**	**0**	**0**
CCRT	2	6	6	0	0	0	0	0	0	0	0
DSSI (Net)	1	1	1	0	0	-1	-1	-1	-1	-1	0
Proposed IMF ECF	0	44	0	88	94	88	95	87	96	0	0
Errors and omissions	0										
Residual financing gap	0	60	0	137	0	92	0	67	0	0	0
Memorandum items:											
Non-oil GDP	5,268	5,337	5,239	5,603	5,554	5,953	5,905	6,363	6,328	6,766	7,269
Poverty-reducing social spending	...	284	...	273							
Bank deposits (including BEAC)	176	182	298	216	525	247	637	286	801	965	1,315
(In months of domestically-financed spending)	2.2	2.3	3.2	2.8	5.8	3.1	6.9	3.4	8.8	10.0	13.9
BEAC advances	480	480	480	432	480	384	480	336	480	464	448

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 transfers of oil derivatives in-kind to the national electricity company (SNE) starting from 2020; value based on fixed price of $46.90 per barrel (in line with the average Brent oil price in 2015-16).

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

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

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

[6]Including audited arrears and recognized arrears based on the Treasury table "restes à payer".

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

Table 3. Chad: Fiscal Operations of the Central Government, 2020-26

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

	2020	2021		2022		2023		2024		2025	2026
	Prel.	ECF Request	Prel.	ECF Request	Proj.	ECF Request	Proj.	ECF Request	Proj.	Proj.	Proj.
Total revenue and grants	**24.3**	**19.2**	**20.6**	**22.0**	**28.4**	**21.3**	**31.5**	**20.7**	**26.4**	**25.7**	**26.1**
Revenue	19.8	16.3	19.4	18.9	27.5	18.1	28.4	17.5	24.1	23.5	24.0
Oil[1]	10.7	7.0	9.8	9.1	17.6	7.8	18.1	6.7	13.4	12.3	12.4
Non-oil	9.1	9.3	9.6	9.8	10.0	10.3	10.3	10.8	10.7	11.2	11.6
Tax	8.6	8.9	9.2	9.4	9.6	9.9	10.0	10.4	10.3	10.8	11.2
Non-tax	0.5	0.3	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Grants	4.5	3.0	1.2	3.0	0.9	3.2	3.1	3.2	2.3	2.2	2.0
Budget support	2.4	0.4	0.6	0.5	0.2	0.5	1.1	0.4	0.4	0.4	0.4
Project grants	2.1	2.5	0.7	2.6	0.6	2.7	2.0	2.7	1.9	1.8	1.7
Expenditure	**22.3**	**22.6**	**23.0**	**21.2**	**22.1**	**21.1**	**22.9**	**20.6**	**21.2**	**20.9**	**19.1**
Current	15.2	15.4	16.7	14.1	17.1	13.7	16.1	13.2	14.5	14.3	12.9
Wages and salaries	8.2	8.0	8.8	7.8	9.0	7.6	8.4	7.3	7.8	7.3	6.9
Goods and services	2.2	2.5	2.4	2.0	1.8	2.1	1.9	2.0	1.9	1.8	1.8
Transfers and subsidies[2]	3.7	3.9	4.1	3.4	4.3	3.3	4.1	3.1	3.6	3.5	3.3
Of which: Transfers to National Electricity Company[2]	1.0	1.0	1.5	0.9	1.6	0.9	1.6	3.1	1.5	1.4	1.3
Interest	1.1	1.0	1.5	0.8	2.0	0.8	1.7	0.8	1.2	1.6	0.8
Domestic	0.5	0.5	0.7	0.3	1.2	0.3	1.1	0.3	0.9	0.8	0.7
External	0.6	0.5	0.8	0.5	0.8	0.5	0.6	0.4	0.3	0.8	0.1
of which: Glencore	*0.4*	*0.4*	*0.5*	*0.3*	*0.6*	*0.3*	*0.5*	*0.2*	*0.2*	*0.7*	*0.0*
Investment	7.2	7.2	6.3	7.1	5.0	7.4	6.8	7.5	6.7	6.6	6.2
Domestically financed	3.2	2.6	4.3	2.5	2.3	2.5	2.7	2.5	2.7	2.8	2.7
Foreign financed[3]	3.9	4.6	1.9	4.6	2.6	4.9	4.1	5.0	4.0	3.8	3.5
Overall balance (incl. grants, commitment)	**1.9**	**-3.4**	**-2.4**	**0.8**	**6.3**	**0.2**	**8.6**	**0.0**	**5.3**	**4.9**	**7.0**
Non-oil primary balance (excl. grants, commitment)[4]	**-8.1**	**-7.7**	**-10.0**	**-5.9**	**-7.5**	**-5.2**	**-6.8**	**-4.1**	**-5.3**	**-4.3**	**-3.1**
Float from previous year[5]	-1.4	-0.6	-0.7	-0.6	-0.8	-0.5	-0.8	-0.3	-0.6	-0.5	-0.5
Float at end of period[5]	0.7	0.6	0.9	0.6	0.8	0.3	0.6	0.3	0.6	0.5	0.5
Var. of Arrears[6]	-2.3	-2.1	-1.8	-0.9	-1.7	-0.8	-1.3	-0.8	-0.6	-1.4	-1.6
Repayment of other arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (incl. grants, cash)	**-1.1**	**-5.5**	**-4.0**	**-0.2**	**4.6**	**-0.8**	**7.1**	**-0.8**	**4.6**	**3.5**	**5.4**
Non-oil primary balance (excl. grants, cash)	**-11.2**	**-9.8**	**-11.7**	**-6.8**	**-9.2**	**-6.2**	**-8.3**	**-4.9**	**-5.9**	**-5.7**	**-4.7**
Financing	**1.1**	**3.4**	**3.9**	**-3.9**	**-6.3**	**-2.2**	**-8.7**	**-1.7**	**-6.1**	**-3.4**	**-5.4**
Domestic financing	1.2	4.1	4.6	-3.7	-3.3	-2.3	-6.1	-1.9	-5.8	-4.5	-6.4
Bank financing	1.5	1.3	0.4	-1.7	-4.3	-1.7	-3.3	-2.0	-4.1	-3.5	-6.0
Central Bank (BEAC)	1.5	1.3	0.2	-1.7	-4.3	-1.7	-3.3	-2.0	-4.1	-3.5	-6.0
Deposits	-0.5	-0.6	-2.5	-0.6	-4.1	-0.5	-1.9	-0.6	-2.6	-2.4	-4.8
Advances (net)	0.0	0.0	0.0	-0.9	0.0	-0.8	0.0	-0.8	0.0	-0.2	-0.2
IMF	2.0	-0.1	0.7	-0.2	-0.3	-0.4	-0.5	-0.6	-0.7	-0.9	-0.9
SDR Allocation	0.0	2.0	2.0	0.0	0.0	0.0	-0.9	0.0	-0.8	0.0	0.0
Commercial banks (deposits)	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing (net)	-0.3	2.9	4.2	-2.0	1.0	-0.6	-2.8	0.1	-1.7	-1.0	-0.5
Privatization and other exceptional receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	-0.1	-0.8	-0.7	-0.1	-3.0	0.2	-2.7	0.2	-0.3	1.1	1.0
Loans (net)	-0.6	-1.2	-1.9	-0.6	-3.5	-0.3	-3.2	-0.2	-0.8	0.6	0.6
Disbursements	1.4	1.3	0.8	2.1	1.4	2.1	1.5	2.1	2.2	2.0	1.9
Amortization	-1.9	-2.6	-2.7	-2.7	-4.9	-2.4	-4.6	-2.2	-3.1	-1.4	-1.2
Debt relief/rescheduling (HIPC)	0.5	0.5	0.4	0.4	0.5	0.4	0.5	0.4	0.5	0.4	0.4
External arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**2.1**	**0.1**	**4.0**	**1.7**	**3.0**	**1.6**	**2.4**	**1.5**	**0.0**	**0.0**
CCRT	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DSSI (Net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF ECF	0.0	0.8	0.0	1.6	1.7	1.5	1.6	1.4	1.5	0.0	0.0
Residual financing gap	0.0	1.1	0.0	2.4	0.0	1.5	0.0	1.1	0.0	0.0	0.0
Memorandum items:											
Non-oil GDP	5,268	5,337	5,239	5,603	5,554	5,953	5,905	6,363	6,328	6,766	7,269
Poverty-reducing social spending	...	5.3	...	4.9							
Bank deposits (including BEAC)	3.3	3.4	5.7	3.9	9.4	4.1	10.8	4.5	12.7	14.3	18.1
(In months of domestically-financed spending)	2.2	2.3	3.2	2.8	5.8	3.1	6.9	3.4	8.8	10.0	13.9
BEAC advances	9.1	9.0	9.2	7.7	8.6	6.4	8.1	5.3	7.6	6.9	6.2

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 transfers of oil derivatives in-kind to the national electricity company (SNE) starting from 2020; value based on fixed price of $46.90 per barrel (in line with the average Brent oil price in 2015-16).

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

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

[5]Difference between committed and cash expenditure.

[6]Including audited arrears and recognized arrears based on the Treasury table "restes à payer".

Table 4. Chad: Balance of Payments, 2020-26
(In billions of CFAF, unless otherwise indicated)

	2020	2021		2022		2023		2024	2025	2026
	Prel.	ECF Request	Prel.	ECF Request	Proj.	ECF Request	Proj.	Proj.	Proj.	Proj.
Current account, excl. budget grants	**-575**	**-450**	**-296**	**-421**	**197**	**-553**	**-173**	**-420**	**-400**	**-453**
Trade balance	262	569	759	491	1,809	434	1,660	1,350	1,380	1,338
Exports, f.o.b.	1,535	1,988	2,085	1,980	3,264	1,979	3,192	3,107	3,097	3,077
Of which : oil	1,098	1,530	1,617	1,461	2,741	1,417	2,642	2,533	2,446	2,380
Imports, f.o.b.	-1,274	-1,419	-1,326	-1,490	-1,455	-1,546	-1,532	-1,757	-1,717	-1,738
Services (net)	-1,256	-1,347	-1,394	-1,336	-1,718	-1,360	-1,924	-1,906	-1,849	-1,913
Income (net)	-131	-163	-177	-162	-287	-174	-266	-221	-274	-206
Transfers (net)	550	491	515	586	392	548	357	358	342	327
Official (net)	95	95	118	99	102	104	108	114	120	127
Private (net)	455	396	397	487	291	445	249	244	222	200
Financial and capital account	**356**	**272**	**142**	**126**	**-36**	**300**	**165**	**395**	**540**	**554**
Capital transfers	108	131	32	139	31	156	116	117	117	118
Foreign direct investment	223	234	246	256	309	283	461	523	523	522
Other medium and long term investment	35	-11	-46	-195	-272	-150	-288	-175	-40	-37
Public sector (excl. budget support loans)	-34	41	5	-73	-192	-55	-240	-152	5	9
Private sector	69	-51	-51	-123	-80	-94	-48	-23	-45	-46
Short-term capital	-9	-82	-89	-74	-105	11	-124	-70	-60	-50
Errors and omissions	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-219**	**-178**	**-154**	**-295**	**161**	**-253**	**-8**	**-25**	**141**	**101**
Financing	**0**	**44**	**102**	**3**	**-267**	**6**	**-151**	**-143**	**-204**	**-164**
Change in official reserves (decrease +)	-25	19	82	-21	-296	-19	-180	-173	-233	-193
Exceptional Financing	26	25	20	25	28	25	30	29	30	29
of which: Debt relief	26	25	20	25	28	25	30	29	30	29
Financing gap	**218**	**134**	**52**	**292**	**107**	**247**	**158**	**169**	**63**	**64**
Expected financing (excl. IMF; incl. expected budget loans and grants)	124	23	29	67	13	68	64	74	64	64
Budget support loans	0	0	0	41	0	40	0	48	37	37
Program grants (current transfers)	124	23	29	26	13	28	64	26	26	26
Debt Relief	1	1	1	0	0	-1	-1	-1	-1	0
DSSI (Net)	1	1	1	0	0	-1	-1	-1	-1	0
IMF financing, *of which*	108	50	51	88	94	88	95	96	-	-
Proposed IMF ECF	0	44	44	88	94	88	95	96	-	-
CCRT	2	6	6	0	-	0	-	-	-	-
IMF RCF-1	67	-	-	-	-	-	-	-	-	-
IMF RCF-2	39	-	-	-	-	-	-	-	-	-
Residual gap	-15	60	-29	137	0	92	0	0	0	0
Memorandum items:										
Current account balance, including official transfers (percent of GDP)	-7.3	-6.5	-4.5	-5.8	2.8	-7.3	-1.4	-4.9	-4.4	-4.8
Overall Balance of Payment (incl. expected budget support; percent of GDP)	-1.5	-2.4	-1.9	-3.3	2.4	-2.6	0.7	-0.3	1.7	1.1
Financing gap (percent of GDP)	3.5	-2.0	0.8	-4.3	1.4	-3.4	2.1	2.1	0.7	0.7
Exports (percent of GDP)	24.8	30.2	31.9	29.0	44.2	27.6	41.7	38.7	36.8	34.5
Of which : oil	17.8	23.2	24.7	21.4	37.1	19.8	34.5	31.6	29.0	26.7
Imports (percent of GDP)	-20.6	-21.5	-20.3	-21.8	-19.7	-21.6	-20.0	-21.9	-20.4	-19.5
FDI (percent of GDP)	3.6	3.5	3.8	3.8	4.2	4.0	6.0	6.5	6.2	5.9
Gross imputed reserves (billions of USD)	0.4	0.4	0.2	0.4	0.7	0.5	1.0	1.2	1.6	1.9

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

Table 5. Chad: Monetary Survey, 2021-26
(In billions of CFAF, unless otherwise indicated)

	2021	2022				2023				2024	2025	2026
		Q1	Q2	Q3	Q4							
	Prel.	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	**-347**	**-172**	**-105**	**-20**	**-59**	**-36**	**-24**	**72**	**103**	**225**	**516**	**777**
Central bank	-395	-301	-230	-146	-184	-161	-149	-53	-22	100	391	652
Foreign assets	134	233	311	395	430	452	497	594	610	783	1,016	1,210
Foreign liabilities	-529	-534	-541	-541	-614	-614	-647	-647	-632	-683	-626	-558
IMF financing	-376	-380	-383	-383	-456	-456	-489	-489	-474	-525	-468	-400
SDR allocation	-153	-154	-158	-158	-158	158	158	158	-158	-158	-158	-158
Commercial banks	48	129	125	125	125	125	125	125	125	125	125	125
Foreign assets	157	213	199	199	199	199	199	199	199	199	199	199
Foreign liabilities	-109	-84	-74	-74	-74	-74	-74	-74	-74	-74	-74	-74
Net domestic assets	**1,870**	**1,920**	**1,912**	**1,738**	**1,632**	**1,614**	**1,607**	**1,518**	**1,519**	**1,413**	**1,210**	**995**
Domestic claims	2,068	2,128	2,043	1,868	1,763	1,745	1,738	1,649	1,650	1,544	1,340	1,126
Claims on the government (net)	1,266	1,350	1,230	1,060	943	872	880	801	753	545	287	13
Central bank	1,020	1,115	1,043	871	751	685	704	648	606	441	203	-70
Claims on general government	1,139	1,138	1,074	1,025	1,097	1,046	1,079	1,079	1,064	1,063	989	887
Statutory advances[1]	479	482	479	480	480	480	480	480	480	480	464	448
Repurchase facility	141	132	64	19	19	19	19	19	19	19	19	0
IMF financing	376	380	383	383	456	456	489	489	474	525	468	400
SDR allocation	143	144	147	143	143	91	91	91	91	39	39	39
Liabilities to general government	-120	-23	-31	-154	-346	-360	-374	-430	-458	-622	-787	-956
Commercial banks	246	235	187	189	192	187	175	153	147	105	85	82
Claims on general government	373	389	359	361	364	358	347	325	319	277	256	254
Liabilities to general government	-127	-154	-172	-172	-172	-172	-172	-172	-172	-172	-172	-172
Credit to the economy	802	778	813	808	819	873	858	848	897	998	1,053	1,113
Other items (net)	-198	-208	-131	-131	-131	-131	-131	-131	-131	-131	-131	-131
Money and quasi money	**1,523**	**1,748**	**1,808**	**1,718**	**1,573**	**1,578**	**1,583**	**1,590**	**1,622**	**1,638**	**1,726**	**1,773**
Currency outside banks	578	788	798	759	695	697	699	702	725	732	771	792
Demand deposits	796	803	844	802	735	737	739	742	731	738	778	799
Time and savings deposits	148	157	165	157	144	144	145	145	167	168	177	182
Memorandum items:												
Broad money (annual percentage change)	18.5	36.0	32.5	26.1	3.3	-9.7	-12.4	-7.4	3.1	1.0	5.4	2.7
Credit to the economy (annual percentage change)	17.1	4.2	4.2	1.0	2.1	12.2	5.6	4.9	9.5	11.3	5.5	5.7
Credit to the economy (percent of GDP)	12.3	…	…	…	11.1	…	…	…	11.7	12.4	12.5	12.5
Credit to the economy (percent of non-oil GDP)	15.3	…	…	…	14.7	…	…	…	15.2	15.8	15.6	15.3
Velocity (non-oil GDP)	3.4	…	…	…	3.5	…	…	…	3.6	3.9	3.9	4.1
Velocity (total GDP)	4.3	…	…	…	4.7	…	…	…	4.7	4.9	4.9	5.0

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

[1] Includes statutory and exceptional advances.

Table 6. Chad: Schedule of Disbursements Under the ECF Arrangement

Availability Date	Conditions for Disbursement	Amount (Percent of Quota)	Amount (Millions of SDRs)
December 10, 2021	Executive Board approval of the ECF arrangement	40.0	56.08
April 15, 2022	Observance of the performance criteria for December 31, 2021 and completion of the first review under the arrangement	40.0	56.08
September 15, 2022	Observance of the performance criteria for June 30, 2022 and completion of the third review under the arrangement	40.0	56.08
April 14, 2023	Observance of the performance criteria for December 31, 2022 and completion of the third review under the arrangement	40.0	56.08
September 15, 2023	Observance of the performance criteria for June 30, 2023 and completion of the fourth review under the arrangement	40.0	56.08
April 15, 2024	Observance of the performance criteria for December 31, 2023 and completion of the fifth review under the arrangement	40.0	56.08
September 16, 2024	Observance of the performance criteria for June 30, 2024 and completion of the sixth review under the arrangement	40.0	56.08
Total		**280.0**	**392.56**

Table 7. Chad: Indicators of Capacity to Repay the IMF, 2022–36

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Fund obligations based on existing credit (SDR millions)															
Principal	6.5	29.7	47.7	62.7	74.8	77.1	66.6	49.1	29.4	11.2	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Fund obligations based on existing and prospective credit (SDR millions)															
Principal	6.5	29.7	47.7	62.7	74.8	77.1	94.6	99.5	96.7	78.5	67.3	39.3	16.8	0.0	0.0
Charges and interest	0.0	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Total obligations based on existing and prospective credit															
SDR millions	6.5	34.5	52.5	67.5	79.6	81.9	99.4	104.3	101.5	83.3	72.1	44.1	21.6	4.8	4.8
CFAF billions	5.4	29.3	44.8	57.6	67.9	69.8	84.7	88.9	86.5	71.0	61.4	37.5	18.4	4.1	4.1
Percent of exports of goods and services	0.2	0.9	1.4	1.7	2.1	2.1	2.5	2.5	2.4	1.9	1.6	0.9	0.4	0.1	0.1
Percent of debt service[1]	1.8	9.5	19.8	33.1	49.7	38.7	46.1	49.1	55.1	54.2	50.8	34.8	18.6	4.3	3.8
Percent of GDP	0.1	0.4	0.6	0.7	0.8	0.7	0.8	0.8	0.8	0.6	0.5	0.3	0.1	0.0	0.0
Percent of tax revenue	1.0	5.0	6.9	7.9	8.3	7.8	8.7	8.4	7.6	5.8	4.7	2.7	1.2	0.3	0.2
Percent of quota	4.6	24.6	37.4	48.1	56.8	58.4	70.9	74.4	72.4	59.4	51.4	31.4	15.4	3.4	3.4
Outstanding IMF credit based on existing and prospective drawings															
SDR millions	560.4	642.9	707.4	644.7	569.9	492.8	398.2	298.6	201.9	123.4	56.1	16.8	0.0	0.0	0.0
CFAF billions	468.0	547.1	603.9	550.2	486.2	420.0	339.3	254.5	172.1	105.2	47.8	14.3	0.0	0.0	0.0
Percent of exports of goods and services	13.6	16.2	18.3	16.7	14.8	12.8	9.9	7.2	4.7	2.8	1.2	0.4	0.0	0.0	0.0
Percent of debt service[1]	156.6	177.5	266.3	316.4	356.1	232.9	184.6	140.6	109.6	80.3	39.5	13.3	0.0	0.0	0.0
Percent of GDP	6.3	7.1	7.5	6.5	5.5	4.5	3.4	2.4	1.5	0.9	0.4	0.1	0.0	0.0	0.0
Percent of tax revenue	87.4	93.1	92.5	75.1	59.6	47.2	34.9	24.0	15.1	8.6	3.6	1.0	0.0	0.0	0.0
Percent of quota	399.7	458.6	504.5	459.8	406.5	351.5	284.0	213.0	144.0	88.0	40.0	12.0	0.0	0.0	0.0
Net use of IMF credit (SDR millions)	95.2	82.5	64.5	-62.7	-74.8	-77.1	-94.6	-99.5	-96.7	-78.5	-67.3	-39.3	-16.8	0.0	0.0
Disbursements	101.7	112.2	112.2	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	6.5	29.7	47.7	62.7	74.8	77.1	94.6	99.5	96.7	78.5	67.3	39.3	16.8	0.0	0.0
Memorandum items:															
Exports of goods and services (CFAF billions)	3,433	3,383	3,303	3,300	3,283	3,286	3,411	3,536	3,665	3,794	3,901	3,966	4,132	4,176	4,218
External Debt service (CFAF billions)[1]	299	308	227	174	137	180	184	181	157	131	121	108	99	96	108
Nominal GDP (CFAF billions)	7,391	7,655	8,027	8,428	8,906	9,418	10,025	10,661	11,341	12,079	12,870	13,705	14,605	15,565	16,592
Tax revenue (CFAF billions)	535	588	653	733	815	890	972	1,060	1,136	1,220	1,311	1,409	1,514	1,627	1,748
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. Food Security Situation in Chad[1]

1. **Climate change has considerably affected food and pastoral production.**[2] Rainfall in 2021 was unevenly distributed over time and across Chad and stopped at a time when crops needed it most. As a result, cereal production during the 2021/22 crop year is estimated at 2,620 tons, 9.2 percent lower than the average of the previous five years. Western Sahel provinces (Kanem, Bahr El Ghazel, Lake Chad and Hadjer Lamis) were hit the hardest, with a drop in production of 21.7 percent compared with their five-year average. The drought also reduced the availability of pasture for livestock and led to an early drying up of water in ponds. This resulted in the early transhumant migrations to areas with the most pasture, which aggravated farmer-herder conflicts.

2. **The agricultural production shortfall created an upward pressure on food prices and worsened food insecurity and poverty.** This supply shock came at a time when food security was already worsening on account of demand pressures from population growth and a high and increasing number of refugees and IDPs in the country. Internal conflicts as well as security concerns (Boko Haram) pose additional challenges by limiting access to markets and increasing transportation costs. The Ministry of Agriculture estimates a net cereal deficit of 308,960 tons, based on the 2021/22 crop and net imports. The Sahel-based Harmonized Framework (Comité permanent inter-États de lutte contre la sécheresse au Sahel - CILSS), which identifies risk areas and vulnerable populations, estimates the apparent food availability at 141 kg/person/year, or 11.3 percent below the official consumption standard of 159 kg/person/year. The nutritional situation is rated as "crisis" or "emergency" in most of the provinces located in the Sahelian and Saharan zones.[3] Since the last quarter of 2021, cereal prices have been rising, also aggravating poverty caused by the COVID-19 pandemic.

3. **The war in Ukraine and the recent floods are expected to have further exacerbated food insecurity.** The conflict has contributed to a significant price increase for imported cereals, fertilizers, and other agricultural inputs, as well as imported fuel. Being a landlocked country, Chad disproportionally suffers from the higher transportation costs. At the same time, the UN agencies providing assistance on the ground have experienced rising operational costs due to higher food prices and energy prices, constraining their ability to respond at a time of the greatest need. The country faced massive floods in July-October 2022, destroying crops and livelihoods, putting further pressure on vulnerable communities, and increasing food assistance needs.[4]

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[1] Prepared by Ljubica Dordevic and Joseph Ntamatungiro.

[2] According to the National Meteorological Agency, the rainfall trends over 1987-2021 in many provinces have been declining. Furthermore, Chad has been assessed as the most vulnerable country in the world to the climate-related shocks, based on the Notre Dame Global Adaptation Initiative (ND-GAIN) Country Index 2021.

[3] Based on the December 2021 Cadre Harmonisé (CH) report on the situation in 2021Q4, an estimated 970,000 Chadians were acutely food insecure in Phase 3 (crisis) and Phase 4 (emergency).

[4] WFP estimated in March 2022 that in the short term its operational costs will increase by US$29 million per month globally due to the combined effect of food and fuel price hikes ("Food Security Implications of the Ukraine Conflict",

(continued)

4. The Government has adopted a National Response Plan (NRP) to deal with food and nutritional insecurity.[5] In consultation with donors and through shared efforts, the Government has been supporting vulnerable populations. The Government also provides fertilizer subsidies to cotton producers and towards purchase of cattle food. The population in acute food and nutritional insecurity reached 2.1 million people during the lean season (June-August), with 1.3 million children suffering from acute malnutrition. Further, 3.6 million people would be classified as "under pressure" and require support to improve their resilience and strengthen their livelihoods. The 2022 floods pushed an additional 292,585 people under the pressure of food insecurity, according to the official data released by the Ministry of Public Health and National Solidarity on August 18, 2022. On June 1, 2022, the President Mahamat Idriss Deby signed a decree declaring a national emergency on food and nutrition insecurity, calling for humanitarian assistance to the populations in need, as identified in the National Response Plan. The total cost of interventions under the NRP could amount to CFAF 132 billion, including CFAF 57 billion to address food insecurity, expected to be covered with support from the international community:

- **The National Food Security Office (ONASA),** with 15,815 tons of cereals in its various stores (compared with a storage capacity of 40,000 tons and the 100,000 tons recommended by CILSS). Its interventions in favor of people in food and nutritional insecurity were carried out either through free food distribution or through food sales at subsidized prices. The government committed to use CFAF 36 billion of the SDR allocation to help ONASA rebuild its stocks. France supported ONASA with €5 million for food acquisition under its 2022 budget support and with €1.5 million to improve the efficiency of its operations.

- **UN agencies**, namely **the World Food Program (WFP)** and the **Food Agriculture Organization (FAO)**, also provided assistance under the Humanitarian Response Plan for 2022, which targets some 4 million in need, including 1 million of refugees and IDPs. In addition, the two agencies will provide projects aimed at going beyond providing humanitarian assistance by improving resilience in the vulnerable areas. In this context, FAO is expected to receive a financing of €44 million from the EU to finance development projects in the provinces of Kanem and Bahr El Ghazel. WFP is also expected to receive €40 million from ECHO. The UN has also released US$8 million for Chad from its Central Emergency Response Fund (CERF).

- On May 4, Chad's government requested that the **World Bank** activate the Contingent Emergency Response Components (CERCs) in the amount of US$50 million as a rapid relief to

WFP 2022). WFP has already been facing a serious shortage of funds to help the region, with the resources at their lowest. In Chad, low funding levels have forced WFP to reduce emergency rations for internally displaced people and refugees by 50 percent since June 2021. Following the onset of floods in 2022, WFP reprioritized some flexible funds that that were originally allocated to other crisis response activities in order to deliver some timely in-kind and cash assistance to the targeted flood victims. However, additional financial resources are urgently needed to avert critical interruptions to its operations.

[5] National response plans are prepared yearly since 2013. As an exceptional measure, the authorities banned the export of cereals and imported food items were exempted from customs duties. The authorities are working with the IMF and other partners to strengthen food assistance for the vulnerable population so that the export restrictions can eventually be lifted.

cope with the food insecurity, which was disbursed in August 2022. Funds will be transferred to respective UN agencies involved in the implementation as soon as the contracts are signed. On October 17, Chad and the **World Bank** also signed an agreement for a US$105mill grant as part of the second phase of the West Africa Food Systems Resilience Program (FSRP2) aimed at increasing the region's preparedness against food insecurity and improving the climate resilience of food systems.

- On July 15, the **African Development Bank group (AfDB)** approved a grant of around US$4 million from its Transition Support Facility to help Chad implement the Agricultural Sector Support and Food Crisis Response Project.

- International humanitarian **NGOs**, such as OXFAM and ACF, provide food assistance, fertilizers and other agricultural inputs and tools.

- On September 25, **Islamic Development Bank** signed an agreement with Chad to provide US$0.15million for emergency food assistance to refugees in East of the country.

- In the context of recent floods, food assistance has also been provided by the United Arab Emirates.

Appendix I. Letter of Intent

N'Djamena, December 6, 2022

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC, USA

Madam Managing Director:

We are making progress in implementing the program supported by the three-year arrangement under the Extended Credit Facility (ECF) approved on December 10, 2021 and are grateful to the IMF for its timely and continued support during particularly challenging times.

The economic and financial environment has worsened despite the recovery in oil prices: (i) oil production in 2021 was lower than previously estimated and prospects have weakened; (ii) the poor 2021/22 crop year has led to food inflationary pressures and the impact of the war in Ukraine and recent floods have exacerbated an already difficult food security situation; and (iii) budget execution was greatly impacted by a challenging social and security situation.

Because of these difficulties, we were unable to achieve some of the objectives that we had set for ourselves under the program. The continuous quantitative performance criteria (QPCs) on the non-accumulation of new external arrears and the non-contracting of new non-concessional external debt were met, while the end-December 2021 and end-June 2022 QPC on the non-oil primary balance, the end-December 2021 QPC on the stock of domestic arrears, and most of the indicative targets were missed. The QPC on the non-oil primary balance (NOPB) was missed for both dates owing to higher spending in response to security, social, and food security tensions, while the one on the repayment of domestic arrears has been slightly exceeded owing to financing constraints. We have since taken corrective action to control these expenditures. One of the five end-December 2021 indicative targets (ITs) and two of the four end-June 2022 ones were met. It is important to note that our end-June 2022 performance is broadly in line with the revised targets that we discussed with IMF staff during their March mission, that could not be submitted for approval to the Fund's Executive Board because of the delays caused by the absence of an agreement on a debt treatment, which was reached on November 11 only. Owing to emergencies and contingencies, the use of emergency spending procedures was higher than expected, and their regularization rate has been lower than targeted. We remain strongly committed to implementing fully the structural reform program, even if, in some cases, implementation capacity constraints may have caused some delays. Out of eight structural benchmarks, three were met, while the reforms covered by two other benchmarks—those relating to the publication of an ex-post compliance audit of Covid-19-related expenses and to the allocation of VAT receipts to the VAT escrow account at BEAC—have been implemented with delay. The structural benchmark on implementation of the ASYCUDA exemption module to process all customs exemption requests and authorizations was not met, however progress has been made in November 2022 with the support from UNCTAD. With regard to the publication of information on the beneficial owners of public procurement contracts, a decree allowing its implementation will be adopted with the IMF technical assistance (prior action). Also, ceilings on the number of civil servants by ministry and institution will be included in the draft 2023 budget law.

Looking ahead, we remain determined to implement our economic reform program, so as to ensure a rapid resumption of growth—especially in the non-oil sector—poverty reduction and sustained financial stability and debt sustainability. The gradual improvement in the fiscal position, stemming from strengthened non-oil revenue mobilization, enhanced public financial management, as well as improved governance and transparency, will create fiscal space for higher investment and social spending. The implementation of the structural reform agenda will help tackle the entrenched vulnerabilities and foster economic diversification in line with the Government's 2030 vision. Continued budget support and debt restructuring under the G-20 Common Framework will help address the projected balance of payment and budget financing needs and to restore debt sustainability.

These efforts will be supported by the CEMAC's regional institutions, which will continue to implement policies that are consistent with maintaining regional external stability, in particular by contributing to the restoration of an adequate level of regional reserves, thus helping achieve the regional NFA objectives in the updated letter of policy support from BEAC.

To support our efforts to promote inclusive growth and restore debt sustainability, the Government also requests that the Executive Board of the IMF approves the completion of the first and second reviews under the ECF-supported program and the disbursement of the second and third tranches of SDR 56.08 million each. The Government also requests waivers for the nonobservance of the end-December 2021 and end-June 2022 quantitative performance criteria on the on-oil primary balance (NOPB) and of the end-June 2022 criterion on the stock of domestic arrears—as corrective measures have been taken to control spending—as well as the modification of the end-December 2022 criteria to align them with the revised macroeconomic framework.

We are convinced that the policies set out in the attached Memorandum of Economic and Financial Policies (MEFP) will enable us to achieve the ECF-supported program objectives. We stand ready to take any measure that may prove necessary. We will consult with IMF staff on the adoption of any additional measures prior to any 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 IMF staff on a regular basis and in a timely manner, pursuant to the attached Technical Memorandum of Understanding (TMU).

In keeping with our longstanding commitment to transparency, the government agrees to the publication, on the IMF website, of the staff report for the first and second reviews under the ECF, this letter of intent, as well as the attached MEFP and TMU.

Very truly yours,

/s/

Tahir Hamid Nguilin
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

1. **This memorandum updates and supplements the MEFP of November 24, 2021.** It lays out the specific elements of the government's reform strategy under the ECF arrangement. It describes recent economic developments, the progress made in implementing the policies and reforms to which we committed under the ECF-supported program, macroeconomic prospects, and the economic policies and structural reforms that we plan to implement over the next 12 months.

2. **We remain committed to pursuing ambitious reforms of the Chadian economy, including a growth-friendly fiscal adjustment and structural reforms.** To bring the debt service to sustainable levels, our fiscal consolidation efforts will seek to mitigate the negative effects on growth while protecting the vulnerable. We will also persevere with the implementation of structural reforms aimed at addressing weaknesses in the banking sector, expanding the use of information technology (IT), and improving governance, anti-corruption, and transparency. Our medium-term reform policies are in line with our new National Development Plan PND (2022-26), built on the Government's "Vision 2030", "the Chad we want", with an emphasis on: (i) fiscal and debt sustainability; (ii) public financial management (PFM) and debt management; and (iii) structural reforms promoting economic diversification.

3. **We have started the preparation of the National Development Plan with the help of the United Nations Development Program (UNDP).** The first draft of the NDP was finalized in October and sent to stakeholders for comments. We were not able to approve it before the conclusion of the second review under the ECF, owing to delays related to the pandemic and the insecurity and climate-related shocks that have impacted Chad and the need to organize the inclusive and sovereign national dialogue (ISND) as part of the political transition process. The NDP will be finalized by the time of the third review next year.

OVERALL CONTEXT

4. **The security situation and social conditions remain difficult.** Boko Haram has continued to launch deadly attacks in the Lake Chad region, leading to more refugees and aggravating humanitarian needs, already heightened by the recent inflow of refugees fleeing social conflicts in neighboring countries. Persisting instability in neighboring countries remains a serious security threat. While the social pact signed with public sector unions on October 4, 2021, has helped preserve social peace, job creation for young people remains a daunting challenge.

5. **The poor rainfall in 2021 has exacerbated food insecurity and inter-community conflicts, while the recent floods in 2022 particularly affected the most vulnerable**. The total amount of rainfall received during the critical periods of the 2021 agricultural season was inadequate, negatively affecting the national cereal production, leading to a cereal gap estimated at 309,000 tons (about 10 percent higher than in previous years) and a significant increase in cereal prices, which is exacerbated by the war in Ukraine and the recent severe floods. It also increased inter-community tensions. Food insecurity and the related inflationary pressures are worsening

poverty, which had already increased following the COVID-19 pandemic. As mitigating measures, we have been using part (CFAF 8.1 billion) of the SDR allocation to help rebuild the food stock maintained by the National food security office (ONASA). We have also banned the export of cereals and continued to exempt imports of basic necessities from duties and taxes. Our updated national response plan estimates the additional spending needs for food security at up to CFAF 57 billion. In 2022, unprecedented heavy rainfall led to severe floods in the 23 provinces, with more than 1.2 million people affected, especially the poor. The National Emergency was declared on October 19, and a National Flood response plan adopted.

6. **Consistent with the roadmap, progress has been made under the 18-month political transition.** In line with the December 30, 2021, general amnesty law, prisoners of war were released from prisons. Consultations were organized in all provinces and abroad with politico-military groups, prior to the inclusive and sovereign national dialogue, which was organized in N'Djamena from August 20–October 8. The dialogue ended with the prolongation by two years of the transition period, the designation of the transition President, and the establishment of the institutions in charge of preparing the return to constitutional order. Presidential and parliamentary elections will be organized in 2024 following an electoral census and referendums on a new constitution and on the form of organization of the state. The transition government counts on the development partners continued financial support to the transition roadmap of July 2021 through the UNDP-managed basket fund, which amounts to $33 million as of April 20.

7. **While the COVID-19 pandemic has been contained, we intend to intensify our efforts to boost the vaccination rate.** The number of COVID-19 cases has remained low by regional standards, and the upsurge in new cases recorded in January 2022 linked to the Omicron wave has subsided considerably since February. The rollout of the vaccination program has initially been slow, with only 0.8 percent of the population fully vaccinated at end-February 2022, but, with the help of the WHO, the World Bank and other donors, the Government strengthened its communication strategy and has conducted a massive vaccination campaign since March 24. As of August 25, 21 percent of the adult population was fully vaccinated.

RECENT MACROECONOMIC DEVELOPMENTS, OUTLOOKS, AND RISKS

A. Recent Developments

8. **Growth was lower than projected in 2021.** Based on most recent information, oil production in 2021 was lower than estimated, reflecting the production interruptions experienced by the second largest major oil company. Activities in the non-oil sector remained subdued, reflecting the sustained scarring from the pandemic, adverse weather conditions and a significant reduction in official financing. Inflation was contained in 2021, with average inflation at -0.8 percent. However, food inflation increased to 14.4 percent y-o-y by August 2022 (before subsiding to 12.3 percent in

September) as a result of the poor crop year caused by inadequate rainfall due to climatic change and of the war in Ukraine.

9. Both fiscal revenue and expenditure were above expectations in 2021. Despite the lower oil production, oil revenue was higher than projected under the program, thanks to higher-than-projected oil prices. Non-oil revenue mobilization exceeded targets, thanks to a good VAT performance. Budget execution was, however, subject to strong expenditure pressures owing to a challenging social and security environment. Domestically financed investment exceeded projections, mainly due to the renewal and reconstitution of military equipment. Social spending fell short of projections owing to financing constraints. Meanwhile, primary current spending was slightly higher than projected, as the strong increase in the wage bill was only partly offset by lower spending on goods and services and transfers and subsidies. The higher deficit in 2021 led to higher-than-targeted domestic financing and a lower domestic arrears repayment. In addition to the aforementioned rebuilding the food stock, part of the SDR allocation was used to: (i) clear domestic arrears (CFAF 22 billion), including to the health sector, retirees and small suppliers; (ii) pay retirees their 2021 pensions (CFAF 12 billion); and (iii) clear external debt technical arrears (CFAF 15 billion).

10. Similarly, fiscal revenue and expenditure exceeded projections during the first half of 2022. Oil revenue was significantly higher than projected under the ECF request, owing to the surge in oil prices. Non-oil revenue was also higher than projected, reflecting a strong performance by VAT receipts. Spending remained higher than targeted, as we had to respond to security, social, and food security tensions. The higher wage bill reflected the necessary realignment of military wages with the minimum wage, while we accelerated the transfers to ONASA so that it could make the necessary purchase of food items. At the same time, social spending was higher than targeted. Domestically financed investment fell short of the projections, mainly due to financing constraints. As higher spending was only partly offset by higher non-oil revenue, the non-oil primary balance was lower than expected which, along with higher domestic arrears, resulted in higher domestic financing.

11. The government has maintained good relations with external creditors. The technical arrears recorded at end-2021 were cleared in early 2022, and the government has continued to pay external debt obligations in a timely manner. In addition to the agreements reached with G20 CF creditors, several restructuring agreements were finalized with other creditors, including one with BDEAC at the end December 2021, and one with the Republic of Congo in February 2022. Discussions are progressing and an agreement with Libya will be concluded in the coming weeks. The restructuring of official debt with Equatorial Guinea is also under discussion. We met the Belgian authorities to discuss a claim made by a Belgian company for a furnishing contract of a hotel in N'Djamena with a view to resolving the problem in good faith.

12. We reached debt treatment agreements with official and private creditors under the G20 Common Framework as required to restore debt sustainability consistent with a moderate risk of external debt distress by the end of the ECF-supported program. We signed a MOU on debt restructuring with G-20 and Paris Club official creditors and an agreement in principle with the largest private creditor. The debt treatment will provide Chad with adequate protection against lower oil prices during the program period as creditors committed to reconvene without delay if some of the downside risks, including a sharp decline in oil prices, were to materialize and a residual financing gap reemerge. It also ensures external debt service-to-revenue ratio is brought under 14 percent in 2024—thereby bringing the risk of debt distress to "moderate" with high probability by the end of the program period, in line with the ECF program assumptions and exceptional access policies—and is maintained below 12.3 percent on average over the medium term, in line with the LIC DSF's criteria for a moderate rating "with some space to absorb shocks".

13. The increased reliance on borrowing from the regional capital market in 2021 has resulted in heavy debt service obligations in 2022, which the government managed to refinance through longer-term bond issuances. The exit of the automatic reimbursement mechanism in February 2021 allowed Chad's Treasury to access the CEMAC securities market and to mobilize CFAF 145 billion under BEAC's public securities' repurchase facility established in response to the pandemic from July 2020–September 2021. Efforts to extend the maturities conducted by the Treasury have resulted in a sharp increase of the share of longer-term securities (OTAs) in debt portfolio from 12 percent in March 2021 to 28 percent in December 2021 and 76 percent in October 2022.

14. Banking sector activity picked up in 2021, but has slowed down since, while vulnerabilities subsist. Gross credit and deposits increased by 18.4 percent and 13.7 percent, respectively, in 2021. While deposits grew further during the first five months of 2022 (+7.8 percent), credit to the private sector stalled (-0.7 percent), owing largely to high provisioning needs. The share of distressed loans in total loans remained high, even if it dropped to 26.3 percent at end-December 2021 from 27.9 percent at end-September 2021. The banking sector's overall capitalization has increased above the minimum requirement, reaching 9.4 percent in March 2022, but several banks (including two large public banks) need to further strengthen their capital position. The sector's liquidity ratio. The liquidity position further deteriorated but remained above the required threshold at 102 percent at end-March 2022, while BEAC refinancing increased to CFAF 144.4 billion by May 2022. The two systemic public banks in difficulty (CBT and BCC) continued to implement their performance contracts under their restructuring and funding plans. The treasury continued monthly repayment of the direct debt to BCC (CFAF 250 million) and CBT (CFAF 500 million), exhausting all its obligations to CBT in 2021 and expecting to do so by August 2023 for BCC. The government also proceeded in 2021 with the partial recapitalization of CBT (CFAF 4.5 billion), BHT (CFAF 2.6 billion) and BAC (CFAF 2.9 billion).

B. Program Implementation

15. Program performance was mixed, with some slippages and delays (Table 1):

- **The continuous zero ceiling on new external arrears of the government and non-financial public enterprises was met,** as remaining external arrears were cleared and late payments were paid within the six-week grace period.

- **The continuous zero ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises was also met,** as the government has continued to resist pressures to contract non-concessional borrowing.

- **With regard to end-December 2021:**

➢ The QPC on the non-oil primary balance (NOPB) was missed (CFAF -526 billion vs an adjusted target of -440 billion), due to spending pressures from wages and military investments.

➢ Four of the five indicative targets were missed, reflecting spending overruns and liquidity constraints.

○ The indicative target on net government domestic financing was not met. It reached CFAF 306 billion against an adjusted target of CFAF -14 billion.

○ The indicative target on poverty-reducing social spending was not met (CFAF 265 billion, compared to a target of CFA 284 billion).

○ The indicative target on wages and salaries was not met. The wage bill reached CFAF 459 billion, against a target of CFAF 425 billion.

○ The indicative target on government tax revenue, excluding tax revenue from oil companies was met (CFA 482 billion, compared with a target of CFA 477 billion), reflecting the good VAT performance.

○ The indicative target on the stock of domestic payment arrears by the government was not met. The stock of domestic arrears was reduced only to CFAF 393 billion against an adjusted target of CFAF 363 billion.

- **For end-June 2022:**

➢ The QPC on the non-oil primary balance (NOPB) was missed (CFAF -239 billion vs an adjusted target of -209 billion), owing to higher spending to meet security, social, and food security needs.

➢ The QPC on the stock of domestic arrears by the government was missed as it amounted to CFAF 335 billion at end-June vs. an adjusted ceiling of CFAF 328 billion.

➢ Two of the four indicative targets were met:

○ The indicative target on net government domestic financing was missed. It reached CFAF 41 billion against an adjusted target of CFAF -114 billion.

- The indicative target on poverty-reducing social spending was met, as it amounted to CFAF 161 billion, compared to a target of CFA 151 billion).

- The indicative target on wages and salaries was not met. The wage bill reached CFAF 254 billion, against a target of CFAF 219 billion, reflecting the November 2021 realignment of military wages with the minimum wage.

- The indicative target on government tax revenue, excluding tax revenue from oil companies was met (CFA 290 billion, compared with a target of CFA 253 billion), reflecting the continued improvement in VAT receipts.

It is important to note that our end-June 2022 performance is broadly in line with the revised end-June 2022 targets that we had discussed with IMF staff during their March mission, because of the delays caused by the absence of an agreement on a debt treatment. We are therefore confident that we will meet the revised end-December 2022 targets.

16. The use of emergency spending procedures ("dépenses avant ordonnancement", or DAO) has exceeded expectations. These procedures were used for 21 percent of primary spending in 2021, against a target of 20 percent, while the regularization of DAO was limited to 7 percent compared to a target of 80 percent. While the target was missed overall in 2021, the deviation happened largely between April and September 2021, reflecting the elevated security concerns during this period. Due to the multiple shocks that hit the economy and the necessity to respond in a quick and efficient manner to help the population, the situation did not improve in the first half of 2022, during which DAO represented 35 percent of primary spending while regularization was limited to 13 percent. An improvement is expected looking forward, given the implementation of the IT system SIGFIP and of additional measures to reduce the use of DAO.

17. Despite delays, we remain committed to the implementation of the structural reform agenda (Table 2). Of the eight structural benchmarks set for the period under review, three were met, two were implemented with delay, while three will require more time to be fully implemented.

a. The continuous structural benchmark on the publication of the quarterly oil sector note was met, as the government published the note in December but also in March 2022 and June 2022, in line with the template agreed with IMF staff. The third quarter note will be published in December 2022. These notes are available at https://www.observatoire.td/publications.php. We will continue to publish the quarterly notes in the future.

b. The end-December 2021 structural benchmark on the completion and publication of ex-post compliance audit of COVID expenses was not met. The publication was completed with a delay in June 2022.

c. The end-January 2022 structural benchmark on the publication of a semi-annual note listing all new tax exemptions (including renewals and extensions of existing exemptions) was met as we didn't issue, renew, or extend any tax exemptions during the second half of 2021. We published a note in July 2022 and will continue the practice and publish another note by end-January 2023. If there are no new tax exemptions, we will also notify the public with an announcement.

d. The end-February 2022 structural benchmark on allocating some VAT revenue in the VAT escrow account at the BEAC before end-February 2022 was not met, as the allocation was made only in June 2022.

e. The end-March 2022 structural benchmark on the publication on-line on an easily accessible governmental website the full text of all central government procurement contracts along with the names and nationalities of the beneficial owners of the awarded legal entities was not met, as the current Procurement Code does not require bidders to provide such information. To be able to do so in the future, we will issue (prior action) a decree to allow the government to: (i) collect beneficial ownership information of legal persons bidding on central government procurement contracts; and (ii) publish on the website of the DGCMP the full text of procurement contracts along with the names and nationalities of the beneficial owners of the awarded legal persons.

f. The end-June 2022 structural benchmark on the adoption of the PFM strategy was met, as the council of ministers approved the strategy in June 2022. With the resident advisor in place since September 2022, we will begin the implementation with national and regional workshops to introduce the adoption plan to all relevant parties.

g. The implementation of employment ceilings in accordance with the provisions of the 2014 organic law on public finance was postponed to end-December-2022 as the Ministry of Finance clarified that the preparation of the draft 2023 budget law begins only in September and the number of employees is confirmed only after consultation with line ministries and agencies.

h. The end-November SB on the implementation of ASYCUDA Exemption Module to process all customs exemptions requests and authorizations was not met. In November 2022, with the support from UNCTAD, three customs offices have the ASYCUDA World in place, including the Exemption Module. The relevant legal documents will be included in the system in December 2022 and the exemption module deployed to the other major offices by end-March 2023. We will also receive IMF technical assistance to support our staff to use the new system.
In addition, the prior action for the first and second reviews on the adoption of a regulation to make mandatory for large taxpayers the electronic declaration of VAT form was completed on November 11, 2022.

18. The government is requesting waivers for the end-December 2021 and end-June 2022 QPCs on the non-oil primary balance and on the end-June 2022 QPC on the stock of domestic arrears. This request is based on the measures to strengthen budgetary discipline that the government intends to take as part of the implementation of the public finance management strategy and of the corresponding action plan. Budget execution control procedures will also be strengthened by preparing and communicating to line ministries quarterly expenditure ceilings starting with the first quarter of 2023. In addition, appropriate sanctions, as required by the public finance management regulations, will be taken against all actors who circumvent the expenditure execution chain.

19. We are supporting policies at the regional level. Policies under our ECF-supported program supports the objectives pursued by the Central African Economic and Monetary Union (CEMAC), namely putting the economy on a balanced and sustainable path towards inclusive green growth and poverty reduction. The program also contributes to the regional effort to restore and preserve external stability for the Central African Economic and Monetary Union (CEMAC).

ECONOMIC AND FINANCIAL POLICIES FOR 2022 AND THE REMAINDER OF THE PROGRAM

A. Outlook and Risks

20. Prospects for 2022 remain weak. Economic activity is expected to grow by 2.5 percent, reflecting about 2 percent growth in the non-oil sector and a 5.6 percent growth in oil GDP. Inflation is expected to rise to 5.3 percent. The current account deficit is expected to improve to 2.8 percent of GDP. Exports are projected to increase due to the rise in oil prices, while imports would slightly increase but to a much lesser extent. As a result, the trade balance is expected to generate a surplus of about 24.5 percent of GDP in 2022, compared to 11.6 percent of GDP in the previous year. This increase would be partially offset by the increase in debt service to commercial creditors linked to higher oil prices.

21. The medium-term outlook is expected to gradually improve but remains subject to significant downside risks. Non-oil growth is projected to pick up in 2023, reaching 4.1 percent by 2024, provided reforms under the program are implemented. Oil production level will remain subdued despite the higher oil prices, due to lower investment prospects. Inflation is expected to return to the level of the CEMAC regional criterion of 3 percent by 2024, although uncertainty surrounding the war in Ukraine and its effects on global growth and commodity prices has significantly increased, and recent floods are putting further pressure on food prices. The budget support expected from development partners, the ongoing debt treatment under the G20 Common Framework, and the IMF financing provided under the ECF program should help cover the balance of payment needs and budgetary financing gaps during 2022-24. The envisaged debt reprofiling should also bring the debt burden to sustainable levels. This outlook is, however, subject to risks, including developments in the COVID-19 pandemic, oil prices, the maintenance of social peace, security, and climate shocks, as well as delays in implementing debt restructuring agreements.

B. Fiscal Policy

22. The government remains committed to pursuing fiscal adjustment under our program. The program envisages a cumulative adjustment of about 4.7 percentage points for the NOPB from

2022–24. This objective is based on measures to strengthen the mobilization of non-oil revenues and the streamlining of expenditures, while promoting social spending and priority investment. Non-oil tax revenues are targeted to increase by about one percentage points of non-oil GDP, resulting from the implementation of tax administration reforms. Current expenditures would decline by 2¼ percentage points of non-oil GDP primarily through gradually reducing the wage bill and subsidies to the electricity company. Capital expenditures are expected to remain on average at 6½ percent of non-oil GDP, above pre-pandemic levels.

23. Fiscal policy in 2022 is consistent with these medium-term objectives, while responding to the urgent transition, security, and food security needs. Non-oil revenue mobilization, a major element of the government program, is projected to increase by 0.4 percentage point to 10 percent of non-oil GDP, mainly on account of measures to improve VAT efficiency and of the modernization the tax and customs administrations. On the expenditure side, the government put a special emphasis on keeping the wage bill under control and on reducing non-essential current spending. Reflecting the September 2021 realignment of military wages with the minimum wage, the wage bill will be higher than envisaged at the time of the request of an ECF-supported program. We will make sure, however, that it remains within the revised envelop by containing other military remunerations, using the results of the biometric census to ensure that some civil servants do not receive multiple salaries, and ensuring that retiring civil servants immediately cease to receive their salaries. We have also allocated funds to the financing of the elections and the inclusive national dialogue (CFAF 22 billion) and of the national response plan to ensure food security (CFAF 30 billion), including to allow ONASA to rebuild an adequate cereal stock. Consistent with our medium-term fiscal consolidation efforts, non-priority expenditures have been streamlined, while preserving social spending, which will represent more than 34 percent of total primary spending (excluding transfers to the electricity company). The overall fiscal deficit is expected to improve by 8¾ percentage points to 6¼ percent of non-oil GDP in 2022, reflecting the increase in oil revenue, projected to reach CFAF 976 billion, thanks to favorable oil prices. This increase in the overall fiscal balance will be used to reduce domestic debt and build fiscal buffers.

24. The 2023 budget law will aim at a further reduction of the NOPB and at strengthening the prioritization of spending. So as to create fiscal space for social expenditures and investment spending, we will take measures to increase further non-oil revenue and streamline non-priority expenditures. We will notably implement the recommendations of the Fund's TA to contain the wage bill (see paragraph 35). We will also pursue reforms to strengthen tax administration (see paragraphs 26–30), including to increase VAT and customs revenue. Overall, and despite 0.4 percent of non-oil GDP in one-off spending to prepare the elections, the NOPB would improve by 0.6 percentage points of non-oil GDP, which would contribute, along with the projected further increase in oil revenue, to an increase of 2.5 percentage points of non-oil GDP of the overall fiscal balance.

25. We will continue to strengthen domestic debt management to mitigate the rollover risks. While we were able to reduce the stock of short-term T-bills (BTAs) to CFAF 162 billion at end-October, we will take the following actions to ensure a smooth rollover of remaining maturities and to improve further the risk profile of the government securities portfolio: (i) improving our investor relations practices by consulting regularly our investors and primary dealers to keep abreast of specific concerns and preferences for issuances; (ii) improving issuance predictability by regularly publishing quarterly issuance calendars; (iii) continuing to extend the treasury maturity by increasing the share of T-bonds in the domestic debt stock, helped by an improved availability of data on public debt and public finances; (iv) better planning of treasury issuances, based on cash management plans; and (v) adequate staffing of the Division that will be created to manage government securities issuance. We benefitted from the assistance of AFRITAC Central in these efforts.

C. Structural Fiscal Reforms

Tax and Customs Reforms

26. Increasing non-oil revenue mobilization is a key element of our medium-term fiscal consolidation. In this context, we aim at increasing non-oil revenue from 9.6 percent of non-oil GDP in 2021 to 10.7 percent of non-oil GDP in 2024. To achieve this objective, reforms will be centered on addressing weaknesses in tax and customs administration, through (i) improved VAT management, including streamlining tax exemptions and establishing a proper VAT refund mechanism, (ii) modernization and strengthened collaboration, including greater use of information technology (IT) to achieve digitalization of tax filing and revenue collection through the banking system and mobile money; and (iii) better tax audits through strengthened collaboration between tax and customs administrations.

27. Bolstering VAT management will contribute most to the non-oil tax revenue increase. Progress has been made in the control of taxable persons and the management of VAT. However, there are still large gap in monitoring the VAT obligations. At end-2020, the on-time declaration rate stood at 73 percent while the rate of payment on time was only 42 percent. In this context, VAT revenue (at less than 2 percent of GDP) remain well below their potential (4.3 percent of GDP). Over 2022–24, reforms will concentrate on the factors behind this low revenue:

- With the establishment of the large taxpayer office (LTO) and the medium-sized taxpayer office (MTO), the government has made progress in strengthening the management of VAT. We cleaned up and stabilized taxpayers' files and registered 297 active large companies and 260 medium-sized companies. We also published the list of active taxable persons. The next step is to continue increasing the number of active taxpayers and their compliance, strengthening the monitoring of VAT obligations to improve the on-time declaration rate and payment rate. We will also establish, as part of the budget law for 2023, a proper framework for legal sanctions for non-compliant taxpayers. With the help of IMF assistance, we have established a set of indicators in order to increase the number of taxpayers and improve compliance and effective tax payments.

- Measures have been taken to establish an effective VAT refund mechanism, which preserves the smooth running of VAT, facilitates tax compliance and avoids the proliferation of demands for tax exemptions. Since June 2022, the escrow account dedicated to VAT refunds with BEAC has received adequate funding and is now operational as 15 percent of VAT revenue are automatically transferred to this account. The establishment of a VAT credit refund mechanism should strengthen confidence in the VAT system and improve revenue collection. Steps will also be taken towards the clearance of

VAT credits. We will evaluate the evolution of VAT receipts over the last three years and audit the VAT declarations of the companies listed in 2022 in charge of withholding VAT. (new structural benchmark).

- We will continue to rationalize the granting of tax exemptions and improve their transparency. We are aware that an inefficient exemption system leads to revenue shortfalls, distorts the tax collection and leads to the accumulation of tax credits. To tackle this issue, we are making progress towards publishing a list of tax exemptions arising from special tax regimes (including investment code, mining code, and ad hoc agreements), including the companies' name and the type and duration of each exemption (end-December 2022 SB). Also, since 2020, a number of locally produced goods, such as cement, sugar, oil, soap, and textiles have been subjected to a reduced VAT rate of 9 percent. The government will examine the possibility of phasing out the reduced VAT rate starting in 2023. In addition, we will aim at increasing the number of contributing VAT payers by 20 percent in 2022.

28. The modernization of the Tax department relies much on improving its working conditions. The implementation of the 2018-2021 action plan was largely delayed, owing in part to the COVID-19 pandemic. We will, as a top priority, renew our efforts to grant the tax administration additional resources to speed up its procedures and strengthen its capacity to enhance tax revenue mobilization. The Tax Department will relocate to the premises left by the Treasury, which will equipped by December 2022 to handle the computerization planned under the World Bank project for mobilization and management of domestic resources (PROMOGRI) and will benefit from the installation of the Integrated Financial Management System (IFMIS) in line with the modernization reforms conducted with IMF assistance. The computerization of the tax department will be organized under 12 modules, with the first four modules (registration, monitoring of tax obligation, online filing procedures in LTO, and electronic VAT monitoring for commercial activities) expected to be implemented by end- 2022. The first module, e-registration has been in place since July 2022 and a circular was issued on November 11, 2022, to make mandatory for large taxpayers the electronic declaration of VAT (prior action). We will put the IT solutions in place to enable large taxpayers to submit their returns electronically (end-January 2023 SB). In addition to the payment through mobile phones initiated in 2021, the Tax department will introduce and implement by end-December 2022 a mobile phone application for small taxpayers to declare and pay some presumptive taxes. We will continue developing quality human resources to sustainably boost the performance of the tax department.

29. We will continue to strengthen the customs administration. Significant progress was achieved in 2021. Out of 64 customs offices, 44 have been computerized, with the remaining to be computerized by 2023. The migration to ASYCUDA World has been in progress, as three offices installed it in November 2022, relevant legal documents will be incorporated in the system in December 2022, and the new system will be deployed in the other main offices by end-March 2023. In 2022, we will target to realize full payment of customs revenues through the banking system. In addition, we will issue a Code of Ethics for customs officers to follow the best practice and improve efficiency. We have signed an agreement with the Cameroonian Customs authorities in June 2021 to strengthen the exchange of information and enhance customs revenue collection as 80 percent of

Chad's imports transit through Cameroon. We are also discussing with partners in Sudan and Niger ways to strengthen cooperation and collaboration. With the help of IMF technical assistance, work will continue on customs valuation control, and on reinforcing the monitoring of customs exemptions.

30. We will reinforce further the collaboration between tax and customs administrations. Progress in this direction has already been accomplished in recent months. The 2022 Budget law requires that all businesses provide their tax identification numbers (TIN) on their commercial documents (invoices, contracts, letters, customs documents, various declarations). If a business fails to provide its TIN, it will be subject to a withholding tax corresponding to 15 percent of the value of imports (instead of 4 percent) and it will not obtain deduction of its VAT payments from the Treasury. In addition, the tax administration maintained frequent communication with Customs about the list of active taxpayers and cross-checked taxpayer files. Such exercise helped Tax Administration Department to identify new taxpayers in 2021. Once the modernization of the Tax Administration Department is completed, the government will work towards integrating the computer system between Customs and Tax Departments to speed up the exchange of information.

Public Financial Management Reforms

31. The Government is aware of the importance of a sound and transparent public financial management to achieve the program's objectives. While recognizing the progress made in integrating all CEMAC directives within the Chadian legislation, the Government has decided to give an impetus to reforms in the context of the Public Financial Reform Strategy (SRFP) for 2022-27, which focuses on the modernization, digitalization and territorial decentralization after long delays due to COVID and other interruptions. The strategy, which updates the Strategy for the Development and Modernization of Public Finance Management (SDMFP) of April 2013, was prepared in mid-2019 with the support from the IMF and the World Bank and adjusted in December 2021, as a strong and urgent response to weaknesses existing in our public financial management. The SRFP reflects the high priority put by the government on the computerization and the decentralization of government operations. It has been adopted by the Government, as planned before end-June 2022. Drawing on the SDMFP and on the 2014 budget organic law, the key policy reforms for the short and medium term relate to: (i) the implementation of an integrated financial management information system (IFMIS); (ii) progressive territorial decentralization in the medium term; (iii) strengthening wage bill management through IFMIS; (iv) improving budget preparation including introducing medium-term program budgeting, with a pilot phase starting in 2023; and execution, including through improvements in governance and public procurement; (v) enhancing budget execution and controls by also decentralizing payment orders and financial control to line ministries; (vi) the rationalization of expenditures, including transfers and subsidies; (vii) full implementation and rationalization the institutional and technical framework of cash management by 2023; and (viii) strengthening debt management., In 2023, we will focus on improving wage bill management (see details in the section of strengthening of this management) and on: (i) strengthening the links between the various revenue agencies to help identify non-compliers; and (ii) developing an action plan for modernizing the public procurement system based on in-depth diagnosis and set up a computer system for systemic monitoring of public contracts to improve the accountability of agents in the procurement unit by 2023. Following the adoption of the regulation on the collection of beneficial ownership information (prior action), we will publish the full text of central government procurement contracts along with the names and nationalities of the beneficial owners of the awarded legal persons on an easily accessible government website (end-July 2023 SB). The implementation of the SRFP will be supported by an FAD Resident Advisor, who will work part time to help achieve expected results.

32. The Ministry of Finance and Budget has revamped the information system by acquiring and implementing the IFMIS with the assistance of the Rwanda Cooperation Initiative (RCI). It remains a top priority for the government in terms of modernizing its operations and strengthening public financial management. The implementation of the IFMIS began in 2019 and involves two phases. The government has completed phase 1, which harmonized budget preparation and execution. Since 2021, budget has been executed based on the IFMIS, with the help of AFD**.** In particular, the wage bill for civil servants is fully managed through the IFMIS. Currently, the government is implementing phase 2, with a focus on the modernization of domestic revenue management and the installation of the accounting modules. The IFMIS also aims at achieving effective, accountable, and transparent PFM, through an integrated computerization of Government -wide financial transactions by various public entities. In particular, by strengthening the links between revenue and other financial agencies, the IFMIS is expected to help identify non-compliers. The IFMIS will be adapted to benefit all PFM reforms, including consistency and transparency in the expenditure chain, efficiency gains in the wage bill management, the integration of debt management, the modernization of the public procurement system, and improvements in the allocation and absorption of public resources, particularly for social sectors.

33. The Ministry of Finance and Budget will strengthen further the legal framework and monitoring efforts to enforce the existing regulation limiting the use of emergency spending procedures (DAO) and speeding up their regularization. Despite the establishment on November 2021 of a Single Window to accelerate the regularization of DAOs and the issuance in June 2022 of a circular to credit administrators reminding them that DAOs should only be used in an emergency (for spending related to security, health, natural disasters, and missions) and regularized within 60 days, the use of DAOs has remained elevated while regularization has lagged over the last few months. To reduce this use, and in line with Article 49 of decree No. 817 on the general regulation of public accounting, the Ministry of Finance and Budget will issue and adopt a Decree in January 2023 to clearly establish the principle on the use of DAO (including limiting this use of DAO to certain spending categories and the maximum regularization time period) and the monitoring and reporting requirements. It will also issue each January an executive order establishing a ceiling on the amount of expenditure through DAO for the fiscal year, which will be equivalent to 18 percent of total primary spending in 2023. In addition, and to improve the legal framework on DAO, the Ministry of Finance will also improve the efficiency of normal expenditure through: (i) strengthening training of officials in line ministries and MoF on the use of budget execution tools (such as cash plan, procurement plan and commitment plan) through the SIGFIP with assistance of resident PFM advisor; (ii) adopting and enforcing quarterly commitment plans in line with public procurement plans; (iii) strengthening the role of the Financial Controller throughout the expenditure chain and in the analysis of expenditure sustainability. Finally, we will prepare a three-year public investment program (new end-June 2023 structural benchmark), which will be linked to the introduction of budgeting of investment expenditure in multi-year commitment authorization and payment appropriations.

34. **We will also take quick action to address the PFM weaknesses highlighted by the recent repayments of unvalidated domestic liabilities.** These repayments, amounting to CFAF 14 billion in the first half of 2022, were made through emergency spending procedures (DAO) and involved liabilities mostly accumulated before 2015 but not reported by line ministries when an audit was conducted in 2019. To limit the accumulation of domestic payment arrears and their clearance via DAO, the ministry of finance will ask the Court of Accountants to conduct an external auditing of domestic payment arrears including the CFAF 14 billion reimbursed during the first half, and to establish a monthly settlement plan in line with available cash. Based on the auditing result, we will also sanction ministries/authorizing officers who initiate irregular expenditure to avoid the accumulation of unreported arrears.

Strengthening of Wage Bill Management

35. **Containing the wage bill remains a key element of our medium-term fiscal adjustment**. The government is committed to bring the wage bill back to 7.8 percent of non-oil GDP by end-2024 and to contain the wage bill at CFAF 491 billion in 2022. This will be achieved thanks to reforms implemented since 2021:

- civil servants' wage bill management was incorporated into the IFMIS in 2021. Its implementation is expected to generate significant savings, by avoiding undue benefit payment thanks to better staff controls and the strengthening of security through a stricter attribution and control of access rights.

- about 95 percent of the biometric census of civil servants conducted since 2021 has been completed, with about 2,500 staff still to be verified. The census will help establish a reliable payroll database. The government will conduct an audit on the census by Inspector General of Finance to further strengthen its accuracy and remove potential redundancies.

- an agreement was signed with a local telecommunication company for the payment of wages through mobile money in areas that are not covered by banks. Some 10 000 kiosks were opened in the countryside to that effect.

- the Government is committed to rationalize the wage bill and control recruitment to the civil service within the limits of the commitments made in the budget as part of numerical replacements.

36. **Steps will be taken to harmonize the payroll with civil service management.** The planned establishment of a payroll monitoring committee was delayed in 2021. The government now intends to set it up by December 2022. It will be chaired by the Finance Inspector General (IGF) and include representatives from the payroll unit (Ministry of Finance and Budget) and civil service management (Ministry of civil service) and the HR Directors of other ministries. This committee will meet at least once every quarter to monitor developments in the wage bill and civil service reforms,

including the cleaning up and updating of the payroll, to ensure consistency and the attainment of wage bill objectives. It will report on the wage bill developments quarterly to the Minister of Finance and Budget. The government will formalize the legal framework of relations between the Human Resources and the Payroll departments for the maintenance of the payroll file according to the biometric census (new structural benchmark for end-January 2023). In April 2022, we benefitted from an IMF TA mission on the wage bill, which provided recommendations on the next steps to strengthen wage bill management**,** including: (i) limiting the wage bill growth maintaining the value of the index point (*point d'indice*) which enters into the calculation of base salaries at its current level, and refrain from any discretionary increases in pay scales, allowances, the AGS (*Augmentation Générale Spécifique*) salary uprating, and any other components of overall compensation or reducing the replacement of civil servants leaving non-essential positions without harming public services; (ii) and improving forward-looking wage bill management and coordination between the Ministry of Finance and the Civil Service Ministry. We will adopt a regulation to establish a consultation framework co-chaired by the ministers in charge of the Civil Service and Finance, responsible for drawing up medium-term staffing plans for each ministerial department and for calibrating the number of new students entering relevant training schools and anticipated civil servant recruitment (new structural benchmark for end-August 2023).

37. Over the medium term, and with the IMF assistance, the Government will implement structural reforms, aimed at:

Strengthening the budgeting of the wage bill:

- Align the wage bill budget procedures with the recommendations of Fiscal Affairs Department's manual.
- Based on the employment ceilings by ministries and institutions in accordance with the provisions of the organic finance law (end-December 2022 structural benchmark), we will prepare a specific budget annex for the wage bill presenting a consolidated vision for the public service as well as the evolution of the workforce by ministry or institution.
- Improve the reliability of information on the determinants of changes in payroll and workforce flows, in accordance with the recommendations by IMF TA.

Updating and periodically checking the payroll file:

- Generate monthly statement of the employees and payroll breakdown by department;
- Conduct on-site/off-site documentary check on any irregularities;
- Use IFMIS to automatically share new pensioners information with CNRT to ensure the timely termination of the payment of their wages;
- Increase security/reliability for all administrative documents and acts (diplomas, advancements, etc.). Conduct periodic audits of the payroll file.

Territorial Decentralization

38. The government has initiated a territorial decentralization program. This program will help ensure that the PFM reforms and associated measures benefit all provinces. Modernization and digitalization efforts under way are expected to facilitate the delivery of goods and services to citizens in all provinces despite the long distances. Decentralization will not only improve the representativity and the authority of the state over territories but also reduce regional disparities. In January 2022, the wage management based on the IFMIS was introduced in Moundou as a pilot case.

Budget Preparation and Execution

39. The Government will pursue reforms to strengthen budget preparation and execution by 2023. Reforms will focus on (i) improving the expenditure chain and reducing the use of emergency procedures (DAO); (ii) implementing the new budget classification recommended by AFRITAC and improve accounting and fiscal reporting; (iii) elaborating annual commitment plans and annual public procurement plans; and (iv) improve cash management.

40. The Government will strengthen accounting and fiscal reporting by 2023. The Government will use a new economic classification of expenditure recommended by the September 2020 AFRITAC technical assistance mission. The new classification is expected to improve the efficiency and transparency of budget execution in line with the organic budget law of 2014. Before being applied, we will first ensure its consistency with the Government chart of accounts. We will also confirm that the IFMIS is aligned with the budget classification. Over the medium term, we plan to upgrade the State's accountants' network and organizational chart of the Treasury department to implement the transition to accrual accounting.

41. We will reinforce the forecasting framework for budget execution. Proper forecasting permits a smooth budget execution, ensuring resources are allocated as budgeted and avoiding the accumulation of arrears. We will strengthen the articulation of the priority objectives of national and sectoral policies with macroeconomic and budgetary constraints as well as budgetary programs by 2022 and continue to strengthen the macroeconomic framework and the macro-fiscal function, consolidate multi-annual, annual and intra-annual forecasting and simulation capabilities for resources and budgetary charges and strengthen the identification, monitoring and management of fiscal risks by 2023. We will also strengthen our oil revenue forecasting tools, debt dynamics forecasting frameworks and the Medium-term Debt Management Strategy (MTDS) by end-2022. We will also anchor our macro-fiscal and programmatic frameworks on the National Development Plan (2022-2026). To improve budget execution and better monitor expenditure, we will adopt a strategy and timetable to progressively consolidate the Treasury Single Account (TSA) assisted by the resident advisor (new end-September 2023 SB).

42. The Government is committed to improving public investment. We will continue to improve the design and development of the public investment program (PIP) and consolidate a three-year public investment program (new end-June 2023 SB) as recommended by the July 2018 IMF and May 2022 Public Investment Management Assessment (PIMA) TA missions, respectively. In particular, the PIP should only include projects that are mature with available funding, so that they can be implemented in a timely manner. This is in line with the new framework decree 2020/PR/2020 of October 8, 2020, on project prioritization and selection, including criteria on economic efficiency as well as the social, gender, regional equity, and environmental impact. The PIP should also be in line with the MTDS, to ensure that the PIP maintains debt sustainability. To enhance the efficiency of public spending, particularly in the social sectors, we will pursue reforms in the planning, budgeting, implementation and transparency of public investments, relying on the National Commission for the Management of public investments (CONAGIP).

43. The cash management system will be improved to minimize borrowing costs and avoid the reemergence of arrears. The Cash Plan Committee in charge of cash flow forecasts and management will refine the monthly cash flow plan— annual cash flow plans will continue be included within the budget (in line with the CEMAC Directive) and updated on a semi-annual basis—and effort will be put on strengthening the responsiveness of the Committee to update revenue and expenditure forecasts. With the installation of the IFMIS, we will use an electronic management platform to manage the payment of expenses. Over the medium term, we will finalize and operationalize the TSA including the creation of sub accounts for authorized accountants, and the repatriation of public resources from commercial banks to the TSA. The repatriation will be made in a way that does not disturb the local banking sector.

Medium-Term Program Budgeting

44. The government will make further progress towards program budgeting. Progress has been made in mastering the tools and developing and expanding the medium-term expenditure framework and medium-term budgetary framework. In early October 2020, a workshop was organized to update the annual performance projects (PAP) of 28 sectoral ministries in the context of the preparation of the 2021 budget law. This is an important step towards the preparation of program budgets, which started the preparation of PAPs in 5 "pilot" ministries (Health, Education, Infrastructure, Agriculture, and Finance and Budget) with the technical assistance from the World Bank, UNICEF and the UNDP. Following the preparation stage with the technical assistance from the EU, program budgeting will be introduced in the 2023 budget law.

45. The government is in the process of improving the efficiency and transparency of public procurement. We will strengthen the capacity of the Public Procurement Regulatory Authority so that it can ensure that the procurement code and regulations are respected. The government will develop an action plan for modernizing the public procurement system based on in-depth diagnosis and a computer system for systemic monitoring of public contracts to improve the accountability of agents involved in the procurement process. The procurement code was revised in 2020 to remove constraints that limited absorption, including raising the threshold and simplifying the approval process, and to promote woman entrepreneurship. The legal framework for sanctions on public procurement will also be strengthened. Deviations from the procurement code, including market segmentation, will be severely punished. The General Directorate of Control of Public Procurement (DGCMP) will continue to publish a quarterly bulletin. With the help from IMF Legal Department in March 2022, we will adopt a regulation to allow the government to (i) collect beneficial ownership information of legal persons bidding on central government procurement contracts; and (ii) publish the full text of central government procurement contracts along with the names and nationalities of the beneficial owners of the awarded legal persons on an easily accessible governmental website (Prior Action). After the regulation was adopted, we will publish the full text of central government procurement contracts (including the names and nationalities of the beneficial owners of awarded legal entities (end July 2023 SB).

Rationalization of Transfers and Subsidies

46. Steps will be taken to rationalize transfers and subsidies. The autonomous communities, the regulation authorities, agencies, offices, and public establishments benefiting from transfers, management committees as well as projects on external financing eligible for national procedures, must strictly comply with provisions of the Public Procurement Code. In line with the technical assistance provided by AFRITAC during 2020-21, the Government will submit by end-2022 to the National Transition Council draft legislations on public establishments and state-owned enterprises (SOEs) and will adopt by June 2023 their implementing regulations. The aim of the reform is to improve their financial management and accountability, and to reduce transfers and subsidies. Over the medium-term, an assessment of fiscal risks management will be conducted and published in an appendix to the annual budget law dedicated to public entities (public agencies, SOEs). The appendix will also provide details on transfers and subsidies as well as own resources.

47. Improving the financial viability of the National Electricity Company (SNE), and hence reducing the need for fiscal transfers to SNE will continue to be a key priority. Since 2020, Government transfers to SNE are reflected in the budget. In the medium term, the current system of transfers to SNE in the form of diesel and HFO for electricity generation will be progressively replaced by monetary transfers that will be made in the context of the performance contract. There will also need to be a clear distinction between transfers that are subsidies to the sector and effective payments for electricity consumption of the public sector and related entities, which is not currently the case. To help us do that assessment and better understand the scope of the subsidies to electricity and petroleum products and gradually remove them while enhancing social transfers to mitigate its impact on the vulnerable groups, we have secured a technical assistance from the IMF in early 2023. A performance contract will be adopted by end-December 2022 and will set several performance indicators aimed at improving SNE's commercial and operational performance, and hence improving SNE's ability to recover costs and improve its financial viability. This shall include a revenue protection plan, improving the billing and recovery rate from both private and public entities, given the low level of revenue collection seen today. In order to make the sector financial sustainable, a competitive procurement of new generation projects and ending any unsolicited bids is essential. The sector reforms will be also supported by gradual tariff adjustments to make sure real tariffs are not decreasing over time, also in view of the relatively higher inflation. Improving financial management processes of SNE will be essential to attracting private investment especially in renewable energy, needed to expand the generation capacity and considerably increase access to electricity in the country, with resort to sovereign guarantees only when essential. To help create conditions for cost-effective electricity access extension in a financially sustainable manner, the World Bank is supporting these sector reforms under an ongoing technical assistance project to Chad. To increase access to electricity, which is currently weak and unreliable, the Government amended the legal framework to liberalize the production and distribution of electricity and the 2020 budget law provided tax incentives for investment in green energy.

D. Debt Management

48. **The Government is committed to refrain from non-concessional borrowing and to maintain debt transparency**. In view of the already heavy debt burden, the Government will continue to ensure that all external financing agreements, both for budget support and investment projects, are on concessional terms (at least 35 percent grant element, see TMU), in line with the envisaged reduction in the risk of debt distress. 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). We will continue to publish the quarterly public debt statistics bulletin on the website of the Ministry of Finance and Budget. The maintenance of a comprehensive and transparent database of debt contracts will facilitate proper debt servicing. Details of all new contracted loans will be communicated to the debt management department as well as the IMF as soon as it is considered, and before it is contracted.

49. **Steps will be taken to strengthen debt management capacity.** Debt management continues to be weak, due to low capacity, low resources, and poor coordination among entities intervening in debt contracting and management. Before end-June 2022, the Government will implement recommendations made by IMF technical assistance aiming at: (i) reforming the roles and structures of debt management by creating a department in charge of public securities, bond issues and rating; (ii) improving communication among responsible entities (contracting, disbursement, issuing of securities, debt service payment); and (iii) augmenting the resources applied to debt management. The World Bank and IMF are also expected to provide assistance that would strengthen capacity at the Debt Directorate, including the analysis of debt sustainability (DSA) and through the quarterly publication of a public debt bulletin. The World Bank has also been helping in recording debt contracted by SOEs, which will improve debt coverage in the DSA. The EU will help in upgrading the debt reporting system (SYGADE) and the UNCTAD will be providing the necessary training to staff. An agreement was reached between the Treasury and BEAC, which includes some procedural changes that will allow to process the regular payment of the debt service with some flexibility in meeting the FOREX requirements, to guarantee that payments are met in a timely manner. A strengthening information exchange between institutions involved in debt management and the holding the monthly debt meetings will help ensure that the agreement is properly implemented.

E. Improving the Business Environment

50. The Government is determined to reform the business environment to make it attractive to the private sector in an effort to promote inclusive growth and economic diversification. In early 2020, the UNECA completed important diagnostic work (Industrialization and Economic Diversification Master Plan, PDIDE) that demonstrated strong potential for economic diversification in Chad. The government will take measures to ensure a stable regulatory environment for SMEs, even-handed and consistent rule of law and efficient Government services. Several structural reforms are envisaged including: reforming the SNE; modernizing tax and customs administration; adopting and implementing a reform strategy for SOEs, including a framework to reduce transfers; streamlining procedures for the creation of SMEs; improving access to financing; continuing to improve the transparency in the oil sector; and taking measures to reduce corruption and strengthen the rule of law.

51. In this context, the Observatory for the Business Environment and the National Competition Council (CNC) will be made operational by June 2023. The Government is committed to fostering entrepreneurship and economic engagement for women and the youth and improving access to finance. In this pursuit, it has established a National Youth Entrepreneurship Fund that is now fully operational and will further seek the assistance technical and financing from the World Bank and the African Development Bank to further help achieve this objective. The Government also established an Observatory for the promotion of gender equality and equity.

F. Transparency and Governance

52. Good governance, strong rule of law and effective anti-corruption framework will be a key factor in reviving private sector activity. To implement the United Nations Convention against Corruption (UNCAC), which entered into force for Chad, by accession, on June 26, 2018, the Government will seek, as soon as the new constitution is promulgated, support from the UN to align the present penal code with the convention and strengthen the fight against corruption. Once the new constitution is adopted, the Government will engage with IMF staff to design an asset declaration regime in line with the applicable international good practices (in particular the G20 High Level Principles on Asset Disclosure by Public officials) including in the context of upcoming constitutional reforms. The constitution includes categories of public figures and State officials who are required to declare their assets when taking up and leaving office. However, compliance is very low, partly due to the absence of an implementing law. Responsibilities of anti-corruption bodies (IGF, IGE and the Chamber/Court of Accounts) will be clearly delineated, adequate resources will be provided to anti-corruption activity, and anticorruption staff will be selected under a merit-based system and will need to meet stringent ethics standards or face stiff penalties. The Government is committed to supporting the activities of the National Agency for Financial Investigation (ANIF), Chad's financial intelligence unit (FIU), including by augmenting its human resources. The Government will assess corruption risks during the transition period and craft an action plan to mitigate those risks, to be shared with the Fund and published by the time of the third review.

53. Consistent with its commitment to full transparency in the use of COVID-19 resources, the Government published on June 3, 2022, the ex-post compliance audit of COVID 19-related expenditures. The independent auditor notably verified that all COVID-related resources had been recorded exhaustively and accurately in the dedicated special account, that the expenses financed from this account had been authorized under the same conditions as the operations of the General State Budget according to the emergency procedures, and that public procurement procedures were carried out in line with Decree No. 1025/PR/MFB/2020 of May 29, 2020, derogating from public procurement rules concluded in the context of the fight against the pandemic. The auditing report also found weaknesses in the validation of procurement needs, the preparation of a database to record all the procured supplies and monitor their use, which partly reflected the urgency to procure goods to fight the pandemic as well as limited capacity.

54. The Authorities are committed to continuing their efforts to improve transparency and oversight of the oil sector. Chad joined EITI in 2010 and is the first country to include oil transport and refining in the scope of its EITI reporting. In May 2019, EITI Board agreed that Chad has made "meaningful progress" in implementing the 2016 standards and will evaluate its implementation of the 2019 standards in December 2022. The Government has made significant progress in disclosing contracts and licenses involving the petroleum sector with support from the World Bank and has published, certified and verified annual financial reports for 2017-2018 for SHT (Société des Hydrocarbures du Tchad) and its subsidiaries. Chad is also one of 14 countries published its EITI report 2019 under flexible measures. The Government will continue to publish quarterly notes on the oil sector to promote transparency in the sector (continuous structural benchmark). Also, by end-2022, we will launch an international tender for the independent audit of the national oil company (SHT) so as to identify the governance issues that allowed its senior managers to embezzle more than CFAF 10 billion. This audit, which will be conducted by an international audit firm in cooperation with the general finance inspectorate and the court of accountants, will also make recommendations aimed at preventing any such embezzlement in the future. The audit report will be published as well (new structural benchmark, end-June 2023).

55. The government will speed up improvement in fiscal data dissemination and quality. Due to the pandemic and to security issues over the past 2 years**,** the government has delayed the implementation of the IMF TA recommendations to address the weakness in the source data and the institutional framework with regard of preparation of Table of Financial Operations of the State (TOFE). Currently, the TOFE is not in line with CEMAC requirements. To improve data quality, we will therefore adopt a decree to establish a TOFE Committee by end-December 2022 in line with the TOFE Decree 2016 to guide the development of TOFE and improvement of government financial statistics in general, supported by the IMF technical assistance. We will also dedicate a team to work on the development of TOFE, expand data collection and implement a detailed action plan to meet the CEMAC requirement. In the medium term, the completion of the IFMIS, especially the accounting phase, will also help us improve data quality.

G. Strengthening the Banking Sector

56. Strengthening the financial sector will contribute to supporting growth and reducing poverty. The Government continues to strengthen the local banking sector, especially public banks, in order for them to finance domestic activities. In this context, the timely repayment of Government bank debt obligations supports the improvement in the banking system liquidity position, as well as the repayment of domestic arrears in the context of the domestic arrears clearance plan, which will enable the private sector to pay its loan obligations to banks. The authorities remain committed to; (i) enforcing the performance contracts for the two public systemic banks (CBT and BCC) and supporting the implementation of their restructuring and funding plans (approved by the COBAC/BEAC); and (ii) the Treasury remains committed to the continued monthly repayment of the direct debt to BCC (CFAF 250 million) to be fully repaid by August 2023. Over the medium term, the Government commits to; (i) reduce its stakes in banks; (ii) explore possibilities of increasing private sector participation in the capital of CBT; and (iii) support COBAC's request for gradual capital restoration plans, to make further capital available if a reassessment of the bank's financial position shows further weaknesses, given the adverse impact of the COVID-19 pandemic. The Ministry of Finance and Budget will monitor the developments in distressed loans and assess the impact on the banking sector of the recent policy tightening by BEAC and of the COBAC's unwinding COVID-19-related special regulatory measures.

57. Financial inclusion is an important factor for poverty reduction. The Government will improve access to financial services and strengthen financial inclusion by encouraging the creation of strong and secure microfinance institutions, and by channeling through banks Government transactions ("*bancarisation*"). The "*bancarisation*" will allow the opening of accounts by greater numbers of users, while the payments of wages, taxes and customs duties through mobile money will promote the use of modern payment methods. With the support of the COBAC, The Government will strengthen the governance and regulatory and supervisory frameworks for microfinance institution as well as security for mobile money transactions. To safeguard financial integrity, an effective AML/CFT regulatory and supervisory framework for microfinance institutions and mobile money will be implemented. The Government will also strengthen the loan resolution framework to reduce the loan recovery risk, which drives up the loan rates.

PROGRAM MONITORING

58. To monitor the implementation of measures and attainment of objectives under the program, the Government will strengthen the Negotiation Committee based in the Ministry of Finance and Budget. A permanent secretariat has been attached to the Committee, with the aim of collecting macroeconomic data necessary for program evaluation and monitoring the implementation of structural reforms. The Negotiation Committee will remain in constant communication with the IMF's Resident Representative office in Chad and will organize meetings between the Authorities and the IMF. We will also collaborate with Fund staff to ensure that a fiscal safeguards' review is finalized by the time of the third review under the ECF arrangement.

59. The program will continue to be monitored through semi–annual reviews by the IMF Executive Board on the basis of quantitative performance criteria, indicative targets, and structural benchmarks (Tables 3 and 4 attached). The indicators are outlined in the Technical Memorandum of Understanding (TMU) attached. The third review will be based on end-December 2022 test dates and should be completed on or after April 14, 2023. The fourth review will be based on end-June 2023 test dates and should be completed on or after September 15, 2023. The fifth review will be based on end-December 2023 test dates and should be completed on or after April 15, 2024. The sixth review will be based on end-June 2024 test dates and should be completed on or after September 16, 2024.

Table 1. Chad: Performance Criteria and Indicative Targets, December 2021–June 2022
(billions of CFAF; cumulative from the beginning of the year, except where otherwise indicated)

	End-Dec 2021 targets	Adjusted targets	Authorities' estimates	Status	End-March 2022 indicative targets	Adjusted indicative targets	Authorities estimates	End- June 2022 targets	Adjusted targets	Authorities' estimates	Status
Quantitative Performance Criteria											
1. Ceiling on new external arrears of the government and non-financial public enterprises[1]	0	-	0	met	0	-	0	0	-	0	met
2. Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises[1]	0	-	0	met	0	-	0	0	-	0	met
3. Floor on non-oil primary budget balance (NOPB)[2]	-412	-440	-497	missed	-95	-114	-123	-156	-209	-239	missed
4. Ceiling on the stock of domestic payment arrears by the government[4]	-	-	-		-	-	-	381	328	335	missed
Indicative Targets											
1. Ceiling on net domestic government financing[3]	43	-14	306	missed	53	11	83	-8	-115	41	missed
2. Ceiling on the stock of domestic payment arrears by the government[4]	391	363	391.0	missed	391	372	366	-	-	-	
3. Floor on government tax revenue, excluding tax revenue from oil companies[3]	477	-	482	met	110	-	129	253	-	290	met
4. Ceilling on wages and salaries	425	-	459	missed	129	-	129	219	-	254	missed
5. Floor for poverty-reducing social spending[5]	284	-	265	missed	76	-	80	151	-	161	met
Memorandum items											
9. Emergency spending procedures-DAO (Percent of primary spending) [6]	*19*	-	*21*		18	-	27	18	-	35	
10. Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO) [6]	*80*	-	*7*		50	-	0	70	-	13	
11. External concessional borrowing (US$ million)	*0*	-	*0*		0	-	0	0	-	0	
12. Oil Revenue [7]	*374*	-	*487*		97	-	180	236	-	449	
13. Grants [8]	*23*	-	*24*		7	-	0	0	-	0	

Sources: Chadian authorities; and IMF Staff.

* The adjustors for the QPCs and ITs are defined in in the December 2021 TMU.
1/ Applies continuously.
2/ NOPB: Non-oil revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).
3/ See TMU. The QPC level compares to the Program request, which does not take into account the amount issued to close the residual financing gap in 2021.
4/ Stock of verified arrears as defined in line with the TMU.
5/ 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).
6/ 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.
7/ Oil Revenue is the sum of direct receipt and the sale revenue of government oil net of operating and transportation cost.
8/ Budget grants.

Table 2. Chad: Structural Benchmarks, December 2021–November 2022

Structural Benchmark	Test date	Status
1. Publication of a quarterly note on the oil sector, in line with the template designed in consultation with Fund staff, including detailed information on debt service to Glencore.	Quarterly, starting end-December 2021	Met 1/
2. Completion and publication of ex-post compliance audit of COVID expenses by a reputable international auditing firm.	End-December 2021	Not met 2/
3. Publication of semi-annual note which lists all new tax exemptions (including renewal and extension of exemptions).	Semi-annual, starting end-January 2022	Met 3/
4. Allocate VAT revenues in the VAT escrow account at the BEAC.	End-February 2022	Not met 4/
5. Publish on-line on an easily accessible governmental website the full text of all central government procurement contracts along with the names and nationalities of the beneficial owners of the awarded legal entities.	End-March 2022	Not met
6. The Government to finalize and adopt the PFM strategy, in line with IMF Technical Assistance.	End-June 2022	Met
7. Implement employment ceilings, in accordance with the provisions of the 2014 organic law on public finance.	End-August 2022	Not met 5/
8. Implementation of the ASYCUDA Exemption Module to process all customs exemptions requests and authorizations.	End-November 2022	Not met 6/

1/ The authorities published the quarterly note on the oil sector for December 2021, March 2022, and June 2022.
2/ The audit report was published on June 3, 2022: https://www.finances.gouv.td/index.php/component/k2/item/644-rapport-de-l-audit-fs-covid-19.
3/ The Ministry of Finance published a full list of existent exemptions on its website: République du TCHAD - Ministère des Finances et du Budget - Rapports (gouv.td). A list of extension of tax exemptions for 2022 was published on July 27, 2022 as well.
4/ The authorites have started allocating some revenue to the VAT escrow account since June, 2022.
5/ To align with the budget preparation, the test date is proposed to move to end-December 2022.
6/ Three customs office have had the exemption module in place since early November, 2022 and the authorities updated exemption legal documents in the system in December. The ASYCUDA world will be expanded to other main offices by end-[March, 2023].

Sources: Chadian authorities and IMF staff.

Table 3. Chad: QPCs and ITs*, December 2022–December 2023

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

	End-Dec 2022 QPCs	End- March 2023 ITs	End June 2023 QPCs	End-Sept 2023 ITs	End-Dec 2023 QPCs
Quantitative Performance Criteria					
1. Ceiling on new external arrears of the government and non-financial public enterprises[1]	0	0	0	0	0
2. Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises[1]	0	0	0	0	0
3. Floor on non-oil primary budget balance (NOPB)[2]	-325	-95	-177	-248	-310
4. Ceiling on net domestic government financing[3]	-83	118	90	-49	-254
5. Ceiling on the stock of domestic payment arrears by the government[4]	298	288	278	268	248
Indicative Targets					
6. Floor on government tax revenue, excluding tax revenue from oil companies[3]	535	142	286	433	588
7.Ceilling on wages and salaries	500	124	248	372	496
8. Floor for poverty-reducing social spending[5]	255	68	132	195	258
9. Emergency spending procedures-DAO (Percent of primary spending)[6]	*35*	*18*	*18*	*18*	*18*
10. Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO)[6]	*70*	*55*	*75*	*80*	*80*
Memorandum items:					
11. Oil Revenue [7] (net of Debt service to Glencore)	*744*	*139*	*353*	*642*	856
12. Grants [8]	*13*	*0*	*0*	*0*	*64*
13. Election spending	*0*	*0*	*7*	*14*	*22*
15. Budget spending as part of the food security national response plan	*30*	…	…	…	…

Sources: Chadian authorities; and IMF Staff.

* The adjustors for the QPCs and ITs are defined in the TMU.

1/ Applies continuously.

2/ NOPB: Non-oil revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment). This excludes inkind transfers to the national electricity company (SNE).

3/ See TMU.

4/ Stock of verified arrears as definied In line with the TMU.

5/ 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).

6/ 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.

7/ Oil Revenue is the sum of direct receipt and the sale revenue of government oil net of operating and transportation cost, and net of debt service to Glencore for the purpose of computing the adjusters.

8/ Budget grants.

Table 4. Chad: Prior Actions and New Structural Benchmarks, 2022–2023

Measures	Due Date
Proposed Prior Actions	
Adopt a decree to allow the government to (i) collect beneficial ownership information of legal persons bidding on central government procurement contracts; and (ii) publish the full text of central government procurement contracts along with the names and nationalities of the beneficial owners of the awarded legal persons on an easily accessible governmental website.	
Adopt a regulation to make mandatory for large taxpayers the electronic declaration of VAT form.	Met
Revised Structural Benchmark	
Include in the draft 2023 budget law ceilings on the number of civil servants by ministry and institution.	End-December 2022
Proposed New Structural Benchmarks	
Publish a list of all exemptions arising from special tax regimes (investment code, mining code, and ad hoc agreements), including the companies' names and the type and duration of each exemption.	End-December 2022
Take technical and legal measures to enable large taxpayers to submit their tax returns electronically.	End-January 2023
Formalize the legal framework of relations between Human Resources and Payroll departments for the maintenance of the payroll file according to the biometric census.	End-January 2023
Develop and consolidate a three-year public investment program.	End-June 2023
Publish an audit report on oil revenue collected by the Treasury, including through the Societé des Hydrocarbures du Tchad (SHT), conducted by an international auditing firm.	End-June 2023

Table 4. Chad: Prior Actions and New Structural Benchmarks, 2022–2023 (Concluded)

Adopt a regulation to establish a consultation framework co-chaired by the ministers in charge of the Civil Service and Finance, responsible for drawing up medium-term staffing plans for each ministerial department and for calibrating the number of new students entering relevant training schools and anticipated civil servant recruitment.	End-August 2023
Adopt a strategy and timetable for the gradual consolidation of the Treasury Single Account (TSA).	End-September 2023
Evaluate the evolution of VAT receipts over the last three years and audit the VAT declarations of the companies listed in 2022 in charge of withholding VAT.	End-December 2023
Periodic structural benchmarks	
Publish a quarterly note on the oil sector, in line with the template designed in consultation with Fund staff, including detailed information on debt service to Glencore.	Quarterly, starting end-December 2021
Publish a semi-annual note listing all new tax exemptions (including renewal and extension of existing exemptions).	Semi-annually, starting end-January 2022
Publish on-line on an easily accessible government website the full text of central government procurement contracts in the first half of 2023 along with the names and nationalities of the beneficial owners of the awarded legal entities	Semi-annual, starting end-July 2023

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 6, 2022. 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) data 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) prior actions and 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 Table 2. 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 subsector as defined in Government Finance Statistics Manual 2014.[1]

4. A public nonfinancial enterprise is a government–controlled corporation whose principal activity is the production of goods or nonfinancial services.[2] For the purpose of the program monitoring, these comprise: *Société Tchadienne des Eaux (STE), Société Nationale d'Electricité (SNE),*

[1] See GFSM 2014, paragraph 2.85–2.89.

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

Société des Télécommunications du Tchad (SOTEL), Société Tchadienne des Postes et de l'Epargne (STPE), Société des Hydrocarbures du Tchad (SHT), Nouvelle Société des Textiles du Tchad (NSTT), Socièté Nationale de Ciment (SONACIM Tchad), Société Industrielle de Materiels Agricoles et d'Assemblage des Tracteurs (SIMATRAC), Fonds d'Entretien Routier (FER), Société Nationale d'Exploitation Hôtelière (SONEXHO), Société Nationale des Mines et Géologies (SONAMIG), and Société Moderne des Abattoirs de Farcha (SMAF).

5. Oil revenue is defined as the sum of: (i) the gross sales revenue of Government 's crude oil 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 on production; (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 duties 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. Tax revenue, excluding tax revenue from oil companies, is defined as all the Government 's tax revenue, with the exception of oil revenue as defined under paragraph 5.

7. Exceptional receipts are defined as the following payments to the Government:

- 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 or form the 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, tax revenue, as defined in paragraph 6, and exceptional receipts, as defined in paragraph 7, will be shown in the breakdown of total Government revenue report.

9. Total Government expenditure is the sum of: expenditure on Government employees (wages, salaries, allowances, bonuses, etc., as provided in the document "*Masse salariale*", see Paragraph 11 for details); purchases of goods and services; transfers (including subsidies, grants, social benefits, and other expenses but excluding in-kind transfers to Société Nationale d'Electricité); interest payments; and capital expenditure. All these categories are recorded on a commitment basis, unless otherwise stated. Except for capital expenditure, which is defined in accordance with the Government Finance Statistics Manual 1986 (GFSM 1986), all other spending items are defined in accordance with GFSM 2014 (Chapter 6).[3] 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 follow the standard spending procedure. A standard procedure entails a chain that comprises the commitment ("*engagement*"), the validation ("*liquidation*"), the authorization of payment order ("*ordonnancement*"), and the payment.

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

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

13. Transfers are defined as Government current expenditure to individuals, private nonprofit institutions, nongovernmental organizations (NGO), 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 defined in accordance with paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 16919-(20/103) but also includes contracted or guaranteed commitments for which values have not been received. For purposes of these guidelines, the term "debt" is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will

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

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 loaned 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 that is denominated in Central African Franc (CFAF).
- External debt is any debt that 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, and non-concessional otherwise.[4] The grant element is defined as the difference between the nominal value of the loan and its present value, expressed as a percentage of the nominal value of the loan. The present value of the debt at the date on which it is contracted is calculated as the discounted sum of all future debt service payments at the time of the contracting of the debt.[5] 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 not paid after the due date (taking into account any applicable contractual grace periods), which are defined below:

[4] 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.

[5] 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.

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

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

17. The non–oil primary balance (NOPB) is defined as the difference between: (i) total Government revenue (excluding grants, oil revenue and exceptional receipts); and (ii) primary expenditure on a commitment basis, 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) Ministry of Education; (ii) Ministry of Health; (iii) Ministry of Women; (iv) Ministry of Agriculture; (v) Ministry of Livestock; (vi) Ministry of Environment; (vii) Ministry of Water and Sanitation in Rural and Urban areas; (viii) Ministry of Professional Training, and ix) Ministry of Higher Education.

19. Domestic 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 Government domestic financing is subdivided into net bank financing, net securitized financing, net Government financing from BEAC, and other non-bank financing. Net bank financing is defined as the change in the net Government position towards the domestic commercial banks. Net Government financing from BEAC is defined as the change in net Government position towards the BEAC and includes the disbursements by the IMF, net of amortization[6]. Net securitized financing includes the issuance of Government Treasury bonds,

[6] Net claims of the BEAC and domestic commercial banks to the government 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 government is defined by BEAC and represents the Government net position.

Treasury bills (includes prepaid interest) and loans in CFAF to domestic and regional banks net of related amortizations since the end of the previous year.

C. Quantitative Performance Criteria

20. The quantitative performance criteria and indicative targets listed below are those specified in Table 1 of the MEFP. [7] Continuous Quantitative Performance Criteria (QPC) require that at no point in time they are non-observed. Should any non-observance occur, the authorities would inform Fund staff promptly (regardless of the data reporting periodicity set forth in Table 2). 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 zero ceiling on the accumulation of any new external payment arrears** by the Government and public non-financial enterprises (debts guaranteed by the Government). 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, the 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. 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 in terms of key indicators in the DSA (based on consultation with IMF staff).

- **A floor for the non–oil primary balance**.

- **A ceiling on the stock of domestic recognized expenditure payment arrears**. Domestic arrears include (i) the stock of arrears established by an independent audit at CFAF 485 billion at end-2019; and (ii) the stock of recognized domestic payment arrears at the Treasury. As of end-December 2021, the stock of recognized expenditure payment arrears at the Treasury was at CFAF 106 billion based on information in the Table "*Reste à Payer*" (prepared by the Treasury).

- **A ceiling on net domestic Government financing,** as defined in paragraph 21.

[7] In addition to QPCs enumerated above, the following standard continuous performance criteria will also apply: (i) not to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions; (ii) not to introduce new or intensify existing multiple currency practices; (iii) not to conclude bilateral payments agreement that are inconsistent with the IMF's Articles of Agreement (Article III); and (iv) not to impose new or intensify existing import restrictions for balance of payments reasons.

D. Indicative Targets and Memo Items

The indicative targets and memo items listed below are those specified in Table 1 of the MEFP. Adjusters of them are specified in Section E below. Unless stated otherwise, all indicative targets will be assessed cumulatively from the beginning of the calendar year to the applicable test dates (the assessment period) specified in Table 1 of the MEFP.

Indicative targets

21. The indicative targets and details on their assessment are as follows:

- **A floor on Government tax revenue**, excluding tax revenue from oil companies.
- **A ceiling on wages and salaries**.
- **A floor on poverty–reducing social spending** equivalent to 34 percent of domestically financed primary spending (excluding transfers to the electricity company).
- **A ceiling on emergency spending procedures** (DAO), excluding the wage bill, military spending and debt service as a percent of primary spending excluding the wage bill and military spending. Military spending is spending by the Ministry of Defense, including Exceptional Security Expenses (DES) of section 88.
- **A floor on the 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.

Memorandum Items

- **Oil revenue** (US$ million).
- **Grants** (US$ million)**.**
- **Election spending** (CFAF billion)**.**
- **Budget spending as part of the food security national response plan** (CFAF billion)**.**

E. Adjustors to Performance Criteria and Indicative Targets

22. 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 revenue and grants are lower than the programmed amount, because of lower oil revenue or budget support, then the ceiling on the stock of domestic payment arrears will be adjusted upward by the amount of the shortfall up to the planned arrears repayment amount. The ceiling on net domestic financing will be adjusted upward by 25 percent of the shortfall not compensated for through reduction in arrears payment.
- If the total budgetary revenue and grants are larger than the programmed amount, because of higher oil revenue (excluding debt service to Glencore), budget support, and/or exceptional receipts,

the excess amounts –excluding the amounts placed in the Special Account of the Treasury for Oil Price and Production Smoothing—must be used through adjustment of a combination of the following elements:[8]

- the floor for the non-oil primary balance will be adjusted down by 25 percent of the excess amount;
- the ceiling on net domestic financing will be adjusted down by 50 percent of the excess amount; and
- the ceiling on the stock of domestic recognized expenditure payment arrears will be adjusted down by 25 percent of the excess amount.
- If in 2022, the expenditures on the national response plan for food security are lower than the programmed amount, the floor for the non-oil primary balance will be adjusted upward by the amount of the expenditure shortfall.
- If in 2023, the expenditures on the national response plan for food security are lower than the programmed amount, the floor for the non-oil primary balance will be adjusted upward by the amount of the expenditure shortfall.
- Should primary expenditure compression be needed, poverty-reducing social spending would be adjusted to the extent that it is reduced proportionally less than other domestically financed primary spending such that its ratio does not decline below 34 percent.

[8] Twenty percent of total surplus oil revenue-as defined in the Oil Price and Production Smoothing Law-will be deposited at the end of the year in the Special Account of the Treasury for Oil Price and Production Smoothing, up to CFAF 10 billion.

Table 1. Chad: Summary of Data to Be Reported

Data	***Provider***	***Periodicity and Target Date***[1]
Oil and non–oil revenue, by category *Collection situation* *Revenue position of the revenue–collecting agencies*	Ministry of Finance and Budget (Treasury)	Monthly, within 45 days of month–end
Quarterly Oil Sector Note	Ministry of Finance and Budget	Quarterly
Budget execution data, including on poverty–reducing social spending, showing commitments, validations, authorizations of payment order, and cash payments *Table showing the four phases; payroll table, including benefits*	Ministry of Finance and Budget General Budget Directorate DGB	Monthly, within 45 days after month–end.
Table of expenditure before payment authorization; TOFE, on a cash basis; *Comparative table on budget execution, consolidated balance tables (changes in debts, claims, etc.); and consolidated Treasury balance*	Ministry of Finance and Budget General Budget Directorate DGB DGTCP DGTCP	Monthly, within 45 days of month–end
Detailed budget execution information for transfers in the same classification as the budget	Ministry of Finance and Budget (General Budget Directorate)	Monthly, within 45 days of month–end
Detailed use of Government oil (4 million barrels) sold to the refinery, including the exact amount of the subsidy to the electricity company.	DGB SHT	Quarterly, within 45 days of the end of the quarter

Table 1. Chad: Summary of Data to Be Reported (continued)		
Details by project financed domestically, execution of the investment budget, with the information organized by Ministry	Ministry of Finance and Budget (General Budget Directorate)	Quarterly, within 45 days of the end of the quarter.
Information on DAO regularization	Ministry of Finance and Budget.	Quarterly, within 60 days after the end of the Quarter
Details, by externally financed project; investment budget execution; information organized by Ministry	Ministry of Finance and Budget (DGB) Ministry of Plan and International Cooperation (DGCI)	Quarterly, within 45 days of the end of the quarter.
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

Table 1. Chad: Summary of Data to Be Reported (continued)		
Information on external debt arrears (including those in local currency): i) updated list of stock of arrears broken down by creditors (which incorporates any rescheduling agreement with creditors); ii) information on repayment of arrears including amount paid and date on which payments were made; iii) information on any rescheduling agreement on the stock of external arrears at the beginning of the program period.	Ministry of Finance and Budget	Monthly, within 45 days of month-end
In case of missed external debt service payment the following information will be needed: i) the date of the missed payment; ii) amount of the missed payment and iii) creditor involved.	Ministry of Finance and Budget	Within 14 days of occurrence.
Details on the servicing of the domestic debt and payment arrears of the Government [2]	Ministry of Finance and Budget (Debt Directorate, DCP)	Quarterly, within 45 days of the end of the quarter.
Details on the servicing of the external debt of the Government [3]	Ministry of Finance and Budget DGTCP (Debt Directorate)	Quarterly, within 45 days of the end of the quarter.
Details on new loans contracted or guaranteed by the Government and public non-financial companies	Ministry of Finance and Budget (Debt Directorate) Ministry of Plan and International Cooperation (DGCI)	Within 45 days of transaction completion.
Monetary survey	BEAC	Monthly, within 45 days of month–end.

Table 1. Chad: Summary of Data to Be Reported (concluded)

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. Chad: Summary of Oil Revenue

CFAF Million	***2017***		***2018***	***2019***	***2020***	Unit
	Actual	***Projection***	***Projection***			
Production and Export Overiew						
Production Volume						Barrel
Export Volume						Barrel
Export Value						CFAF
Crude Oil supplied to SRN						Barrel
Crude Oil Received						
By the Government						Barrel
By SHT						Barrel
Total						Barrel
Total Oil Revenue						CFAF
Direct Receipt						CFAF
Net Sales Revenue						CFAF
Direct Receipt						
Profit Tax (in Cash)						CFAF
Statistical Fee						CFAF
Surface Fee						CFAF
Dividend						CFAF
Bonus						CFAF
Other Receipt						CFAF
in cash 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

Table 2. Chad: Summary of Oil Revenue (concluded)

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

INTERNATIONAL MONETARY FUND

CHAD

FIRST AND SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

December 7, 2022

Approved By
Vitaliy Kramarenko, Maria Gonzalez (IMF), Abebe Adugna, Marcello Estevão (IDA)

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

Chad's debt ratios have improved from the last DSA (December 2021) due to higher oil prices and the debt treatment agreed by official and commercial creditors under the G20 Common Framework. With the conclusion of this agreement, Chad is no longer in debt distress, but is at high risk of external debt distress as the external debt service-to-revenue ratio breaches its threshold in 2022-23[1]. This ratio is, however, expected to decrease below the 14-percent threshold in 2024 on account of the debt treatment signed under the G20 Common Framework. Downside risks remain high given the uncertainties around oil price volatility, increased insecurity, and social unrest due to the political transition, and possible shortfalls in financing. The risk of debt distress is expected to be 'moderate' by the end of the program period as the debt service-to-revenue ratio is expected to be below the threshold of 14 percent in 2024. The likelihood of this outcome is enhanced by the agreement on the contingent debt treatment and the implementation of the debt restructuring agreement with the main private creditor. The PV of total public debt-to-GDP indicator is above the 35 percent high-risk benchmark in 2022-23 associated with

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

[1] With a score of 2.30, Chad's composite indicator, which is based on the October 2022 WEO and the 2021 CPIA, signals a weak debt-carrying capacity.

heightened public debt vulnerabilities with a weak debt carrying capacity. Chad's public debt is assessed to be sustainable. Identified domestic and external funding sources together with the identified ambitious fiscal consolidation would be essential for debt to remain sustainable.

BACKGROUND

A. Debt Coverage

1. **Public debt coverage includes central state debt, as well as government guaranteed external debt owed by the public oil company** (*Société des Hydrocarbures du Tchad* or SHT). Almost all other public sector entities (including other state-owned enterprises (SOEs) and local governments) do not have access to external financing. The exception is the N'Djamena Oil Refinery (*Société de Raffinage de N'Djaména*, or SRN), in which the central government holds a 40 percent share, and which has two loans with CNPC Finance and EXIM Bank China. As in previous DSAs, external debt is defined on a currency basis. Therefore, CFAF-denominated debt contracted with the regional development bank (BDEAC)[2] and with bilateral creditors in the currency union (Cameroon, Equatorial Guinea, and Republic of Congo) are not considered external debt. Debt owed to Angola, which is being repaid in kind, is classified as external debt.

2. **The contingent liability stress test accounts for vulnerabilities associated with nonguaranteed SOE debt and contingent fiscal liabilities associated with financial sector recapitalization** (Text Table 2). 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 size of the contingent liabilities for the SOE debt is set at 9.5 percent, reflecting the liabilities of SRN, *Société Nationale d'Electricité* (SNE), and *Société Nationale de Ciment* (SONACIM) following the results of a 2017 SOE Census supported by the World Bank. The size of domestic arrears in 2021 amounted to CFAF 393 billion, about 7.5 percent of non-oil GDP. The authorities aim to reduce the stock of domestic arrears by CFAF 95 billion in 2022, about 1.7 of non-oil GDP, and by CFAF 200 billion over 2022-24 by increasing the amount of repayment gradually throughout the program period, depending on the availability of liquidity buffers created from oil revenues. The stock of audited domestic arrears reached CFAF 354 billion at end-2021, while the unaudited arrears (Reste A Payer) were at CFAF 39 billion. The audited arrears include arrears to banks and arrears to the domestic private sector.

B. Evolution and Composition of Public Debt

3. **Chad's public and publicly guaranteed (PPG) debt burden has been on the rise since 2019.** Gross public debt increased from 54.1 percent of GDP at end-2020 to 55.9 percent of GDP in 2021 (Text Figure 1), above the average for DSSI-eligible countries of 53 percent of GDP. This is due to the increase in domestic debt, from 27.6 percent in GDP in 2020 to 30.4 percent of GDP in 2021, as domestic financing significantly expanded to compensate for lower-than-expected external budget support. The stock of external debt decreased by about 1 percentage point of GDP to 25.5 percent of GDP in 2021. At end-2021, outstanding PPG external debt stood at US$2.9 billion.

[2] The *Banque de Développement des Etats de l'Afrique Centrale* (BDEAC) is the development bank of the CEMAC region. The main shareholder is BEAC (33.43 percent). CEMAC countries, including Chad, are equal shareholders (8.48 percent each).

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

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

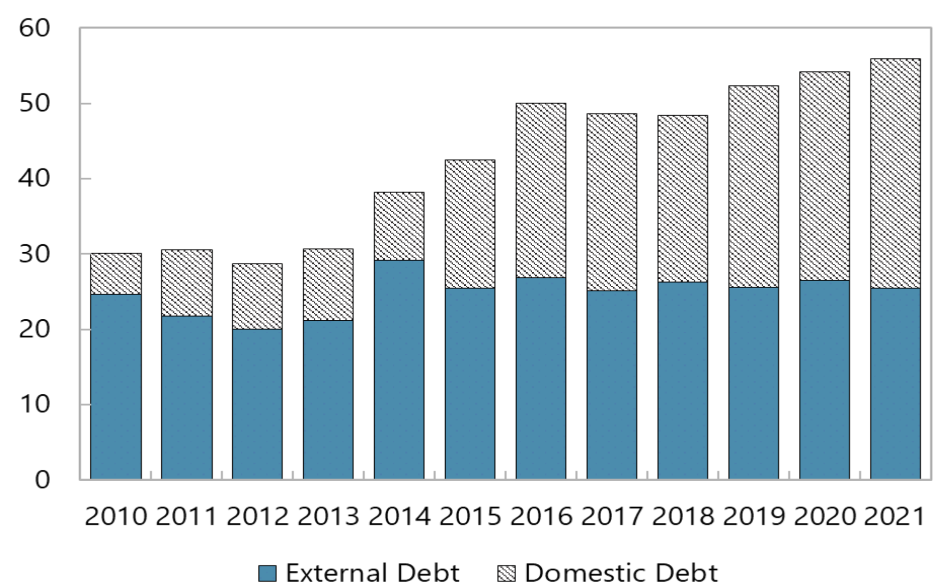
Public debt coverage and the magnitude of the contingent liability tailored stress test

		Default		Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt			
2	Other elements of the general government not captured in 1.	0	percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	9.5	From SOE census, 2017 levels.
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			14.5	

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

Text Figure 1. Chad: Public and Publicly Guaranteed Debt

(Percent of GDP)



Source: Country authorities, IMF and World Bank staff estimates

4. **The composition of external PPG debt is dominated by commercial, multilateral organizations, and non-Paris Club lenders**. (Text Table 2). The share of external debt is similarly split between multilateral, bilateral, and commercial creditors. However, non-Paris Club creditors hold the largest share of official bilateral debt. Nearly all commercial debt is held by one creditor.

Table 1. Chad: Decomposition of Public Debt and Debt Service by Creditor, 2021-23[1]

(US$ million, unless otherwise indicated)

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(In US$)	*(% total debt)*	*(% GDP)*	*(In US$)*			*(% GDP)*		
Total	6296	100.00	55.88	385	920	1089	3.42	7.07	8.00
External	2869	45.58	25.47	282	517	506	2.51	3.98	3.72
Multilateral creditors[2,3]	941	14.95	8.35	34	52	80	0.30	0.40	0.59
IMF	651	10.33	5.77						
World Bank	163	2.59	1.45						
African Development Bank	100	1.58	0.89						
Other Multilaterals	28	0.44	0.25						
o/w: IFAD	28	0.44	0.25						
Bilateral Creditors[2]	810	12.86	7.19	37	49	73	0.33	0.38	0.53
Paris Club	113	1.80	1.00	-	1	5	-	0.01	0.04
o/w: France	113	1.80	1.00						
Non-Paris Club	697	11.07	6.18	37	48	67	0.33	0.37	0.49
o/w: China	264	4.20	2.35						
o/w: Libya	263	4.17	2.33						
Commercial creditors	949	15.08	8.42	208	414	361	1.84	3.18	2.65
o/w: Glencore Energy	926	14.70	8.21						
o/w: Mega International (Taiwan, PoC)	10	0.16	0.09						
Other international creditors	170	2.69	1.51	25	20	20	0.23	0.16	0.15
o/w: Islamic Development Bank	80	1.26	0.71						
o/w: BADEA	70	1.11	0.62						
Domestic	3426	54.42	30.41	103	403	583	0.91	3.10	4.29
BEAC (incl. SDR allocation)	1006	15.98	8.93						
Arrears	676	10.73	6.00						
T-Bills (Net)	665	10.56	5.90	-	234	177	-	1.80	1.30
Bonds	281	4.46	2.49	-	21	142	-	0.16	1.04
Loans	799	12.69	7.09	40	63	75	0.35	0.48	0.55
Memo items:									
Collateralized debt[4]	926	14.70	8.21						
o/w: Related	-	0.00	-						
o/w: Unrelated	926	14.70	8.21						
Contingent liabilities	196	3.11	1.74						
o/w: Public guarantees	196	3.11	1.74						
o/w: Other explicit contingent liabilities[5]									

1/As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Some public debt may not be shown in the table due to confidentiality clauses and/or capacity constraints.

3/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

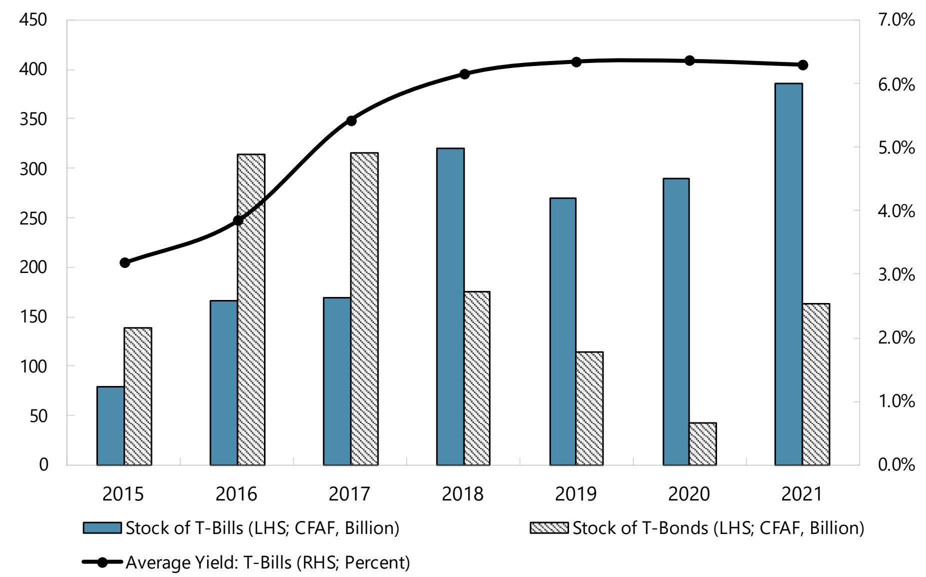
5. No new arrears remain outstanding while discussions to restructure old outstanding arrears are ongoing. Technical arrears were recorded at end-2021 and were cleared within the six-week grace period in early 2022 and the government has continued to pay external debt obligations in a timely manner, so the ECF performance criterion on the non-accumulation of new external arrears was met. Two restructuring agreements were finalized, one with BDEAC at end-December 2021, and one with the Republic of Congo in February 2022. Negotiations with Libya have significantly progressed, and an agreement is expected to be signed in the coming weeks. The restructuring of official debt with Equatorial Guinea is currently under discussion. The authorities have engaged with Belgian officials on a claim made by a Belgian company for a furnishing contract of a hotel in N'Djamena and intent on resolving the problem in good faith.

6. Chad has benefited from IDA financial support since 2013 and is also benefiting from debt relief under the CCRT as well as a small amount of debt suspension under the Debt Service Suspension Initiative (DSSI). IDA has significantly stepped up its support since 2013, which has entirely been provided in the form of grants, reflecting IDA's policy to provide grants to countries at moderate and high risk of debt distress. In turn, this has translated into IDA commitments of over $1.5 billion, with positive net flows of over half a billion USD over the past five years. Chad is benefiting from debt relief under the CCRT on its scheduled repayments to the Fund of SDR 10.1 million in 2020 and 2021. In 2020 Chad applied for debt suspension under the terms of the G20's DSSI not only from its G20 creditors, but from all its official bilateral and private commercial creditors. It signed a MOU with France and Kuwait. Chad requested its official bilateral creditors to extend the DSSI to end-2021. In 2020, DSSI led to a debt relief of US$1.2 million in 2020 and US$0.1 million in 2021.

7. The authorities relied on domestic borrowing to fill its residual gap in 2021. This includes the utilization of BEAC's public securities' program which expired in September 2021 and mitigated severe liquidity pressures on the treasury in 2021. In 2022, the stock of outstanding Treasuries has been rising significantly despite high yields, albeit with significant improvement in the maturity profile. The volume of outstanding securities reached CFAF 668 billion (8.8 percent of GDP) in October 2022. Efforts to lengthen maturities conducted by the Treasury, however, mitigated roll-over risk via shift to longer-term securities (OTAs), with their share in domestic debt portfolio rising sharply from 12 percent in March 2021 to 76 percent in October 2022. The increase in oil revenues is expected to support a gradual reduction in the total domestic financing stock during the program period. The stock of domestic securities issued by the Republic of Chad is expected to decline by CFAF 235 billion over the program period, as the government will try to reduce its costly debt service rather than accumulating large deposits at the central bank.

8. Official bilateral and the main private creditors have reached an agreement with the authorities on a debt treatment under the G20 Common Framework to restore debt sustainability consistent with a moderate risk of external debt distress. Official creditors are expected to sign an MOU on debt treatment in the coming days. In parallel, the authorities signed an agreement in principle with Glencore. Both agreements are in line with the ECF program parameters. The debt treatment envelope is based on the joint IMF-WB DSA and is consistent with the parameters of the ECF Fund-supported program and contain three important components. First, Creditors committed to reconvene and address the need for a debt treatment should such a need appear based on the IMF-WBG DSA and the Creditor Committee Members' collective assessment and consistent with the paraments of the current ECF. Second, Glencore agreed to reprofile part of the debt service due in 2024 to ensure Chad's public debt is sustainable with moderate risk of debt distress by the end of the program period, while official creditors will contribute in proportion of the debt service due to each official bilateral creditor if the private creditor contribution is not sufficient to bring the debt service to revenue ratio below 14 percent in 2024. Third, Official Creditor Committee Members will reconvene well before end-2024 to examine and address the need for a debt treatment for the period 2025-28 should such a need appear. They will continue to coordinate closely and share information on the status of implementation of the MOU.

Text Figure 2. Chad: Domestic Marketable Securities



Source: BEAC

C. Macroeconomic Forecasts

9. **The DSA's baseline scenario reflects policies and financing assumptions consistent with the baseline of the first and second reviews of the ECF**. Macroeconomic assumptions, including the oil price assumptions, have been updated with the latest WEO (October 2022). Relative to the previous DSA (December 2021), forecasted real GDP growth in 2022 has been revised up from 2.2 percent to 2.5 percent. After contracting by about 11 percent in 2020–21, oil production is expected to bounce back in 2022–23, as the one-off factors (technical difficulties, labor strike, fire) that affected production are not expected to recur and as two new oil operators are expected to reopen some fields that had been temporarily closed. Growth is expected to accelerate in 2023, as the economy will continue to recover from the pandemic slump and benefit from a steady increase in public investment and from the continued repayment of domestic arrears to the private sector, which will support the economy and strengthen the banking sector. Non-oil GDP is expected to grow at a more modest rate than previously anticipated in 2022. Oil production is expected to resume growth in the medium term, leading to higher oil revenues, exports, and overall GDP growth. The outlook assumes that fiscal consolidation will continue beyond the program period at a gradual pace. The fiscal consolidation aims to strengthen non-oil revenue while maintaining public investment at reasonable levels and protect social spending while improving its efficiency. If oil revenue remains high until then, further deposit accumulation, additional accelerated repayment of domestic arrears, and additional high-priority spending over the medium term could be considered. Chad ranks

second to last in the World Bank's Human Capital Index 2020 and about 6.5 million Chadians, 42 percent of the population, are below the poverty line according to national statistics. Furthermore, Chad is highly vulnerable to climate change,[3] however, social spending and spending on climate adaptation are among the lowest in the world. Any fiscal consolidation should therefore not only protect but also allow for increased spending on critical social sectors and climate adaptation.

10. The forecast is subject to substantial uncertainty and downside risks as the economic impact of the pandemic unfolds and as ongoing insecurity and vulnerabilities to climatic shocks persist. Chad is one of the poorest and most vulnerable countries in the world. Its heavy dependency on oil has increased economic volatility as evidenced by four recessions since 2006 with significant consequences for debt sustainability. Insecurity and increasing frequency and severity of climatic shocks exacerbate an already fragile economic environment. The authorities have a financing plan that should underpin a gradual repayment of audited domestic arrears.

11. Over the long term, the DSA assumes an average real growth rate of 3.6 percent between 2025-29. While higher than recent growth trends in Chad, forecasted growth takes into consideration the implementation of a strong reform agenda by the authorities in the coming years. Steps are already being taken to mobilize more non-oil revenues, including by digitizing customs procedures for livestock and streamlining tax exemptions. Improving fiscal space will support an increase in public investment to 6.7 percent of non-oil GDP by the end of the program. More efficient and transparent allocation of public investments in energy and connectivity infrastructure coupled with reforms to improve the business environment is expected to support a recovery in the private non-oil sector in Chad. In the long run, the DSA is also projecting a GDP deflator of 2.1 percent, consistent with historical trends.

12. Financing assumptions have been updated based on most recent information. With respect to external financing, the DSA includes IDA grant financing during the period July 2022-June 2024. In addition, Chad is eligible for an annual Prevention and Resilience Allocation (PRA) contingent on the successful attainment of PRA milestones. Chad also has access to additional IDA resources under the Regional Window, Crisis Response Window, Window for Host Communities and Refugees, and the Private Sector Window, subject to meeting the respective window eligibility criteria. Subsequently, annual IDA allocations assume a similar level of resources as the IDA19 performance-based allocation. Actual IDA financing would be dependent on the performance of Chad's reforms and subsequent replenishments by IDA Deputies, with terms based on current IDA policies[4]. New financing is also assumed starting in 2023 from the AfDB, and other international and bilateral partners, which is conditional on a successful debt restructuring. Overall, the authorities' financing strategy mainly relies on concessional external financing and grants given the limited capacity of the regional debt market.

[3] World Bank. 2020. The Next Generation Africa Climate Business Plan: Ramping Up Development-Centered Climate Action. World Bank, Washington, DC.

[4] The projection of grants to 2023 reflects a proposed change to the LIC DSF guidance under review. Regular credit terms on all lending are assumed starting in 2024 when Chad is projected to be at moderate risk of debt distress.

Text Table 2. Chad: Selected Macroeconomic Assumptions[1]

	2017-20	2021	2022	2023	2024	2025-29 (avg.)
	(Annual percentage change, unless otherwise indicated)					
Real GDP growth						
Current DSA	0.3	-1.1	2.5	3.5	3.7	3.6
December 2021 DSA	0.3	0.6	2.2	3.1	3.6	3.8
Oil GDP						
Current DSA	2.0	-6.9	5.6	5.6	2.0	1.3
December 2021 DSA	1.9	2.3	2.3	2.0	2.4	2.9
Non-oil GDP						
Current DSA	0.0	0.2	1.8	3.1	4.1	4.1
December 2021 DSA	0.0	3.1	3.4	3.8	4.1	4.1
Current account (incl. expected budget grants; percent of GDP)						
Current DSA	-5.0	-4.5	2.8	-1.4	-5.2	-5.2
December 2021 DSA	-5.4	-6.5	-5.8	-7.3	-7.9	-5.4
	(percent of non-oil GDP, unless otherwise indicated)					
Overall budget balance /2						
Current DSA	0.5	-2.4	6.3	8.6	5.3	6.0
December 2021 DSA	0.5	-3.4	0.8	0.2	0.0	0.9
Revenue and grants						
Current DSA	19.2	20.6	28.4	31.5	26.4	24.6
December 2021 DSA	19.2	19.2	22.0	21.3	20.7	20.4
of which: oil revenues						
Current DSA	7.0	9.8	17.6	18.1	13.4	10.9
December 2021 DSA	7.0	7.0	9.1	7.8	6.7	5.6
of which: non-oil revenue						
Current DSA	8.8	9.6	10.0	10.3	10.7	11.7
December 2021 DSA	8.8	9.3	9.8	10.3	10.8	11.9
of which: grants						
Current DSA	3.4	1.2	0.9	3.1	2.3	1.9
December 2021 DSA	3.4	3.0	3.0	3.2	3.2	3.0
Grant Element of new External Borrowing (Current DSA, percent)	....	35.4	39.4	40.2	40.9	42.4

Source: Country authorities, IMF and World Bank staff estimates
1/ DSA Vintage of 2021 ECF Program Approval.
2/ Commitment basis, including grants.

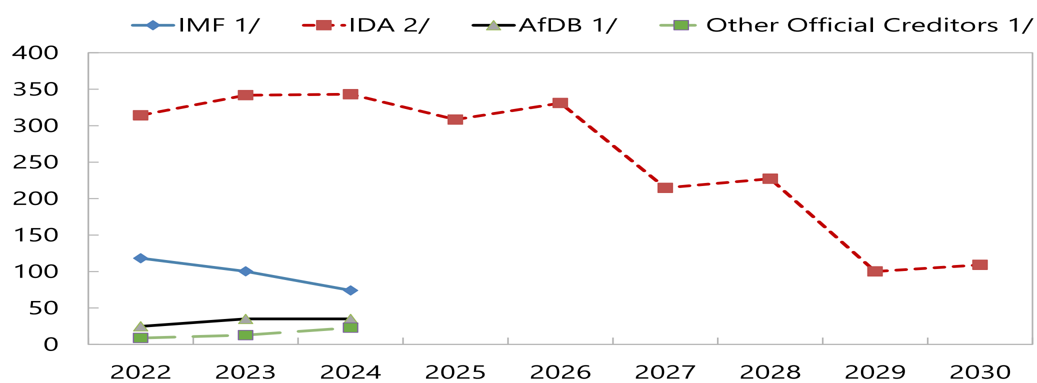
13. **The non-oil primary fiscal balance is projected to improve by about 4.7 percent of non-oil GDP from 2021 to the end of the program period.** This relies on a combination of increases in non-oil revenue and streamlining of non-essential expenditures. Over the 36 months, the program envisages a consolidation of the NOPB of about 4.7 percentage points of non-oil GDP through the mobilization of non-oil revenues and streamlining expenditures, while promoting social spending. Tax revenues are targeted to increase by 1.1 percentage points of non-oil GDP. Current primary expenditures would drop by 2.2 percentage points of non-oil GDP by gradually reducing the wage bill and other spending, such as subsidies and transfers. Capital expenditures are expected to remain at an average of 6.2 percent of non-oil GDP, above pre-pandemic levels. The rationalization of public spending, mainly through strengthening expenditure controls, prudent increases and efficiency gains in social spending, and improvements in public

investment efficiency, combined with greater transparency and oversight over debt management, will be required to reduce the risk of future debt distress.

14. The DSA assumes a gradual improvement in social spending (34 percent of current spending over 2022-24) within the overall fiscal consolidation.[5] Ensuring greater transparency and strengthening procedures and processes in critical sectors, such as health, education, energy, agriculture, transport, and public investment management, will help to promote better economic and social outcomes.

15. The forecast is broadly realistic. The projected 3-year fiscal adjustment is in line with historical data on LIC adjustment programs. Continued fiscal prudence and efforts to raise non-oil revenue beyond the current ECF arrangement horizon are expected to ensure a sustainable adjustment. The fiscal multiplier tool suggests that growth in 2022 and 2023 could differ from the projected consolidation. However, current extreme volatility weakens established relationships. The economic activity is projected to recover driven by both oil and non-oil production (primarily agriculture) in the next five years. Staff expects the private sector to drive growth, led by private investment, with the two new oil operators that are expected to reopen some fields that were temporarily closed, while public investment will remain moderate, as shown in the lower left panel of Figure 4.

Text Figure 3. Chad: Official External Financing, Net
($US, millions)



Sources: IMF and World Bank Staff estimates
1/ Financing commitments currently unavailable beyond 2024
2/ Includes project grants

[5] 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, including military health services and National Solidarity; (iii) Women, Early Childhood Protection and National Solidarity; (iv) Production, Irrigation and Agricultural Equipment; (v) Livestock and Animal Production; (vi) Environment Water and Sanitation; (vii) Professional Training and Small Job Promotion; and (viii) Higher Education.

D. Country Classification and Determination of Stress Test Scenarios

16. The composite indicator (CI) indicates weak debt carrying capacity for Chad. The CI is calculated based on the CPIA score, a proxy of external conditions defined by world economic growth, and country-specific factors. Data as of April 2022 indicate weak debt carrying capacity, mainly reflecting a low CPIA, very low remittances, and a low level of foreign reserves (Text Table 4). Debt-carrying capacity was also rated as weak prior to the latest update. The relevant external debt burden high-risk thresholds are: (i) 30 percent for the present value (PV) of external debt-to-GDP ratio; (ii) 140 percent for the PV of debt-to-exports ratio; (iii) 10 percent for the debt service-to-exports ratio; and (v) 14 percent for the debt service-to-revenue ratio.

17. The debt sustainability analysis relies on six standard stress tests and a customized oil commodity price shock stress test. Of the standard stress tests, the exports shock and the commodity price shock have the most relevance for Chad (Table 3 and 4). The commodity price shock assumes a one-standard deviation decline in oil prices from 2022-2027. The customized shock accounts for a more severe commodity price shock (50 percent).

Text Table 3. Chad: CI Score

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.39	2.75	1.06	46%
Real growth rate (in percent)	2.72	1.74	0.05	2%
Import coverage of reserves (in percent)	4.05	25.97	1.05	46%
Import coverage of reserves^2 (in percent)	-3.99	6.75	-0.27	-12%
Remittances (in percent)	2.02	1.00	0.02	1%
World economic growth (in percent)	13.52	2.90	0.39	17%
CI Score			2.30	100%
CI rating			Weak	

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Weak	Weak	Weak	Weak
	2.30	2.40	2.40

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

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

DEBT SUSTAINABILITY

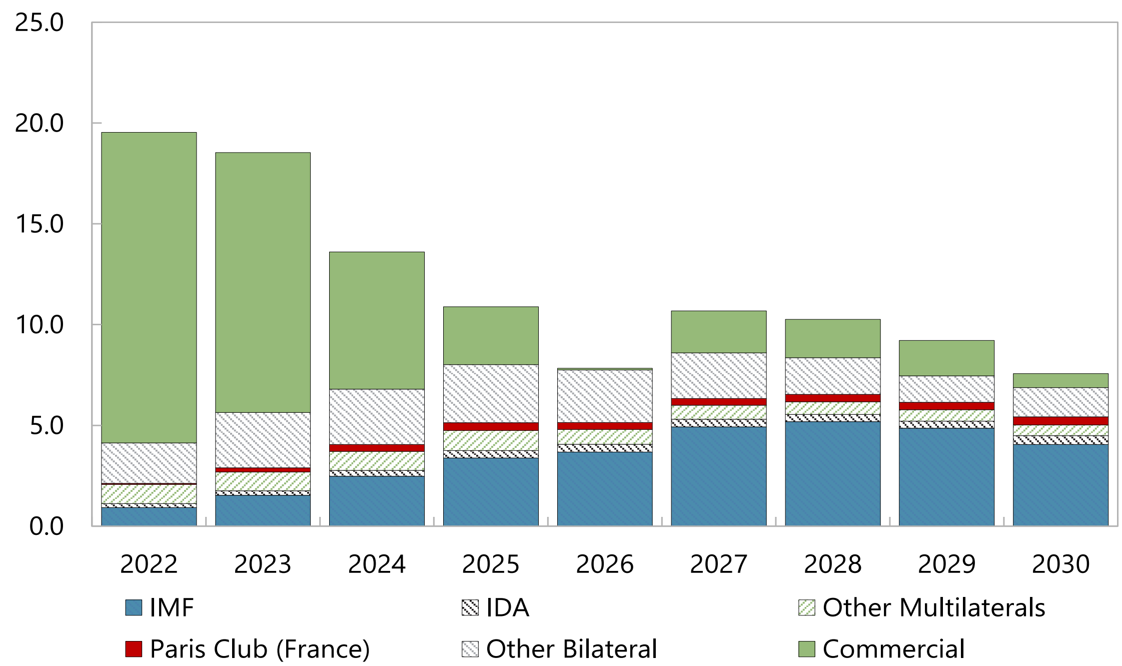
A. Baseline Scenario

External Debt Sustainability

18. Chad's risk of external debt distress is high. The external debt service-to-revenue ratio threshold is breached in 2022-23 under the baseline scenario. Despite higher oil revenue, the debt service-to-revenue ratio rises above the 14-percent threshold mainly due to accelerated debt service to Glencore, as a cash-sweep clause provides that this debt service increases with oil prices. However, the debt treatment agreement under the G20 Common Framework provides assurances that this ratio will fall below 14 percent in 2024 and remain at moderate risk of debt distress with some margin (that is, below 12.3 percent on average) from 2025 onwards, consistent with the IMF exceptional access policies (Text Figure 4). Under the baseline scenario, other liquidity and solvency ratios remain below specified thresholds (Figure 4).

19. External debt sustainability is vulnerable to the export and exchange rate shocks. Under the shock scenarios, the exports stress test produces the most extreme scenario for all indicators except the debt service-to-revenue ratio, for which a one-time depreciation is the most extreme. Under the exports stress test, three indicator thresholds (the PV of debt-to GDP, the PV of debt-to-exports, and the debt service-to-exports ratios) are breached for the entire projection horizon (Figure 1).

Text Figure 4. Chad: External Debt Service by Creditor[1]
(Percent of government revenue, excluding grants)



Sources: Country authorities, IMF and World Bank staff estimates.
1/ In line with the LIC DSF Guidance Note, IDA disbursements starting in 2024 are assumed in the form of concessional loans.

Public Debt Sustainability

20. Chad's overall risk of public debt distress is high. The benchmark for public debt is breached in 2022-23 under the baseline scenario**.** Public debt reached its highest point in 2021 compounded by the covid crisis. In 2022, total public debt decreased with the accelerated payments to the main private creditor due to the high oil prices. However, liquidity pressures remained, especially in the first half of 2022 in the context of higher budget deficits due to spending pressures on food insecurity and increased food and fertilizer prices stemming from the war in Ukraine. The PV of total public debt-to-GDP ratio peaked in 2021 at 52.2 percent and is expected to decrease to 46.3 percent in 2022 and 39.3 percent in 2023, but still above the 35 percent high-risk threshold associated with heightened public debt vulnerabilities with a weak debt carrying capacity. The PV of total public debt-to-GDP ratio only falls below the threshold from 2024 onwards.

21. Stress tests indicate that public debt is vulnerable to the combined contingent liabilities shock. The commodity price shock is the most extreme shock to the PV of debt-to-GDP ratio. The tailored test for the combined contingent liability shock is the most extreme shock impacting the debt service-to-revenue ratio.

B. Risk Rating and Vulnerabilities

22. Chad has a high risk of external and overall risk of debt distress, but debt is sustainable. Based on the assessment of external public debt indicators under the current baseline scenario and by the debt treatment from official and private creditors that will provide relief if downside risks (including lower oil prices) were to materialize and a residual financing gap to reemerge, Chad's classification has been changed from "in debt distress" in the previous DSA (December 2021) to "high risk" of debt distress. With high oil prices and therefore, oil revenues, there is no residual financing gap. Nonetheless, Chad's outlook is subject to significant downside risks including potential difficulties mobilizing needed domestic financing, regional insecurity, a fragile socio-political environment, vulnerability to climate shocks, disruptions to oil production, and exposure to spillovers from Russia's war in Ukraine impacting food and fertilizer prices.

23. The debt treatment agreed with official and public creditors under the G20 Common Framework is vital to maintain debt sustainability. It ensures that if downside risks materialize and residual financing gaps reemerge, creditors will reconvene and address these financing needs in a timely manner. In addition, the terms agreed guarantee that the risk of debt distress is brought to "moderate" by the end of the program period and will remain moderate beyond the program period in the medium term, under the ECF program's assumptions. This is consistent with the exceptional access policies, that require restoring debt sustainability with high probability.

24. Significant concessional financing and implementation of the debt treatment agreement will still be required to ensure a durable improvement to a moderate risk of external and overall debt distress by the end of the program in 2024. While the agreed debt treatment is expected to provide the necessary fiscal space to face a lower oil price scenario, significant concessional financing commitments by multilateral and bilateral creditors over the longer term will be needed to avoid a recurrence of either external and/or domestic debt service problems. A zero NCB limit is an important feature of debt conditionality under the ECF arrangement. The World Bank, through its Sustainable Development Finance Policy (SDFP), supports the authorities' efforts to improve debt management and enhance debt transparency with commitments: (i) to improve the accuracy of debt transactions and payments recording and reporting, and transfer debt data currently in Excel to the new SYGADE-6 database; and (ii) to adopt an *arrêté* to ensure that annual debt reports are published on time (no later than 6 months after the end of the year), in addition to their compliance with a zero non-concessional borrowing policy. The government would also need to take action to further enhance debt management capacity and public debt transparency while strengthening fiscal policies including improving control of SOE liabilities and enhancing domestic revenue mobilization and expenditure efficiency. These policy measures are important to build resilience against adverse shocks to revenues (i.e., from oil production shocks, insecurity) and climatic conditions, which are likely to be a persistent challenge in Chad over the long term.

C. Authorities' Views

25. The authorities broadly agreed with the overall assessment of the country's debt sustainability. Debt sustainability has been restored by the concluded restructuring agreements, donors support, and the reforms envisaged under the ECF Arrangement. The authorities are committed to continue strengthening debt management.

Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt under Restructuring Scenarios, 2022-32

Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	No	No
Market financing	n.a.	n.a.

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

Borrowing assumptions on additional financing needs resulting from the 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	0.7%	0.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	7	7

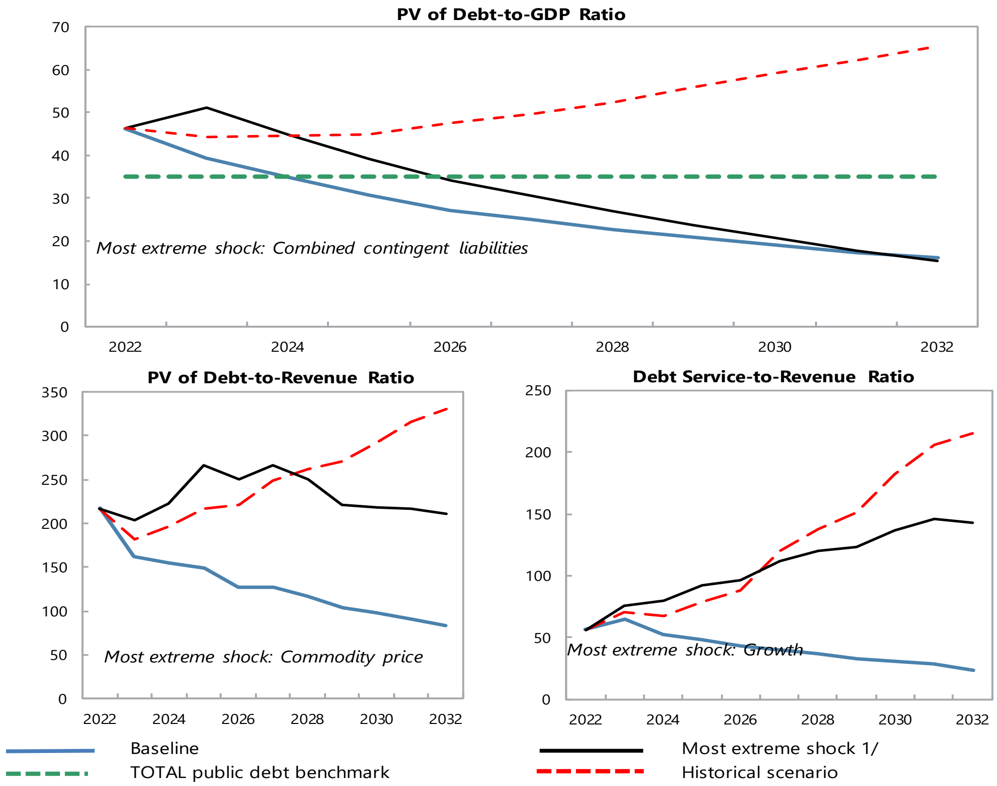
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2032. 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.

Note: Consistent with the 2018 contract with Glencore, the 4 million barrels transferred to the refinery are valued at market prices when estimating the revenue and external debt service in 2024.

Figure 2. Chad: Indicators of Public Debt Under Alternative Scenarios, 2022-32



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	30%	30%
Domestic medium and long-term	36%	36%
Domestic short-term	35%	35%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.7%	0.7%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.2%	4.2%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

* 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 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

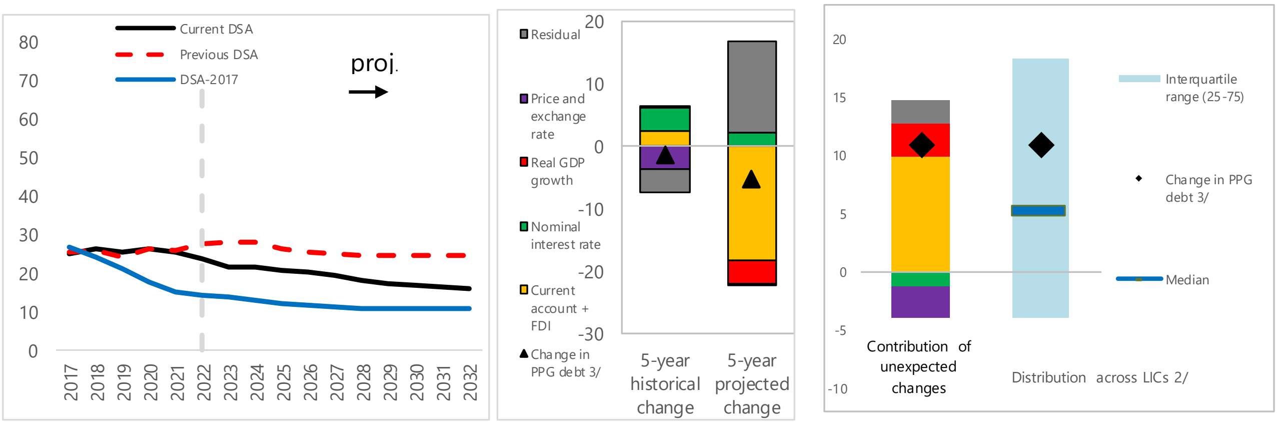
Figure 3. Chad: Drivers of Debt Dynamics—Baseline Scenario

External debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages)

Debt-creating flows (percent of GDP)

Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)

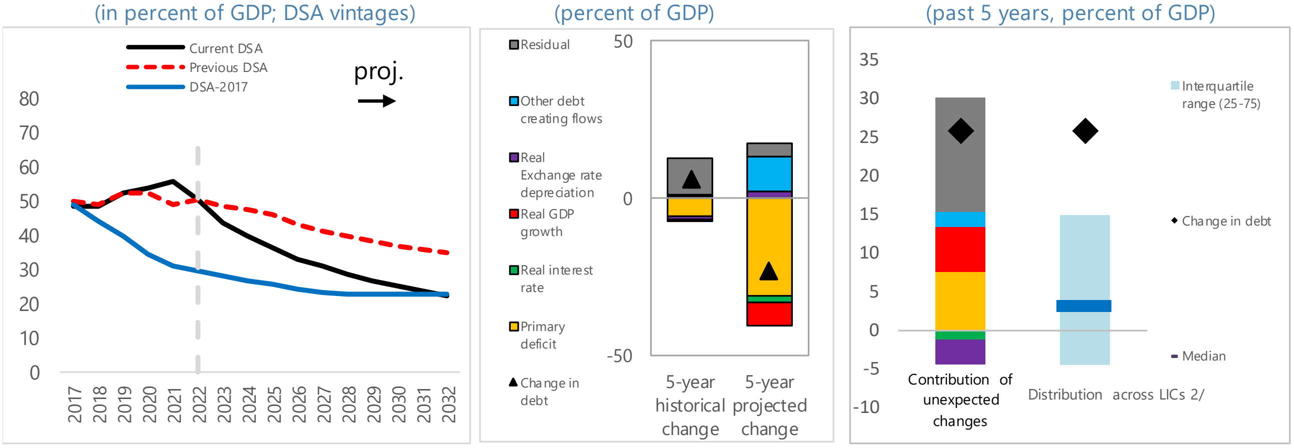


Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages)

Debt-creating flows (percent of GDP)

Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



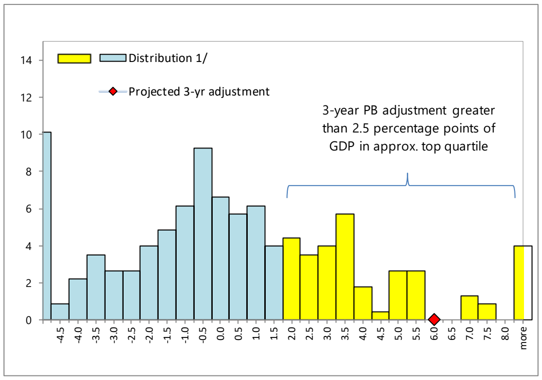
1/ Difference between anticipated and actual contributions on debt ratios.

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.

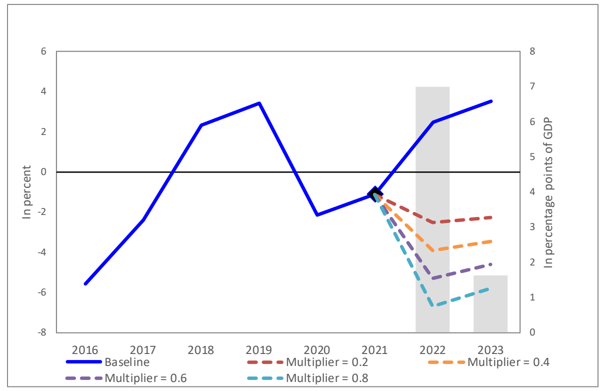
Figure 4. Chad: Realism Tools

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



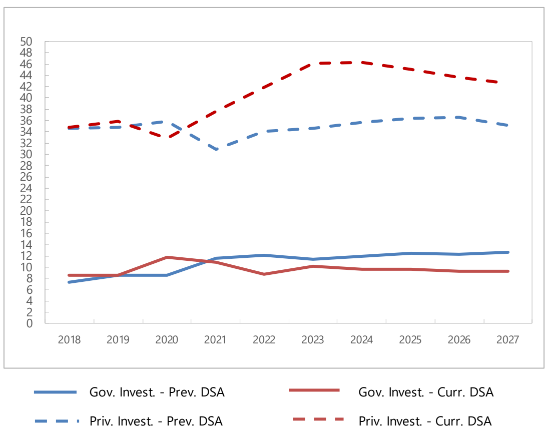
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

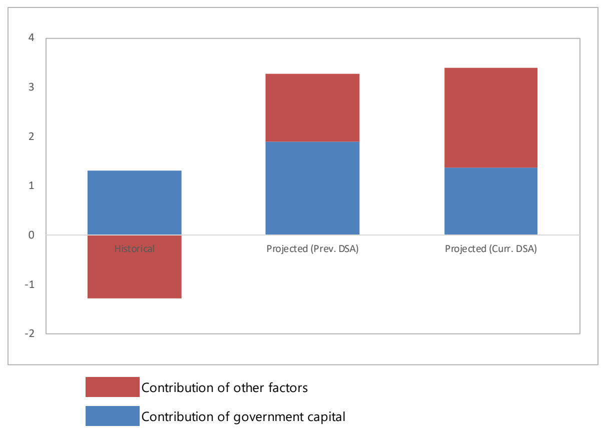


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



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



Source: Country authorities, IMF and World Bank staff estimates

Table 2. Chad: External Debt Sustainability Framework, Baseline Scenario, 2019–42
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	25.6	26.4	25.5	23.8	21.7	21.6	20.8	20.3	19.5	16.1	15.1	25.2	19.3
of which: public and publicly guaranteed (PPG)	25.6	26.4	25.5	23.8	21.7	21.6	20.8	20.3	19.5	16.1	15.1	25.2	19.3
Change in external debt	-0.6	0.8	-0.9	-1.7	-2.0	-0.1	-0.8	-0.5	-0.8	-0.3	-0.1		
Identified net debt-creating flows	0.1	4.3	-1.6	-7.7	-5.4	-2.4	-2.5	-1.8	-1.1	-5.8	-17.0	3.8	-3.1
Non-interest current account deficit	3.6	6.7	3.9	-3.4	0.9	4.6	3.8	4.7	5.0	-1.1	-14.0	6.6	2.6
Deficit in balance of goods and services	9.0	16.1	9.7	-1.2	3.4	6.9	5.6	6.4	6.7	0.8	0.5	12.3	4.4
Exports	35.4	27.7	34.5	46.4	44.2	41.1	39.2	36.9	34.9	30.3	25.0		
Imports	44.5	43.8	44.2	45.2	47.6	48.1	44.7	43.3	41.6	31.1	25.5		
Net current transfers (negative = inflow)	-7.4	-10.9	-7.9	-5.5	-5.5	-4.8	-4.4	-4.0	-3.6	-2.1	-0.9	-7.6	-3.7
of which: official	-1.3	-3.3	-1.5	-1.3	-2.0	-1.5	-1.5	-1.4	-1.4	-1.3	-1.2		
Other current account flows (negative = net inflow)	2.0	1.6	2.1	3.3	3.0	2.5	2.6	2.2	1.8	0.2	-13.7	1.9	1.9
Net FDI (negative = inflow)	-4.3	-3.6	-3.8	-4.2	-6.0	-6.5	-6.2	-5.9	-5.5	-4.2	-2.5	-4.0	-5.3
Endogenous debt dynamics 2/	0.8	1.1	-1.7	-0.1	-0.3	-0.5	0.0	-0.6	-0.6	-0.4	-0.4		
Contribution from nominal interest rate	0.7	0.6	0.6	0.6	0.5	0.3	0.7	0.1	0.1	0.1	0.1		
Contribution from real GDP growth	-0.9	0.6	0.3	-0.6	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6	-0.5		
Contribution from price and exchange rate changes	1.0	0.0	-2.6	...	...	...	...	...	...	...	...		
Residual 3/	-0.7	-3.5	0.6	5.9	3.4	2.3	1.6	1.3	0.3	5.5	16.9	-3.5	2.2
of which: exceptional financing	-1.6	-0.4	-1.0	-1.7	-1.6	-1.6	-0.4	-0.3	-0.3	-0.2	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	20.8	19.1	17.4	16.5	15.2	14.5	13.4	9.8	9.6		
PV of PPG external debt-to-exports ratio	...	...	60.2	41.0	39.4	40.0	38.9	39.3	38.4	32.2	38.6		
PPG debt service-to-exports ratio	4.0	6.4	7.5	8.7	9.1	6.9	5.3	4.2	5.5	3.1	2.5		
PPG debt service-to-revenue ratio	11.3	10.4	16.8	19.5	18.4	13.6	10.9	7.8	10.6	5.2	4.0		
Gross external financing need (Million of U.S. dollars)	81.3	527.4	326.1	-424.6	-128.9	119.5	-49.4	46.2	201.0	-903.6	-6188.3		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.4	-2.1	-1.1	2.5	3.5	3.7	3.4	3.8	3.7	3.7	3.9	1.8	3.5
GDP deflator in US dollar terms (change in percent)	-3.7	0.0	10.9	-1.5	-3.0	1.4	2.1	2.4	2.7	2.8	2.9	-1.6	1.6
Effective interest rate (percent) 4/	2.5	2.1	2.6	2.3	2.1	1.3	3.2	0.7	0.7	0.8	0.8	3.3	1.4
Growth of exports of G&S (US dollar terms, in percent)	4.9	-23.5	36.8	35.7	-4.4	-2.1	0.5	0.1	0.7	2.8	29.1	0.7	4.4
Growth of imports of G&S (US dollar terms, in percent)	5.3	-3.7	10.8	3.1	5.8	6.1	-1.8	3.0	2.3	-1.7	280.3	-0.5	1.9
Grant element of new public sector borrowing (in percent)	...	...	...	36.8	36.7	46.3	47.9	52.3	53.2	48.7	42.3	...	47.3
Government revenues (excluding grants, in percent of GDP)	12.5	16.9	15.5	20.7	21.9	20.7	18.9	19.6	18.0	18.0	15.7	14.4	19.2
Aid flows (in Million of US dollars) 5/	236.0	533.5	193.7	155.4	375.9	478.1	398.5	480.4	514.6	508.2	797.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.5	3.3	3.5	2.6	2.8	2.7	2.0	1.4	...	2.5
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	50.6	68.4	64.5	74.1	73.4	72.8	71.0	62.7	...	69.7
Nominal GDP (Million of US dollars)	10,993	10,757	11,800	11,909	11,962	12,577	13,282	14,127	15,038	20,550	38,908		
Nominal dollar GDP growth	-0.5	-2.1	9.7	0.9	0.4	5.1	5.6	6.4	6.4	6.6	6.9	0.1	5.2
Memorandum items:													
PV of external debt 7/	...	...	20.8	19.1	17.4	16.5	15.2	14.5	13.4	9.8	9.6		
In percent of exports	...	...	60.2	41.0	39.4	40.0	38.9	39.3	38.4	32.2	38.6		
Total external debt service-to-exports ratio	4.0	6.4	7.5	8.7	9.1	6.9	5.3	4.2	5.5	3.1	2.5		
PV of PPG external debt (in Million of US dollars)			2453.4	2269.5	2082.0	2071.2	2020.5	2046.7	2015.7	2007.6	3748.7		
(PVt-PVt-1)/GDPt-1 (in percent)				-1.6	-1.6	-0.1	-0.4	0.2	-0.2	0.4	0.7		
Non-interest current account deficit that stabilizes debt ratio	4.3	5.9	4.8	-1.7	3.0	4.7	4.6	5.2	5.8	-0.8	-14.0		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 3. Chad: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–42

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	52.3	54.1	55.9	50.4	43.7	40.1	36.4	33.0	31.0	22.4	17.5	45.0	32.9
of which: external debt	25.6	26.4	25.5	23.8	21.7	21.6	20.8	20.3	19.5	16.1	15.1	25.2	19.3
Change in public sector debt	3.9	1.7	1.9	-5.5	-6.7	-3.6	-3.8	-3.4	-1.9	-1.4	-0.2		
Identified debt-creating flows	-3.2	-1.7	2.5	-8.5	-7.9	-4.7	-4.3	-4.1	-2.6	-1.4	-0.7	0.7	-3.7
Primary deficit	-0.4	-2.6	0.7	-6.3	-7.9	-5.1	-5.2	-6.4	-5.0	-5.5	-3.4	0.2	-5.9
Revenue and grants	13.7	20.7	16.5	21.4	24.3	22.5	20.6	21.3	19.6	19.2	16.5	16.8	20.7
of which: grants	1.2	3.8	1.0	0.7	2.4	1.8	1.7	1.7	1.6	1.2	0.8		
Primary (noninterest) expenditure	13.4	18.1	17.2	15.1	16.4	17.4	15.5	14.9	14.6	13.7	13.0	17.0	14.8
Automatic debt dynamics	-0.7	0.8	0.2	-5.0	-1.2	-1.2	-0.7	-1.3	-1.2	-0.9	-0.8		
Contribution from interest rate/growth differential	-1.4	2.3	-1.1	-5.0	-1.2	-1.2	-0.7	-1.3	-1.2	-0.9	-0.8		
of which: contribution from average real interest rate	0.2	1.2	-1.7	-3.7	0.5	0.3	0.6	0.0	0.0	0.0	-0.1		
of which: contribution from real GDP growth	-1.6	1.1	0.6	-1.4	-1.7	-1.6	-1.3	-1.3	-1.2	-0.8	-0.7		
Contribution from real exchange rate depreciation	0.7	-1.5	1.3	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-2.1	0.1	1.6	2.8	1.2	1.7	1.6	3.6	3.6	5.0	3.5	-0.8	3.6
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-0.4	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.2	0.0		
Deposit accumulation/withdrawals	-1.6	0.6	1.9	3.2	1.6	2.0	2.0	3.9	3.9	5.2	3.5		
Residual	7.1	3.4	-0.6	2.9	1.2	1.1	0.6	0.7	0.6	0.0	0.5	1.8	0.7
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	52.2	46.3	39.3	34.9	30.7	27.1	24.9	16.0	12.1		
PV of public debt-to-revenue and grants ratio	...	...	316.1	216.8	161.9	154.8	148.8	127.6	127.2	83.5	73.2		
Debt service-to-revenue and grants ratio 3/	20.3	21.4	21.3	56.6	65.3	52.9	48.1	43.5	40.0	23.1	11.3		
Gross financing need 4/	0.3	1.9	5.8	5.8	8.1	6.8	4.8	2.8	2.7	-1.2	-1.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.4	-2.1	-1.1	2.5	3.5	3.7	3.4	3.8	3.7	3.7	3.9	1.8	3.5
Average nominal interest rate on external debt (in percent)	2.6	2.1	2.4	2.4	2.2	1.3	3.2	0.7	0.7	0.8	0.8	3.4	1.4
Average real interest rate on domestic debt (in percent)	0.0	3.5	-4.5	-8.7	3.1	2.2	1.8	1.6	2.1	1.9	2.1	2.1	1.0
Real exchange rate depreciation (in percent, + indicates depreciation)	2.6	-5.8	4.8	...	...	...	...	...	...	...	...	4.2	...
Inflation rate (GDP deflator, in percent)	1.6	-1.9	7.0	10.3	0.0	1.1	1.5	1.8	2.0	2.8	2.9	-0.3	2.7
Growth of real primary spending (deflated by GDP deflator, in percent)	12.7	32.3	-5.6	-10.3	12.5	10.0	-8.0	-0.2	1.9	3.5	3.1	0.8	1.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-4.3	-4.4	-1.1	-0.7	-1.2	-1.6	-1.4	-3.0	-3.1	-4.1	-3.2	-3.3	-2.8
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments, central bank, government-guaranteed debt . 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.

Table 4. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–2032

(In percent)

	Projections 1/										
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
PV of debt-to GDP ratio											
Baseline	19	17	16	15	14	13	12	11	10	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	19	21	24	26	29	**31**	**32**	**34**	**36**	**41**	**45**
B. Bound Tests											
B1. Real GDP growth	19	19	20	19	18	16	15	14	13	12	12
B2. Primary balance	19	20	21	22	23	24	25	26	27	29	**30**
B3. Exports	19	26	**38**	**36**	**35**	**33**	**32**	**30**	29	28	26
B4. Other flows 3/	19	20	22	20	20	18	17	16	15	15	14
B5. Depreciation	19	22	18	17	16	14	13	12	11	10	10
B6. Combination of B1-B5	19	25	27	25	24	23	21	20	19	18	17
C. Tailored Tests											
C1. Combined contingent liabilities	19	20	21	22	23	23	23	24	26	27	29
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	19	24	29	28	27	26	24	22	21	20	19
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	41	39	40	39	39	38	36	34	32	32	32
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	41	49	58	67	78	88	94	102	113	129	**150**
B. Bound Tests											
B1. Real GDP growth	41	39	40	39	39	38	36	34	32	32	32
B2. Primary balance	41	45	52	57	64	69	73	78	84	91	100
B3. Exports	41	70	136	137	**140**	**141**	137	134	132	130	127
B4. Other flows 3/	41	45	53	52	53	53	50	48	47	46	46
B5. Depreciation	41	39	35	33	34	32	30	28	26	26	26
B6. Combination of B1-B5	41	58	55	71	72	72	69	66	64	63	62
C. Tailored Tests											
C1. Combined contingent liabilities	41	46	52	55	61	66	69	73	80	87	96
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	41	72	90	87	86	82	74	71	69	67	65
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	9	9	7	5	4	5	5	5	4	3	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	9	9	7	6	5	7	8	8	7	7	8
B. Bound Tests											
B1. Real GDP growth	9	9	7	5	4	5	5	5	4	3	3
B2. Primary balance	9	9	7	5	4	6	6	6	5	4	5
B3. Exports	9	**12**	**13**	**10**	8	**11**	**10**	10	8	9	**11**
B4. Other flows 3/	9	9	7	5	4	6	6	5	4	4	4
B5. Depreciation	9	9	7	5	4	5	5	5	4	3	3
B6. Combination of B1-B5	9	**10**	9	7	6	7	7	7	6	6	6
C. Tailored Tests											
C1. Combined contingent liabilities	9	9	7	5	4	6	6	5	5	4	4
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	9	**12**	9	7	6	7	7	6	5	6	6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	**20**	**18**	14	11	8	11	10	9	8	6	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**20**	**18**	**15**	13	10	**14**	**14**	14	12	13	14
B. Bound Tests											
B1. Real GDP growth	**20**	**20**	**17**	13	10	13	13	11	9	7	6
B2. Primary balance	**20**	**18**	14	11	8	11	11	10	9	8	8
B3. Exports	**20**	**21**	**17**	**14**	10	14	13	12	10	11	13
B4. Other flows 3/	**20**	**18**	14	11	8	11	10	9	8	7	7
B5. Depreciation	**20**	**23**	**17**	14	10	13	13	11	9	8	6
B6. Combination of B1-B5	**20**	**20**	**17**	13	10	13	12	11	9	10	9
C. Tailored Tests											
C1. Combined contingent liabilities	**20**	**18**	14	11	8	11	11	10	8	7	6
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	**20**	**23**	**18**	**15**	11	14	12	10	9	9	10
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

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

Table 5. Chad: Sensitivity Analysis for Key Indicators of Public Debt, 2022–32
(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	**46**	**39**	35	31	27	25	23	21	19	17	16
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**46**	**44**	**45**	**45**	**48**	**50**	**52**	**56**	**59**	**62**	**66**
B. Bound Tests											
B1. Real GDP growth	**46**	**45**	**48**	**45**	**43**	**41**	**40**	**39**	**37**	**36**	35
B2. Primary balance	**46**	**47**	**48**	**42**	**37**	33	29	26	23	20	17
B3. Exports	**46**	**45**	**50**	**46**	**42**	**39**	**37**	35	33	30	28
B4. Other flows 3/	**46**	**42**	**40**	**36**	32	30	28	26	24	22	20
B5. Depreciation	**46**	**41**	35	29	23	19	14	10	6	2	-2
B6. Combination of B1-B5	**46**	**48**	**41**	**35**	30	25	21	16	12	7	2
C. Tailored Tests											
C1. Combined contingent liabilities	**46**	**51**	**45**	**39**	34	30	27	24	21	18	15
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	**46**	**42**	**42**	**45**	**47**	**48**	**47**	**45**	**44**	**42**	**41**
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.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	217	162	155	149	128	127	116	103	97	91	84
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	217	182	197	216	221	250	262	271	293	315	331
B. Bound Tests											
B1. Real GDP growth	217	183	208	214	197	207	201	188	186	185	180
B2. Primary balance	217	195	213	204	172	167	149	127	115	103	89
B3. Exports	217	186	221	221	196	200	188	171	166	159	145
B4. Other flows 3/	217	172	178	174	151	153	141	127	121	115	105
B5. Depreciation	217	172	155	141	109	95	73	49	29	9	(9)
B6. Combination of B1-B5	217	196	183	170	139	129	106	81	60	36	13
C. Tailored Tests											
C1. Combined contingent liabilities	217	211	199	189	160	155	138	117	105	93	80
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	217	204	223	266	251	266	250	221	219	217	210
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	57	65	53	48	43	40	37	33	31	28	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	57	71	67	79	88	120	138	152	182	206	215
B. Bound Tests											
B1. Real GDP growth	57	76	80	92	96	112	120	124	137	146	143
B2. Primary balance	57	69	92	110	91	89	85	81	86	89	85
B3. Exports	57	65	53	49	44	41	38	34	32	31	28
B4. Other flows 3/	57	65	53	48	44	40	37	34	31	29	25
B5. Depreciation	57	68	57	54	49	54	57	58	64	67	63
B6. Combination of B1-B5	57	69	61	83	75	80	81	81	88	92	88
C. Tailored Tests											
C1. Combined contingent liabilities	57	69	104	93	79	80	79	76	83	86	81
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	57	84	67	65	93	120	129	126	136	143	141
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 benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

CHAD

December 20, 2022

FIRST AND SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA—SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY LETTER OF INTENT

Approved By
Vitaliy Kramarenko (AFR) and Maria Gonzalez (SPR)

Prepared by the African Department in consultation with LEG and SPR

1. This supplement provides an update on developments since the issuance of the staff report (EBS/22/118) on December 9, 2022.

Recent Developments

2. The authorities completed the remaining prior action on the adoption of a decree allowing the collection and publication of beneficial ownership information. This decree— which was adopted on December 6 and is consistent with Fund technical assistance recommendations—allows the government to: (i) collect beneficial ownership information on central government procurement contracts; and (ii) publish the full text of central government procurement contracts along with the names and nationalities of the beneficial owners of the awarded legal persons on an easily accessible government website.

3. The authorities made further progress in addressing external arrears related to a claim presented by Credendo, the Belgian official export credit agency. In this context, the claim with Credendo is no longer in dispute, and the Chadian authorities are engaging with the Belgian authorities to take steps to reach an agreement on restructuring this claim.

4. The authorities have submitted to parliament a draft budget law for 2023. This draft budget law differs from the program fiscal projections as:

- It provides for a higher wage bill (+0.24 percent non-oil GDP) so as to accommodate the conclusions of the Inclusive National Dialogue, which notably call for the reintegration of the member of participating politico-military groups in the national army and in Parliament. This additional spending is offset by savings on goods and services and transfers and subsidies. This change requires an update to the proposed indicative target (ceiling) on the wage bill, as per the revised Table 3 of the MEFP attached to the Supplementary LOI.

- It identifies additional priority investment projects (amounting to 4 percent of non-oil GDP in excess of program's projections) primarily aimed at increasing Chad's resilience to floods and climate change. As explained in the Supplementary Letter of Intent, the authorities reiterated their commitment to the quantitative targets under the Fund-supported program, and stressed that investment will exceed the current fiscal projections only if: (i) additional fiscal space can be created through savings on non-priority spending or enhanced revenue mobilization; or (ii) it is determined at the time of third review under the ECF arrangement that there is room for additional investment.

Staff Appraisal

5. These recent developments do not change the thrust of the staff appraisal. The changes in the composition of 2023 current expenditures reflect a change in the government priorities aimed at consolidating the gains made during the inclusive national dialogue in establishing a constructive dialogue with some of the politico-military groups and help enhance ownership and social and political sustainability of the program. The government's reiterated commitment to the program's fiscal objectives is welcome and the timing of the implementation of the newly identified investment projects will be consistent with these objectives. A revised proposed decision reflecting the Supplementary LOI is attached.

Revised Table 2. Chad: Fiscal Operations of the Central Government, 2020–26

(In billions of CFAF, unless otherwise indicated)

	2020	2021		2022		2023		2024			2026
	Prel.	ECF Request	Prel.	ECF Request	Proj.	ECF Request	Proj.	ECF Request	Proj.	Proj.	Proj.
Total revenue and grants	**1,278**	**1,026**	**1,080**	**1,230**	**1,578**	**1,267**	**1,859**	**1,316**	**1,673**	**1,740**	**1,894**
Revenue	1,043	868	1,015	1,061	1,530	1,080	1,676	1,114	1,527	1,593	1,746
Oil[1]	562	374	513	512	976	466	1,067	426	851	835	904
Non-oil	481	495	502	548	554	613	609	688	676	758	842
Tax	452	478	482	529	535	592	588	665	653	733	815
Non-tax	29	17	20	19	19	21	21	23	23	25	27
Grants	235	158	65	169	48	188	184	201	146	147	148
Budget support	124	23	29	26	13	28	64	28	26	26	26
Project grants	111	135	35	143	35	160	120	173	120	121	122
Expenditure	**1,177**	**1,206**	**1,205**	**1,187**	**1,226**	**1,256**	**1,354**	**1,314**	**1,340**	**1,412**	**1,386**
Current	800	821	877	787	951	816	951	838	918	965	936
Wages and salaries	431	425	459	437	500	452	510	465	505	510	515
Civil Service	305	299	329	309	327	323	337	335	332	337	342
Military	126	126	130	128	173	129	173	130	173	173	173
Goods and services	115	136	127	114	100	123	104	128	110	115	120
Transfers and subsidies[2]	194	206	215	190	241	195	238	197	226	233	239
Of which: In-kind transfers to National Electricity Company[2]	51	53	81	53	91	53	93	53	93	93	92
Interest	60	54	77	46	111	46	99	48	77	108	62
Domestic	26	26	36	17	68	18	64	21	59	56	54
External	34	29	40	29	43	27	35	27	18	52	8
Of which: Glencore	*22*	*19*	*28*	*19*	*35*	*16*	*27*	*14*	*10*	*44*	*0*
Investment	377	385	328	400	275	440	403	475	422	446	450
Domestically financed	170	140	227	140	129	150	160	160	170	188	196
Foreign financed[3]	207	245	100	260	146	290	243	315	252	258	254
Overall balance (incl. grants, commitment)	**101**	**-180**	**-125**	**42**	**352**	**12**	**505**	**2**	**333**	**329**	**508**
Non-oil primary balance (excl. grants, commitment)[4]	**-428**	**-412**	**-526**	**-333**	**-415**	**-307**	**-404**	**-262**	**-336**	**-288**	**-228**
Float from previous year[5]	-76	-34	-38	-34	-47	-33	-45	-21	-35	-35	-35
Float at end of period[5]	38	34	47	33	45	21	35	21	35	35	35
Var. of Arrears[6]	-124	-111	-94	-50	-95	-50	-75	-50	-40	-95	-115
Overall balance (incl. grants, cash)	**-60**	**-292**	**-211**	**-9**	**254.7**	**-50**	**420**	**-48**	**293**	**234**	**393**
Non-oil primary balance (excl. grants,cash)	**-589**	**-524**	**-612**	**-384**	**-512.3**	**-369**	**-489**	**-312**	**-376**	**-383**	**-343**
Financing	**58**	**180**	**203**	**-216**	**-348.1**	**-128**	**-515**	**-105**	**-388**	**-233**	**-393**
Domestic financing	61	220	240	-209	-184	-138	-358	-118	-366	-305	-469
Bank financing	78	67	20	-95	-241	-102	-193	-124	-261	-238	-433
Central Bank (BEAC)	78	67	11	-95	-241	-102	-193	-124	-261	-238	-433
Deposits	-27	-32	-130	-34	-227	-31	-112	-39	-164	-164	-349
Advances (net)	0	0	0	-48	0	-48	0	-48	0	-16	-16
IMF	105	-6	38	-13	-14	-23	-29	-37	-45	-58	-68
SDR Allocation		106	104	0	0	0	-52	0	-52	0	0
Commercial banks (deposits)	0	0	8	0	0	0	0	0	0	0	0
Other financing (net), of which:	-17	154	220	-114	57	-35	-164	6	-106	-67	-35
Amortization	*-139*	*-26*	*-23*	*-51*	*-64*	*-50*	*-97*	*-74*	*-74*	*-70*	*-58*
Commercial banks loans	*61*	*-9*	*42*	*11*	*129*	*10*	*9*	*10*	*28*	*10*	*-4*
Non-bank loans (gross)[7]	*25*	*39*	*22*	*41*	*22*	*46*	*36*	*50*	*38*	*39*	*32*
Treasury bills (net)	*0*	*78*	*68*	*-105*	*-222*	*-10*	*-54*	*-5*	*-40*	*-22*	*-5*
Treasury Bonds (gross)	*43*	*71*	*120*	*0*	*202*	*-21*	*-49*	*25*	*-56*	*-23*	*0*
Bank Recapitalization	*0*	*-10*	*-16*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Stabilization Funds	*-8*	*10*	*8*	*-10*	*-10*	*-10*	*-10*	*0*	*0*	*0*	*0*
Privatization and other exceptional receipts	0	0	0	0	0	0	0	0	0	0	0
Foreign financing	-3	-40	-36	-7	-164	10	-157	13	-22	72	76
Budget support	124	23	29	26	13	28	64	28	26	26	26
Project grants	111	135	35	143	35	160	120	173	120	121	122
Loans (net)	-29	-65	-101	-32	-192	-15	-187	-11	-51	42	47
Disbursements	71	72	43	117	78	125	87	132	142	136	136
Budget borrowings	0	0	0	41	0	40	0	40	48	37	37
Project loans	71	72	43	76	78	85	87	92	95	99	99
Amortization	-101	-137	-144	-149	-270	-140	-274	-143	-193	-94	-90
Of which: Glencore	-48	-76	-83	-81	-196	-74	-184	-73	-102	0	0
Debt relief/rescheduling (HIPC)	26	25	20	25	28	25	30	24	29	30	29
Financing Gap	**2**	**111**	**7**	**225**	**93**	**179**	**95**	**153**	**95**	**-1**	**0**
CCRT	2	6	6	0	0	0	0	0	0	0	0
DSSI (Net)	1	1	1	0	0	-1	-1	-1	-1	-1	0
Proposed IMF ECF	0	44	0	88	94	88	95	87	96	0	0
Errors and omissions	0										
Residual financing gap	0	60	0	137	0	92	0	67	0	0	0
Memorandum items:											
Non-oil GDP	5,268	5,337	5,239	5,603	5,554	5,953	5,905	6,363	6,328	6,766	7,269
Poverty-reducing social spending	…	284	…	273							
Bank deposits (including BEAC)	176	182	298	216	525	247	637	286	801	965	1,315
(In months of domestically-financed spending)	2.2	2.3	3.2	2.8	5.8	3.1	6.9	3.4	8.8	10.0	13.9
BEAC advances	480	480	480	432	480	384	480	336	480	464	448

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 transfers of oil derivatives in-kind to the national electricity company (SNE) starting from 2020; value based on fixed price of $46.90 per barrel (in line with the average Brent oil price in 2015-16).

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

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

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

[6] Including audited arrears and recognized arrears based on the Treasury table "restes à payer".

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

Supplementary Letter of Intent

N'Djamena, December 20, 2022

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC, USA

Madam Managing Director:

I wanted to inform you of the changes that we have made to our fiscal projections for 2023, as reflected in the draft budget law that we have sent to parliament.

First, while keeping its overall current expenditure envelope unchanged, we have slightly modified the composition of such current expenditures, increasing the wage bill by CFAF 14 billion (0.24 percent of non-oil GDP) while reducing expenditure on non-priority goods and services as well as those relating to transfers and subsidies (by 0.17 and 0.06 percent of non-oil GDP, respectively). The increase in the wage bill is mainly the result of the conclusion of Inclusive National Dialogue, which provides for the reintegration into the national army of members of the participating politico-military groups and for an increase in their representation in Parliament.

Second, the draft budget law includes additional domestically financed investment projects. These projects are primarily aimed at increasing Chad's resilience to floods and climate change—dikes, roads, pipelines, and crossings to facilitate traffic in cities during all seasons and the flow of rain and flood water —and at facilitating access to certain regions cut off from the rest of the country during the rainy season due to dilapidated crossing infrastructure or flooding and will be subject to strong public investment management practices to help support quality and effectiveness. To ensure that these additional domestically financed investments are consistent with our commitments under the Fund-supported program, we:

- set an explicit ceiling in the draft budget law on 2022H1 commitments to make them consistent with the program's fiscal projection;
- restate our commitment to achieving the overall fiscal targets set under the Fund-supported program. To this end, we will align the execution of the 2023 domestic investment program with such targets in 2023H2—if necessary, by a legislative act (supplementary budget law) or a regulatory act. Domestically financed investment will therefore exceed the current program projection only if additional fiscal space can be created through savings on non-priority spending or enhanced revenue mobilization (including, as envisaged in the TMU, by adjusting the non-oil primary balance if oil revenue is higher than projected). If this is not the

case, the implementation of these additional investment projects will be postponed. We consider these investment projects as important for resiliency to floods and climate change and we are looking forward to continuing discussing with the Fund and our other financial partners how they could be financed consistently with the program's objectives.

Very truly yours,

/s/

Tahir Hamid Nguilin
Minister of Finance and Budget

Revised Table 3 of the MEFP. Chad: QPCs and ITs*, December 2022–December 2023

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

	End-Dec 2022 QPCs	End- March 2023 ITs	End June 2023 QPCs	End-Sept 2023 ITs	End-Dec 2023 QPCs
Quantitative Performance Criteria					
1. Ceiling on new external arrears of the government and non-financial public enterprises[1]	0	0	0	0	0
2. Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises[1]	0	0	0	0	0
3. Floor on non-oil primary budget balance (NOPB)[2]	-325	-95	-177	-248	-310
4. Ceiling on net domestic government financing[3]	-83	118	90	-49	-254
5. Ceiling on the stock of domestic payment arrears by the government[4]	298	288	278	268	248
Indicative Targets					
6. Floor on government tax revenue, excluding tax revenue from oil companies[3]	535	142	286	433	588
7.Ceilling on wages and salaries	500	128	255	383	510
8. Floor for poverty-reducing social spending[5]	255	68	132	195	258
9. Emergency spending procedures-DAO (Percent of primary spending)[6]	*35*	*18*	*18*	*18*	*18*
10. Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO)[6]	*70*	*55*	*75*	*80*	*80*
Memorandum items:					
11. Oil Revenue [7] (net of Debt service to Glencore)	*744*	*139*	*353*	*642*	856
12. Grants [8]	*13*	*0*	*0*	*0*	*64*
13. Election spending	*0*	*0*	*7*	*14*	*22*
15. Budget spending as part of the food security national response plan	*30*	…	…	…	…

Sources: Chadian authorities; and IMF Staff.

* The adjustors for the QPCs and ITs are defined in the TMU.

1/ Applies continuously.

2/ NOPB: Non-oil revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment). This excludes inkind transfers to the national electricity company (SNE).

3/ See TMU.

4/ Stock of verified arrears as definied In line with the TMU.

5/ 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).

6/ 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.

7/ Oil Revenue is the sum of direct receipt and the sale revenue of government oil net of operating and transportation cost, and net of debt service to Glencore for the purpose of computing the adjusters.

8/ Budget grants.

Statement by Mr. Sylla, Mr. N'Sonde, and Mr. Bangrim Kibassim on Chad
December 22, 2022

1. The Chadian authorities wish to convey their appreciation to the Managing Director for the fruitful discussion held with H.E. Mahamat Idriss Déby Itno, President of the Republic of Chad, on December 15, 2022. This meeting was an opportunity to exchange on the many shocks facing Chad and the broader region of Sahel—notably security, food, and climate-related threats—and to note their agreement on the policy priorities to maintain the ECF-supported program on track while tackling those challenges.

2. Our authorities would like to thank Executive Directors, Management and Staff for their continued support to Chad in these difficult times. They appreciate the IMF’s immense contribution to the recent agreement on debt restructuring under the G20’s Common Framework. This agreement is a milestone as it will participate in bringing the risk of debt distress faced by Chad to moderate level by the end of the program in 2024. This outcome is also the result of the Chadian authorities’ resolve and the valued engagement of the country’s creditors. Effective and timely execution of the agreement will carry weight, and the authorities are calling for the IMF and other partners to ensure a smooth debt restructuring which is critical to the success of the program and the regional strategy to strengthen internal and external stability in CEMAC. Regarding the political environment, the authorities remain committed to a successful execution of the DOHA Peace Agreement and to the Disarmament, Demobilization and Reinsertion process.

3. Despite challenges from the delayed debt restructuring and the effects of food, climate and security shocks, the authorities made good progress in implementing the ECF-supported program, notably on the structural reform front. While the criterion for exceptional access is assessed to be met, the challenging context—marked by the need to increase military spending to tackle security threats in the Sahel region, the urgency to address food security, and ensuing liquidity constraints–has affected the program quantitative

performance, resulting in the non-observance of three performance criteria. Consequently, the authorities took decisive actions to keep the program on track. They remain committed to the program objectives and are requesting waivers of nonobservance for the missed criteria, modification of performance criteria, and the completion of the first and second reviews under the ECF.

I. Recent Developments

4. Chad's socioeconomic environment in 2022 has been difficult due to severe floods, food crisis, a daunting humanitarian situation, legacies from the pandemic and security situation. The country has recorded more than 576,000 refugees from neighboring countries, 381,000 internally displaced persons and more than 2 million people in severe food insecurity as of early December 2022. The security environment in the region remains volatile with recurrent deadly terrorist attacks. Meanwhile the catastrophic floods have affected more than 1 million persons. The emergency needs have caused a financing gap of $286.4 million. Youth unemployment and gaps in women empowerment are other key challenges to be met.

5. Following the completion of the Inclusive and Sovereign National Dialogue, the second phase of the transition started with the appointment of a two-year term National Unity Government tasked to conduct the revision of the electoral system, a referendum on the constitution and the form of the state, the organization of general elections, and other important reforms.

6. Economic conditions have improved in 2022 mainly supported by the oil sector. Real GDP is expected to grow by 2.5 percent in 2022 following a recession over the past two years. Food prices have increased due to the underperformance of the 2021/22 agriculture campaign which was affected by climate-related challenges, the impact of the war in Ukraine and the humanitarian crisis. In this context, inflation is projected at 5.2 percent in 2022.

7. On the fiscal front, while the non-oil fiscal deficit (NOFD) exceeded its target in 2021 reflecting notably additional security-related spending, the performance in the first half of 2022 was in line with the target agreed upon due to higher revenues from the VAT and despite continues military and food security spending pressures. The authorities pursue the reimbursement of domestic arrears, which has accelerated, even though they had to roll over maturing T-bonds and T-bills.

8. Good faith negotiations with regional and external creditors are continuing. The authorities welcome the restructuring of the domestic debt owed to BEAC and BDEAC and

are making good progress in their discussions with bilateral creditors on external arrears and debt restructuring. On the financial sector, banks' solvency has strengthened, liquidity remains adequate, the overall capital adequacy ratio has recovered after declining at end-2020, and non-performing loans (NPLs) broadly are well provisioned. The authorities look forward to a better assessment of the sector's health after the resumption of regular onsite supervision by the regional supervisor COBAC which has lifted the pandemic-induced forbearance measures in July 2022.

9. Regarding the external sector, favorable oil exports this year will help improve the current account balance to 2.8 percent from -4.5 percent in 2021.

II. Program Implementation

10. The liquidity and public expenditure constraints encountered—stemming notably from adjustments in salaries, expenditures in defense equipment, the replenishment of cereal banks, and the need to address the humanitarian situation—have prevented a smooth program implementation. The quantitative performance criteria (QPC) on non-oil primary balance for end-December 2021 and end-June 2022 as well as the QPC on the stock of domestic arrears for end-December 2021 have been missed. Nonetheless, the authorities have taken the following measures to minimize spending overruns, notably: i) a strict limitation of derogatory expenditure procedures; ii) sanctions against line ministries failing to duly report arrears; iii) improvement of commitment procedures of public procurement; and iv) enhancement of the role of the financial controller.

11. Significant fiscal and financial reforms have been implemented under the program. These include the publication of a quarterly note on the oil sector; the adoption of a PFM reform strategy; the audit of COVID-19 expenditure by a reputable international firm; and allocation of VAT revenue to an escrow account at the BEAC. Meanwhile, progress is underway towards completing other reforms on procurement contracts including information on beneficial owners; establishing a ceiling on the recruitment of civil servants; and upgrading the customs IT system with ASYCUDA. Governance reforms in the banking system are also advancing while efforts will be pursued towards strengthening banks' soundness and operational frameworks in line with COBAC recommendations.

III. Economic outlook and risks

12. Economic prospects from 2023 to the medium-term are favorable, supported by the resumption of production in the oil sector as well as the rebound of non-oil activities after the pandemic, particularly in the agriculture sector. GDP growth is projected to exceed 3 percent

over the medium-term while inflation will gradually decline from 5.2 percent in 2022 towards the regional convergence threshold of 3 percent by 2024. The authorities agree that oil volatility, delays in donor financing, a deterioration in security conditions and the effects of climate shocks on agriculture and livestock are significant downside risks to the outlook. That said, the authorities share the view that the steadfast execution of the PND 2022-26 and the gradual strengthening of the non-oil sector will enhance the resilience of the Chadian economy.

IV. Policies and Reforms for 2023-2024

Fiscal Policy

13. The pursuit of medium-term fiscal consolidation will provide some space for much needed public investments, social spending, domestic arrear payments, and buffer accumulation. Reforms of the tax administration and tax payment systems are expected to boost domestic revenue mobilization and reduce the gap of Chad's non-oil revenue compared to peer countries in the CEMAC. To improve spending efficiency, the authorities put an emphasis on implementing their PFM reform strategy, limiting emergency expenditure procedures (DAO), and continuing to streamline non-priority spending.

14. From 2023, the fiscal consolidation will put an emphasis on further reducing the non-oil primary deficit. This will be achieved by increasing domestic revenue mobilization by 1 percent of non-oil GDP and reducing current spending by 2 ¼ percent of non-oil GDP. Beyond 2023, the authorities will aim at achieving a fiscal adjustment of 4.7 percent of non-oil GDP and returning the wage bill to 7.8 percent of non-oil GDP by 2024. The wage bill will be further streamlined towards 6.9 percent by 2026.

Structural Fiscal Reforms

15. The authorities will pursue far-reaching fiscal reforms aiming at further enhancing non-oil revenue mobilization, spending efficiency and transparency in public finances. In this regard, improvements are oriented at operational, administrative, and territorial levels. To enhance operational frameworks, priority is given to streamlining tax exemptions, reinforcing budget and PFM procedures, and modernizing tax policy, VAT mechanisms and management. On the administrative front, the government is working towards reinforcing the coordination between the tax and customs administrations and providing them with material resources to ensure better working conditions. Furthermore, the territorial decentralization of PFM procedures focusing on computerization will increase efficiency and ensure an equitable treatment of civil servants.

Debt Management

16. The authorities are committed to sound debt management, notably through the implementation of their medium-term debt strategy which will integrate their public investment program. They will prioritize concessional loans to finance public investments. The authorities are also cognizant of the importance of enhancing debt transparency. They will also take institutional and operational steps, notably by: (i) increasing resources to the debt directorate; (ii) improving the management of government securities, including in terms of programming and maturity; and (iii) reinforcing capacities for, and coordination between, the entities involved in debt issues. In these areas, the authorities welcome the technical support from the IMF and other partners. Regarding debt restructuring, despite a lengthy process, the recent agreement under the G20 Common Framework provides satisfaction. The authorities will do their part to ensure the implementation of the agreement and count on all creditors—official and private—to deliver on their commitments.

Monetary and Financial Sectors

17. The regional central bank BEAC will maintain its policy stance to mitigate inflationary pressures and will advance the implementation of FX regulation and cyber risks reforms. On the financial sector, the Chadian authorities will continue to work with regional institutions to reinforce banks' operational frameworks, governance, and resilience. Steps are being taken to enhance the governance and capital of the two main public banks and to closely monitor banks asset quality. It is important to underscore that some of these reforms are supported by IMF's technical assistance. The deepening of financial inclusion is an overarching priority on the authorities' poverty reduction agenda. This will be achieved by reinforcing microfinance institutions and payment systems through digitalization.

Other Structural Reforms

18. The PND 2022-26 gives priority to improvements in the business environment and economic diversification, including by promoting a green economy, which will contribute to bolstering resilience, inclusiveness, and poverty reduction. To strengthen governance and anti-corruption frameworks, a steady progress is being made towards the preparation of the asset declaration regime for officials and the publication of beneficial ownership information of legal persons or entities awarded public procurement contracts. Action will also continue in aligning the penal code with the standards of the United Nations Convention Against Corruption (UNCAC) in the context of the post-transition constitution.

19. Given the importance attached by the government to transparency and fiscal risks management, all necessary efforts are being made towards the implementation of legislations on state-owned enterprises (SOEs) and public establishments. The audit of the national hydrocarbon company SHT by an international firm will be completed, and the framework of transfers and subsidies to the national power operator SNE will be revised.

20. On climate, the government continues the implementation of its strategy for achieving the Nationally Determined Contribution, with the support of CEMAC through its initiative for green and inclusive growth, and partners notably African Development Bank (AfDB) and World Bank.

V. Concluding Remarks

21. The Chadian authorities continue to take necessary steps to tackle the effects of the current multi-faceted crisis facing the country while advancing the political transition. The nonobservance of performance criteria has been caused by very challenging circumstances. In light of corrective measures taken, the continued reforms, and the authorities' restated commitment to the program, Executive Directors' support to the completion of the first and second reviews and related requests will be appreciated.