INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/246

CHAD

August 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND CANCELLATION OF THE CURRENT ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHAD

In the context of the Request for a Three-Year Arrangement under the Extended Credit Facility and Cancellation of the Current Arrangement, 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 June 30, 2017, following discussions that ended on April 24, 2017, with the officials of Chad on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 19, 2017.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Chad.

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

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

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 17/257
FOR IMMEDIATE RELEASE
June 30, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves New US$ 312.1 Million Arrangement Under the Extended Credit Facility (ECF) for Chad and Cancels the Current Arrangement

- Board's decision enables immediate disbursement of US$48.8 million for Chad.
- The arrangement will support the authorities' stabilization and recovery strategy and help foster long term robust and inclusive growth.
- The arrangement will help stabilize the fiscal position, support a sustainable balance of payments position, and help rebuild the regional international reserve pool.

On June 30, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) for Chad for SDR 224.32 million (about US$ 312.1 million, or 160 percent of Chad's quota) to support the country's stabilization and recovery strategy. Today's Board decision also notes the cancellation of the previous ECF arrangement. Policies under the new arrangement are expected to catalyze further support from Chad's external partners.

The ECF-supported program aims to help Chad restore macroeconomic stability and lay the foundation for robust and inclusive growth. It will also contribute to the regional effort to restore and preserve external stability for the Central African Economic and Monetary Union (CEMAC).

An amount equivalent to SDR 35.05 million (about US$ 48.8 million) will be immediately disbursed to Chad. The remaining amount will be phased over the duration of the program, subject to semi-annual reviews.

Following the Executive Board discussion on Chad, Mr. David Lipton, First Deputy Managing Director and Acting Chair, stated:

"Chad's macroeconomic and financial performances have deteriorated significantly over the past two years, against the backdrop of low oil prices, tense regional security situation, and a heavy external commercial debt burden. In 2016, real non-oil GDP contracted by 6 percent, following a 2.9 percent reduction in 2015.

"The new three-year arrangement under the ECF will support the authorities' strategy towards macroeconomic stabilization in the short term and a robust, equitable, and sustainable recovery.

"The program, supported by the new ECF arrangement, aims at stabilizing the fiscal and external position as well as reestablishing debt sustainability, through the restructuring of external commercial debt, prudent fiscal policies, and the resumption of growth.

"The authorities are committed to preserving the fiscal adjustment achieved so far and to improving the mobilization of non-oil revenue, which requires measures to broaden the tax base, and strengthen tax and customs administrations.

"Achieving debt sustainability and stabilizing the fiscal position hinge on reducing the burden of external debt service. To this end, the authorities are committed to restructure the debt with Chad's major external commercial creditor, and have appointed financial and legal advisors to help them through the process. These efforts would serve to ensure the protection of poverty-reducing social spending and allow the phased clearance of arrears thereby supporting growth.

"Structural reforms to improve public financial management and diversify the economy are key elements of the program. This includes improving budgetary practices and strengthening cash management and forecasting. Fostering long-term growth will require greater diversification of the economy. The authorities are committed to boost competitiveness by improving the business environment and addressing supply side bottlenecks. The new National Development Plan, which is expected to be released soon, will constitute a milestone in that regard.

"Continued strong implementation of the ECF-supported program will be critical to catalyze financial support from international partners to more effectively tackle development needs and support economic growth.

"The success of Chad's program will depend in part on the implementation of supportive policies and reforms by the regional institutions."

Annex

Recent Economic Developments

Economic activity contracted sharply in 2016, for the second year in a row. The economy continued to be affected by a very challenging external environment, with low oil prices and a tense security situation coupled with a refugee crisis; the heavy burden of servicing external commercial debt; and the impact of the sharp fiscal adjustment in 2015 and 2016 (the non-oil primary deficit fell from 16.2 percent of non-oil GDP in 2014 to 4.4 percent in 2016). This adjustment, and the accumulation of large domestic arrears, have set in motion a vicious cycle of contraction in non-oil economic activity, non-oil revenue, and government spending. Following a 2.9 percent reduction in 2015, real non-oil GDP contracted by another 6 percent in 2016, with consumer prices declining by about 1 percent on average in 2016.

Program Summary

Chad's reform strategy is embedded in the coordinated regional approach outlined at the Yaoundé Heads of States summit in December 2016. The new ECF arrangement (which becomes effective today further to the cancelation of the previous ECF) is expected to address the country's protracted balance of payments problems by supporting policies required to stabilize and better manage the fiscal position, place public debt on a sustainable path, and foster long term inclusive and robust growth including through the diversification of the economy. The program also aims to support the regional stabilization efforts.

The program aims to maintain fiscal prudence through preserving the fiscal adjustment achieved in the last few years and reallocating resources for domestic arrears clearance, investment and social spending; reestablish debt sustainability by restructuring external commercial debt; focus on improving non-oil revenue mobilization over the medium-term; and reduce reliance on domestic financing to ease liquidity pressure on banks. Structural reforms will also focus on improving public financial management, and on boosting competitiveness.

Background

Chad, which became a member of the IMF on July 10, 1963, has an IMF quota of SDR 140.2 million.

For additional information on the IMF and Chad, see:
http://www.imf.org/external/country/TCD/index.htm

INTERNATIONAL MONETARY FUND

CHAD

June 19, 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND CANCELLATION OF THE CURRENT ARRANGEMENT

EXECUTIVE SUMMARY

Context: Chad has been enduring the intensifying effect of oil price and security shocks as well as a heavy external debt service burden. In spite of dramatic fiscal adjustments, the economic and social situation has worsened, and liquidity pressure is now felt across a segment of the banking sector as the government continued to accumulate arrears. The authorities are requesting a three-year arrangement under the Extended Credit Facility (ECF) in the amount of SDR 224.32 million (160 percent of quota) in support of their medium-term economic program, after the cancelation of the existing ECF. The new ECF arrangement is expected to address the country's protracted balance of payments problems by supporting policies required to stabilize and revive the economy.

Policies and objectives. The main elements of the program are the reestablishment of debt sustainability through external debt restructuring, achieving gradual fiscal adjustment by maintaining a tight spending envelope, better mobilizing non-oil revenue, and creating space for domestic arrears clearance. The aim is to stabilize the fiscal position, and help achieve a durable economic recovery while supporting the regional stabilization efforts. Strengthening public financial management and diversifying the economy are envisaged to support the efforts to strengthen the fiscal position and boost the non-oil sector.

Staff views. Staff supports the authorities' request for a new ECF arrangement. It would help catalyze increased external assistance necessary to better balance the mix of financing and adjustment. The authorities' strong commitment to external debt restructuring and to the envisaged policies adequately balance the risks.

Approved By
David Owen and Yan Sun

Discussions took place in N'Djamena (March 22–April 4, 2017) and in Washington DC (April 19–24, 2017). The staff team comprised Mr. Bakhache (head), Messrs. Delepierre, Ho, and Léost (all AFR), Mr. Quayyum (SPR), Mr. Nachega (Resident Representative) and Mr. Topeur (local economist). Mr. Bangrim Kibassim (Advisor to the Executive Director) participated in the discussions. Meetings were held with the Prime Minister, Minister of Finance and Budget, Minister of Economy and Development, Minister of Petroleum, Minister of Infrastructure, the National Director of the BEAC, staff of the BEAC headquarter, the Secretary General of the Government, representatives of the private sector (including banking sector) and labor unions, and representatives of international development partners.

CONTENTS

FIGURES

TABLES

ANNEXES

APPENDIX

BACKGROUND

1. **Chad is a low-income fragile country with significant development challenges, which have recently intensified due the oil price and security shocks.** While the onset of oil production in 2003 helped to improve Chad's human development indicators, they remain among the lowest in the region (Figure 1), and could be seriously undermined by the recent crisis that has complicated the government's ability to implement basic social and poverty-reducing programs. Estimated GDP per capita that peaked at $1,241 in 2014 fell to $852 in 2016.

2. **The oil price shock has had a severe and lasting impact on the Chadian economy**. The considerable contraction in oil revenue between 2014 and 2016, as well as the heavy debt service burden of external commercial debt, primarily debt to Glencore (Box 1), necessitated dramatic spending cuts, leading to an adjustment in the non-oil primary deficit of almost 12 percentage points of non-oil GDP in two years. This adjustment, along with a large domestic arrears accumulation, has set in motion a vicious cycle of contraction in non-oil economic activity, non-oil revenue, and government spending, which have declined by about 9 percent, 17 percent, and 50 percent respectively over the past two years.

Box 1. The Glencore Debt

The first $300 million loan with Glencore was contracted in 2013, and was subsequently increased by $300 million. Another $1.356 billion loan was contracted separately with Glencore in 2014 to purchase Chevron's 25 percent share in the Doba consortium. According to the Wall Street Journal (2015), the loan was financed by a group of banks including Credit Agricole SA, Deutsche Bank AG, ING Grop NV, Natixis SA and Société Générale SA. The collapse of oil prices prompted the government to consolidate and reschedule the two loans in December 2015 with a value of $1.448 billion. The net present value of the loan increased after the restructuring due to the imposition of fees. At end-2016, this debt stood at $1.369 billion.

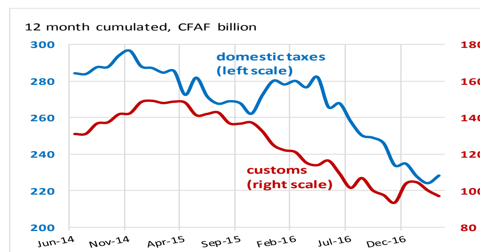
The loan is serviced through direct deduction from the proceed of government-oil cargoes sold by Glencore - contracted to sell government-owned oil. Based on information from the authorities, in 2016, out of $271 million oil sales revenue (after accounting for operating and transportation costs), debt service to Glencore was $231 million which left only $40 million to the treasury.

3. **The tense security situation in Chad and the sub-region, along with drought and the refugee crisis, has added significant pressure on the Chadian economy.** Chadian security forces continue to be heavily involved in regional peace-keeping efforts, especially in the Lake Chad basin. These efforts are crucial to maintain regional security, but entail significant pressures on the budget. In the Lake Chad region, drought is adding to the problems and leading to food insecurity. The humanitarian crisis in the region is also an important source of pressure on Chad, which hosts about 700,000 refugees, displaced persons, and returnees.

4. In August 2014, the Executive Board approved an ECF arrangement with access of 57 percent of current quota in the context of protracted balance of payments problems underpinned by a gradual trend reduction in oil production and revenue. Based on the assumptions that oil prices would remain high and oil production would decline gradually, the objective of the program was to ease the medium to long-term adjustment to lower oil revenue and to support the path to the HIPC Completion Point (achieved in April 2015). As oil prices subsequently declined sharply, a 19 percent of quota augmentation was approved in the context of the first review, and a second augmentation of 24 percent of quota took place at the time of the combined third and fourth reviews (November 11, 2016). Total disbursements amounted to 70.1 percent of quota (SDR 98.34 million).

5. Following the dramatic spending cuts of the past two years, further adjustment risks leading to disorderly economic adjustment and social instability. Social tension rose significantly in 2016, with prolonged strikes by civil servants and protests. This complicated the authorities' efforts to stabilize the economy, notwithstanding the positive effect of budget support from the IMF and donors in late 2016, which helped regularize wage payments. Without a change in policy direction and an increase in donor support, the economy faces an increasing risk of a disorderly adjustment with mounting domestic and external arrears and further decline in activity.

Text Figure 1. Chad Non-Oil Revenue



Source: Chadian authorities, IMF staff calculation.

RECENT ECONOMIC DEVELOPMENTS

6. Economic activity contracted sharply in 2016, for the second year in a row. Following a 2.9 percent reduction in 2015, real non-oil GDP contracted by another 6 percent in 2016. While agriculture production (about one third of non-oil GDP) benefitted from a favorable season, other sectors directly and indirectly dependent on public procurement (such as construction and public work) were highly impacted by the large cuts in government spending and accumulation of domestic arrears. At the same time, lower oil production, and large investment cuts led to a contraction of 8.4 percent in oil GDP. Weak domestic demand, together with continued cross border trade disruption including in the important livestock and agriculture sectors led to about 1 percent deflation in 2016 on average.

7. Fiscal pressures continued to deepen in 2016 as government revenue significantly underperformed. Non-oil tax revenue dropped to 7 percent of non-oil GDP, its lowest level since 2009 (Text Figure 1). This was only partially offset by the coming on board of about CFAF 40 billion (0.8 percent of non-oil GDP) in exceptional receipts associated with old tax disputes. Net oil revenue available for the budget after accounting for the service of the Glencore loan and operational costs, fell dramatically to only CFAF 34 billion (includes net sales revenue, profit tax and other fees).

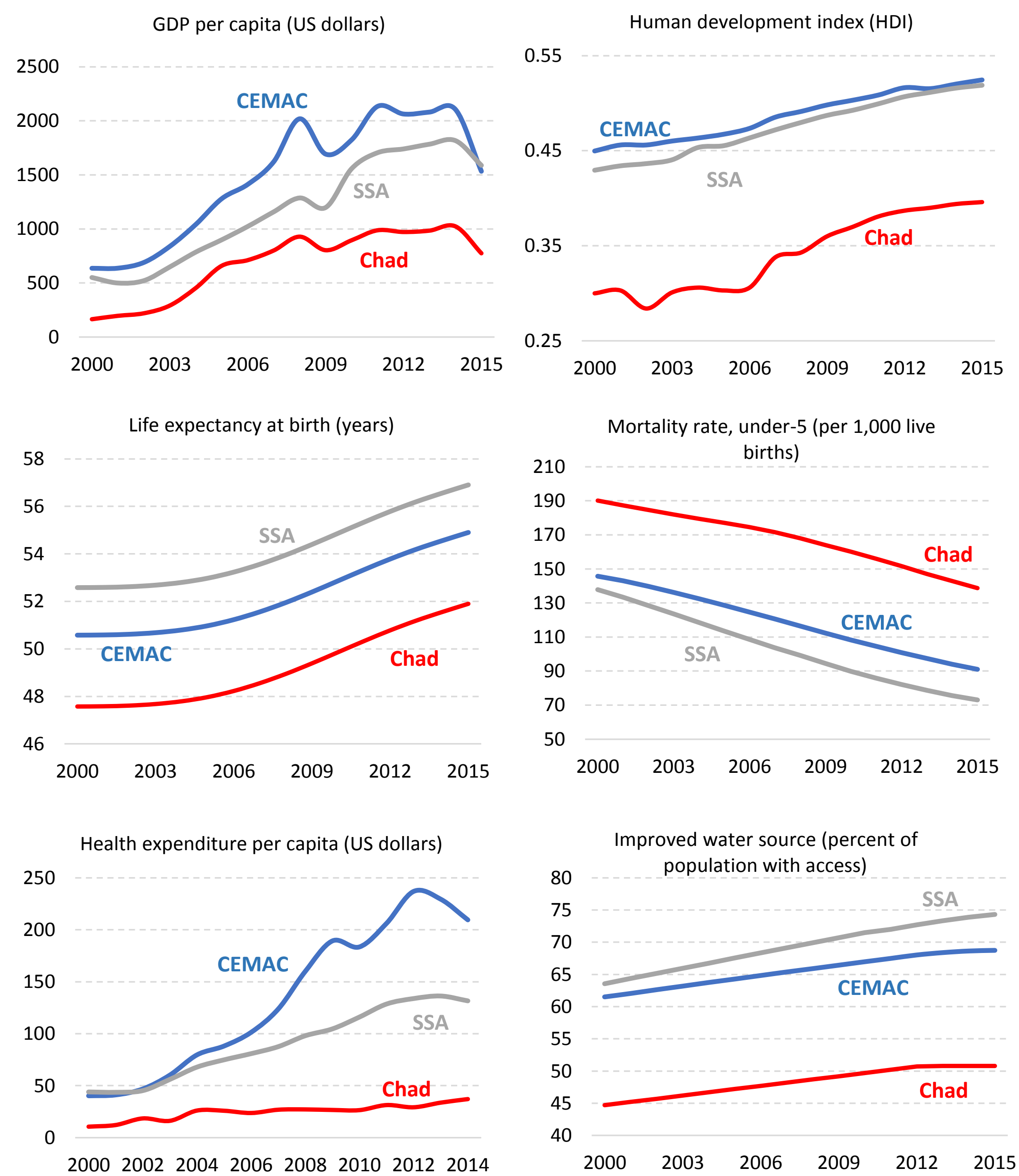
8. In this context, and despite significant spending cuts, domestic and external payment arrears emerged. The dramatic spending cuts undertaken in 2015 were reinforced with further cuts across almost all spending categories including through emergency measures implemented in the second half of the year to cut the wage bill as well as transfers and subsidies. As a result, primary spending and investment declined by more than 5 and 3 percent of non-oil GDP respectively in 2016. Despite these efforts, and with the clearance of more domestic arrears than anticipated (due to pressure to allow some existing investment projects to progress), new arrears to domestic suppliers, external creditors, and banks emerged. In addition, salaries for November and December 2016 could only be paid in early 2017 after donors' budget support was disbursed.

9. Preliminary evidence suggest that fiscal pressures and social tension continued in the first quarter of 2017. Non-oil revenue is estimated to have remained subdued although large exceptional receipts materialized. While wages were paid on time, social pressure seems to have led to a rise in the monthly wage bill relative to the last few months of 2016. Domestic and external arrears continued to accumulate.

10. The economic slowdown and the government liquidity crunch have taken a toll on banks, including their ability to finance the government. Non-performing loans have increased markedly (to about 21 percent at end-2016) due to the accumulation of domestic arrears by the government to private companies which in turn could not service their debt to banks. This, together with the fact that banks which have increased their direct exposure to government debt in the past two years, are now facing difficulties to refinance at the regional central bank (BEAC), has generated liquidity pressures on some banks, which increased the rollover risk for the government. The weakened situation of the banking sector has fed back into the real sector (as banks have now very limited space to provide credit to the economy) as well as to the public sector.

11. The external position remains weak. While imports have declined, the current account deficit remained large in 2016 (9.2 percent of GDP), mainly explained by lower oil exports receipts. In addition, FDI, largely related to the oil sector, has been halved in 2016. At end-2016, Chad's (imputed) international reserves stood at negative $323 million (equivalent to about negative 1 month of imports), reflecting the countries' negative position at the BEAC. With other countries in the CEMAC region also facing significant challenges, the region's pooled international reserves fell from $15.3 billion at end-2014 to $4.1 billion, just two months of imports, by end-2016. Based on existing methodologies, Chad's external position is estimated to be substantially weaker than warranted by fundamentals and desirable policies. With estimates of the medium-term current account norm indicating that the real effective exchange rate is overvalued by 12–16 percent, improving competitiveness requires structural reforms to improve the business climate, reduce trade costs, and enhance human capital.

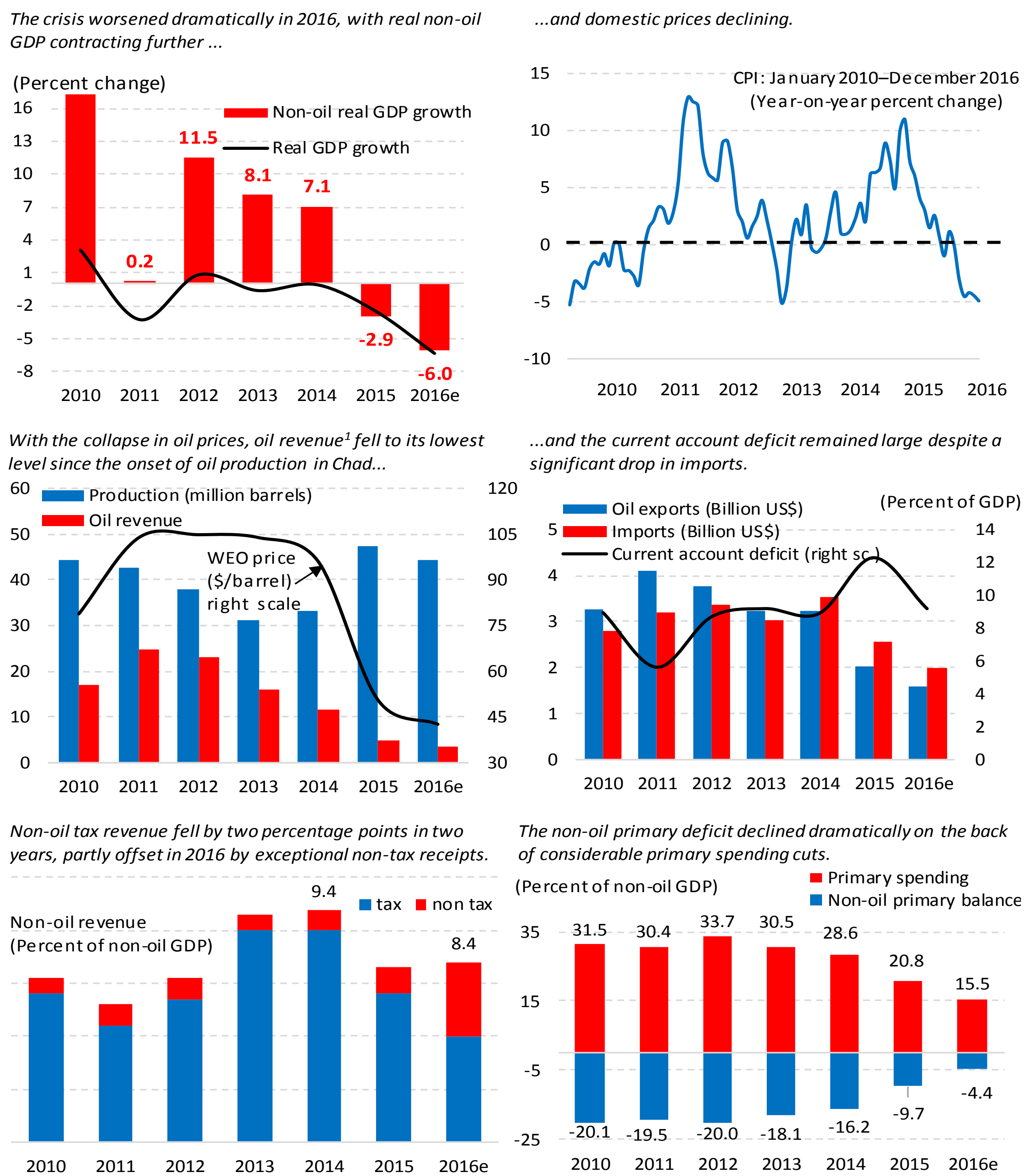
Figure 1. Chad: Development Indicators – Regional Comparison



Source: World Bank Development Indicators (WDI) database.

CEMAC: Average for Cameroon, Central African Republic, Congo, Chad, Gabon, and Equatorial Guinea.
SSA: Average for Sub-Saharan African countries.

Figure 2. Chad: Recent Economic Developments, 2010–16



Source: Chadian authorities, IMF staff calculations.

[1]Oil revenue is net of operational costs linked to government participation in oil companies, and transportation cost.

PERFORMANCE UNDER THE 2014–17 ECF ARRANGEMENT

12. Most quantitative performance criteria (PC) and structural benchmarks (SBs) under the ECF arrangement were met through June 2016 (test date for the 4th review) (Text Tables 1 and 2). The floor on the non-oil primary balance, the fiscal anchor of the program, was met in all four reviews, reflecting the dramatic cuts in spending, amid weak revenue performance. Even as the spending envelope was tightening, the floor on social spending was met. The limit on contracting or guaranteeing of non-concessional loans was missed on one occasion because the Glencore debt rescheduling in late 2015 was done on non-concessional terms even though it provided the required relief on debt-service. Finally, despite the authorities' strong efforts to stay current on their obligations, domestic payment arrears were inevitable in 2015 and 2016 given the liquidity crunch, and some external payment arrears accumulated in 2016.[1] Up to June 2016, most of the SBs aimed at improving public finance management were met. Two benchmarks were met with delay (Text Table 2).

Text Table 1. Chad: Performance Criteria under the 2014–17 ECF arrangement

	2014	2015		2016	
	End-December	End-June	End-December	End-June	End-December
1. Floor on non-oil primary budget balance	Met	Met	Met	Met	Not Met
2. Ceiling on net domestic government financing	Not Met	Met	Met	Met	Not Met
3. Ceiling on the accumulation of domestic payment arrears by the govenrment	Met	Not Met	Not Met	Not Met	Met
4. Ceiling on the accumulation of new external payment arrears by the govenrment or public non-financial enterprises	Met	Met	Met	Not Met	Not Met
5. Ceiling on contracting or guaranteeing of new non-concessional external debt by the government and public non-financial enterprises	Met	Not Met	Met	Met	Met
6. Floor for poverty reducing social spending	Not Met	Met	Met	Met	Met

Sources: Chadian authorities; and IMF staff.

13. However, the deepening economic crisis in the second half of 2016 has undermined the ability of the government to implement the ECF arrangement. Three of the six PCs for end-2016 were not met (Table 7). The non-oil primary balance floor was missed, largely due to a shortfall in non-oil revenue. The ceiling on net domestic financing was also exceeded, as domestic debt amortization was lower than projected. Two of the SBs for end 2016 were not met: (i) the submission of the National Development Plan to the Assembly was delayed to allow additional time for

[1] External arrears accumulation in 2016 was not reported in a timely manner to the IMF and thus gave rise to a case of misreporting in the context of the combined 3rd and 4th reviews of the current ECF arrangement (see *Chad-Report on Noncomplying Disbursement* which recommends waivers for the nonobservance of the continuous performance criterion on the non-accumulation of external debt arrears based on corrective measures taken).

sufficient consultation with external partners; and (ii) the authorities decided to wait for clarity on the financing of the audit of domestic arrears before finalizing its terms of reference.

Text Table 2. Chad: Structural Benchmarks under the 2014–17 ECF Arrangement

Description	Due Dates	Status of Conditionality
Prepare and publish quarterly budget execution reports on the basis of existing data	End-Sept 2014	Met
Adopt a regulatory framework for debt management, particularly a referral and operating procedure, in line with technical assistance recommendations by the World Bank and AFRITAC Central	End-Sept 2014	Missed. Completed in December 2014
Submission to Parliament of a 2015 draft budget targeting an NOPD of 14.1 percent of non-oil GDP	End-Oct 2014	Met
Limit emergency spending procedures to no more than 17 percent of domestically financed spending in 2014 (excluding wages and debt service)	End-Dec 2014	Met
Issuance of a decree for the establishment of an inter-ministerial structure in charge of consolidating and reporting all the information related to fiscal oil revenue	End-June 2015	Met
Incorporation of information on fiscal oil revenue (from the inter-ministerial structure monitoring) in the quarterly budget execution reports published by the Ministry of Finance	End-Sept 2015	Met
Update and expand the taxpayer database	End-Dec 2015	Met
Limit emergency spending procedures to no more than 9 percent of domestically financed spending in 2015 (excluding wages, debt service, and security-related spending)	End-Dec 2015	Met
Producing an annual debt management report	End-June 2016	Missed. Completed in October 2016
Establishment of a structure responsible for Treasury planning and monitoring, and preparation of cash management plans	End-June 2016	Met
Enhanced reporting of gross and net oil revenue flows	End-June 2016	Met
Rationalization of transfers and subsidies, based on the result of the functional and financial audit launched in 2015	End-Sept 2016	Not Met
Submission to the National Assembly of the National Development Plan 2016-2020	End-Nov. 2016	Not Met
Finalization of the terms of reference for the recruitment of an international firm to conduct the audit of domestic arrears	End-Dec. 2016	Not Met

Sources: Chadian authorities; and IMF staff.

STABILIZATION AND RECOVERY: POLICIES UNDER A NEW THREE-YEAR ECF ARRANGEMENT

14. The authorities' proposed program to be supported by a new three-year ECF arrangement aims to stabilize the economy and lay the foundation for a sustainable recovery over the medium-term (Text Table 3). It entails measures to help arrest the vicious cycle and revive non-oil growth, which would also support the sustainability of the current regional exchange rate regime. The program recalibrates the balance between financing and adjustment recognizing that further sharp adjustment is not feasible, and therefore more timely external support is needed. The main elements of the strategy are: (i) to avoid further spending cuts while maintaining fiscal prudence and allocating resources for domestic arrears clearance; (ii) reestablish debt sustainability by restructuring external commercial debt; (iii) focus on non-oil revenue mobilization to support gradual medium term adjustment; and (iv) reduce reliance on domestic financing and liquidity pressure on banks. Structural reforms to improve public financial management (PFM) and diversify the economy are essential for the success of the strategy. In the absence of such a strategy, the economy is likely to face an increasing risk of a disorderly adjustment, as ad hoc and erratic spending cuts, in addition to more arrears accumulation, are likely to become inevitable and lead to economic and social instability.

15. Chad's reform strategy is embedded in the coordinated regional approach outlined at the Yaoundé summit. The measures proposed by the authorities are fully in line with the priorities identified in the regional economic reform program for the CEMAC (PREF-CEMAC) and, together with the other CEMAC countries' efforts, will contribute to redress regional imbalances and rebuild adequate buffers. At the same time, the regional policies to be pursued by the BEAC and the COBAC would support Chad's reform efforts. Regional policies include tightening of monetary policy, elimination of monetary financing of member countries, gradual elimination of statutory advances, modernization of the liquidity management framework, implementation of prudential regulations to restrict refinancing flows to members, and strengthening the banking supervision framework.[2]

A. New Policy Strategy and Medium Term Macroeconomic Framework

16. The medium-term macroeconomic outlook is shaped by the projected improvement in the fiscal position and a recovery in oil production. The stabilization of the fiscal position - which entails a gradual increase in spending - is expected to underpin the start of the recovery in non-oil activity later in 2017, which would be further supported by (i) the repayment of domestic arrears, (ii) the improvements in the health of the banking sector, (iii) efforts to diversify the economy over the medium term, and (iv) a pickup in foreign financed investment. Against this backdrop, non-oil activity is projected to stabilize in 2017 and gradually grow afterward. Oil production is expected to

---

[2] See *Central African Economic and Monetary Community (CEMAC): Staff Report on the Common Policies in Support of Member Countries Reform Programs*.

grow by about 3.6 percent in 2017 on the back of continued stability in oil prices, as new fields are expected to start production in the second half of 2017. Over the medium term, production is expected to increase gradually in line with the capacity of new fields before reaching the estimated peak of production around 2025. Inflation is expected to increase from -1.1 percent to 0.2 percent in 2017 and move towards the 3 percent CMEAC-wide target in 2020.

17. Risks to the outlook are high but manageable if the measures envisaged under the program are implemented. In the short term, growth may underperform if there are delays in implementing the necessary measures to stabilize the fiscal position which is necessary to foster the confidence of the private sector. Risks to the fiscal outlook also include a further deterioration in the liquidity position of banks which could undermine the rollover of domestic public debt. Meanwhile, developments in the international oil market continue to pose both upside and downside risks to the outlook. Further security tensions in the region could lead to an escalation in military operations which could weigh on the budget. Finally, upside risks include potential exceptional receipts, notably from the resolution of old tax disputes or the result of international tenders for new oil fields.

18. Preserving the adjustment of the past two years is at the heart of the effort to stabilize the fiscal position. While the spending cuts were dramatic and under different circumstances could have been done more gradually, spending prior to the crisis reached unsustainable levels, and needed to be reduced. As such, it is very important that much of the resulting adjustment be preserved and where possible to redirect resources to areas where the previous cuts had detrimental economic and social consequences such as investment and social sectors. Priority will be given to:

- Gradually reduce the wage bill, which is one of the highest in CEMAC (Text Figure 3). Since 2014, the authorities dramatically cut all categories of expenditure, except the wage bill, leading to an increase of its share in total primary spending to close to 50 percent in 2016. It also reached a level larger than total non-oil tax revenue. In the short-term, the authorities plan to control new hiring, freeze wage increases; and reduce bonuses of civil servants. In addition, the authorities have launched an audit of the payroll to identify areas where its management could be improved and shed ghost workers, and plan to launch another audit of diplomas to identify people who falsified their diplomas (MEFP ¶13).
- Streamline transfers and subsidies where feasible (MEFP ¶14). Recent measures, such as the merger of public entities, are expected to reduce the need for subsidies. Transfers and subsidies were dramatically reduced from 6.3 percent of non-oil GDP in 2014 to 2.2 percent in 2016 and would remain 2.5 percent in the medium term.
- Gradually increase public investment spending, which is important to support sustainable growth. Domestically financed investment is projected to reach 1.4 percent of non-oil GDP in 2017, followed by a gradual increase toward 2.2 percent of non-oil GDP by 2020.

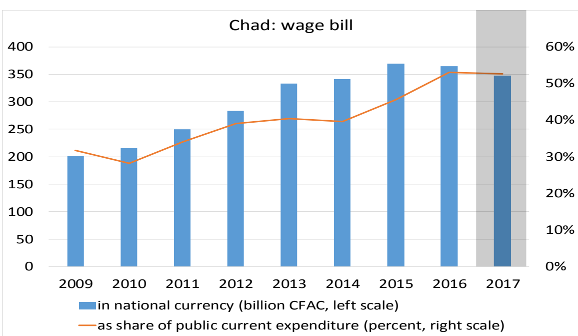
Text Table 3. Chad: Medium-Term Projections

	2014	2015	2016	2017	2018	2019	2020
Real GDP growth (percent per year)	6.9	1.8	-6.4	0.6	2.4	3.1	3.9
Oil	5.7	32.1	-8.4	3.0	6.1	5.8	5.4
Non-oil	7.1	-2.9	-6.0	0.1	1.6	2.6	3.6
Current account balance, including official transfers (percent of GDP)	-8.9	-12.3	-9.2	-2.2	-3.2	-3.5	-3.3
	(In percent of non-oil GDP)						
Government revenue and grants	23.2	17.1	14.9	19.9	19.2	19.2	19.5
Oil revenue	11.7	4.9	3.5	6.4	6.5	6.3	6.2
Non-oil revenue	9.4	8.3	8.4	8.1	8.4	8.8	9.4
Grants	2.1	3.9	3.0	5.4	4.3	4.1	3.8
Total expenditure (commitments basis)	29.4	22.9	18.0	18.8	18.5	18.7	18.2
Current expenditure (except. interests)	15.7	13.5	11.7	11.2	11.1	11.0	10.9
Investment	12.8	7.3	3.7	4.7	5.3	6.0	6.1
of which: Domestically financed investment	*9.9*	*4.4*	*1.1*	*1.4*	*1.7*	*2.1*	*2.2*
Overall fiscal balance (commitment basis)	-6.2	-5.9	-3.0	1.1	0.7	0.5	1.3
Non-oil primary balance (commitment basis, excl. grants)	-16.2	-9.7	-4.4	-4.6	-4.3	-4.2	-3.6
Gross official reserves (billions of USD)	1.2	0.4	-0.3	0.0	0.1	0.3	0.5
(In months of imports of goods and services)	2.1	1.0	-1.0	-0.1	0.4	0.8	1.3
Memorandum item:							
Chadian crude oil price (US$/barrel)	94.0	39.9	36.2	50.4	49.9	49.0	48.9

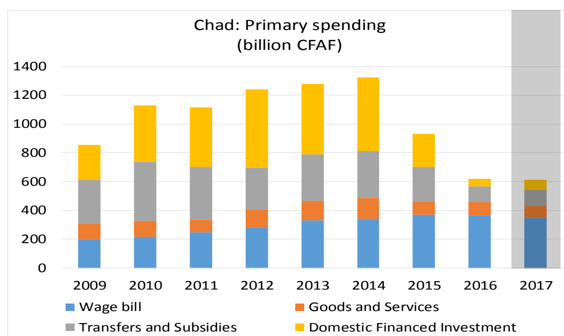
Sources: Chadian authorities and IMF staff projections.

Figure 3. Chad: Wage Bill

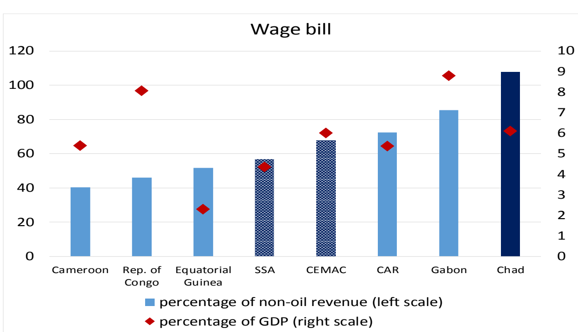
The wage bill increased significantly in recent years.



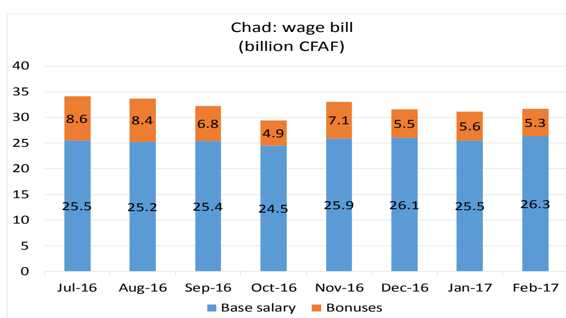
All primary spending categories were cut since 2014, except the wage bill.



Chad's wage bill is now among the highset in the CEMAC.



Bonuses were reduced at the end of 2016.



Source: Chadian authorities and IMF staff calculations.

19. The program envisages a gradual repayment of domestic arrears consistent with resource availability. While priority is given to staying current on new spending commitments, the program makes allowance for gradual repayment of arrears starting with those recognized by the Treasury ("*Restes à payer*") at end-April 2017 (MEFP ¶17). Repayment of other arrears would be done in the context of a comprehensive strategy that starts with a thorough verification of those arrears, and then a prioritization of their repayment (section D and MEFP ¶32).

20. The program seeks a gradual approach to further fiscal adjustment over the medium-term supported by improvement in non-oil revenue. The non-oil primary fiscal deficit, which will serve as the main anchor for the program, is projected to slightly widen in 2017 before improving gradually over the medium-term. This initial widening to 4.6 percent of non-oil GDP reflects, in large part, a decline in non-tax revenue, which increased significantly in 2016 due to one-off receipts as the government settled disputes with private companies. The spending envelope will remain tight throughout the medium-term while improving non-oil tax revenue will be the priority. This will include widening the tax base primarily through limiting exemptions, improving customs and tax administration, and simplifying taxes (see section D and Annex III). The projected adjustment over the medium term is not expected to be contractionary given that it would be driven by improvement in revenue underpinned by reforms that would reduce uncertainty regarding taxation, In addition, the adjustment is accompanied by repayment of domestic arrears which is expected to have a positive impact on economic activity.

21. Reestablishing debt sustainability hinges on restructuring of commercial external debt. Chad is in debt distress and without restructuring, debt would be unsustainable (see DSA). External arrears have accumulated in 2016–17, and about $88 million—(0.9 percent of non-oil GDP) remained outstanding at end April 2017. In addition, with external debt service set to be about 40 percent of revenue without debt restructuring in 2017 and 2018 (about 82 percent of which is to the commercial creditor, Glencore), there is a large breach of the LIC-DSF external debt service-to-revenue threshold. While the Glencore debt was restructured in December 2015, which helped ease its service burden in 2016, developments later in the year proved that this was not sufficient to place the debt burden on a sustainable path. As such, the authorities are committed to achieve a deeper restructuring of this debt to reduce its service burden over the next four years, as well as its overall burden. They have engaged debt advisors in this regard, and expect to reach agreement on a restructuring by September 2017 (MEFP ¶22).

22. The program integrates the tightening of the monetary policy stance initiated at the regional level. Recent monetary policy decisions by the BEAC aimed at supporting the build of regional reserves are expected to have only a limited impact on short term growth in Chad. In particular, the increase in the policy rate in March (from 2.45 percent to 2.95 percent) is expected to have a limited impact due to the low monetary policy transmission in Chad. In addition, the 20 percent reduction in the overall refinancing ceiling for Chad from CFAF 300 billion to 240 billion is not likely to be binding currently for Chadian banks. The reduction affects the refinancing of private sector debt which banks have not engaged in.

23. The program envisages the repayment of BEAC debt and a gradual build-up of government deposits at the BEAC. Chad reached its ceiling of statutory and exceptional advances from the BEAC in 2015, for a total of CFAF 420 bn. The fiscal strategy incorporates the beginning of the repayment of government debt to the BEAC in 2018 and of advances in 2019 to eliminate them by 2028.[3] In addition, government deposits at the BEAC will be gradually increased, starting in 2017 (about CFAF 5 billion) and are expected to reach CFAF 40 billion (0.7 percent of non-oil GDP) by 2021.

24. The program also includes a strategy to address short-term liquidity pressures among some domestic banks and alleviate the bank-sovereign nexus. The strategy aims to reestablish banks' confidence to rollover a large share of securities maturing in 2017 (for a total CFAF 192 billion), by putting public finances on a healthier footing and reducing the government's domestic debt to banks by 9 percent in 2017 and a further 7.5 percent in 2018 (Text Table 4). In addition, with IMF Technical Assistance (TA) from MCM, the BEAC is putting in place a credible framework for liquidity assistance to Chadian banks that is consistent with existing regulations and regional stability objectives. The authorities are committed to closely coordinate with the banks, BEAC, and the relevant regulators to ensure the success of this strategy.

Text Table 4. Chad: Domestic Financing from Banks[1]

(In billion of CFAF)

	2016	2017p	2018p
1. Use of deposits	**-11.2**	**0.0**	**0.0**
2. Banks loans	**-31.6**	**-13.8**	**-7.7**
3. Auctioned securities (net)	**239.1**	**-8.0**	**-20.3**
Treasury Bills (net)	79.7	-23.5	-6.2
Treasury Bonds (net)	159.4	15.5	-14.1
Issuances	159.4	41.0	125.3
Amortization	0.0	-25.5	-139.4
4. Syndicated securities	**-26.9**	**-36.1**	**-18.1**
Emprunt Obligataire 2011-2016	-26.9		
Emprunt Obligataire 2013-2018	0.0	-36.1	-18.1
Total banks financing	**169.4**	**-57.9**	**-46.1**
Total banks exposure to Central Government	**579.3**	**527.5**	**487.6**

[1]Does not include bilateral loans and loans from BDEAC in CFAF.

Sources: Chadian authorities and IMF staff projections.

25. Given the continued fragility of the fiscal position, it is important that higher than projected budgetary resources (including exceptional receipts, oil revenue, and external support) be used prudently. While spending needs remain large, the authorities are committed to avoid an undue increase in the current spending envelope, and focus on social and investment spending. In addition, priority will be given to further reducing debt to banks, the stock of domestic arrears, and if possible building buffers more generally (MEFP ¶20).

B. Fiscal Policy for the Rest of 2017

26. Reflecting the worsening conditions since the second half of 2016, the authorities have prepared a prudent draft revised 2017 budget that includes realistic revenue and financing projections. This revised budget, in line with the program assumptions, is expected to be approved by the Cabinet by mid-June 2017. It broadly maintains the nominal spending envelope at the 2016 level with the main differences being a lower wage bill (by about 5 percent) and higher investment spending (about 35 percent). Goods and services are budgeted to decline, but this primarily reflects

[3] Advances include exceptional advances that mature in 2028.

the end of the one-off spending associated with Chad's 2016 chairmanship of the African Union. Social spending is set to slightly increase to 4.2 percent of non-oil GDP in 2017.

27. The draft revised budget reflects an increase in both non-oil and oil tax revenue. The authorities already took new tax measures in the context of the initial 2017 budget. The new tax on oil products (yielding an additional CFAF 2.5 billion for the first two months of the year) and the 18 percent excise tax on communications (replacing several less efficient taxes) are showing promising results (MEFP ¶25). Building on these measures, tax revenue is expected to improve by 0.3 percent of non-oil GDP in 2017. Regarding oil revenue, reflecting the planned restructuring of the Glencore debt, the revised budget projects higher net oil revenue.[4]

28. The draft revised budget reverses the originally planned reliance on domestic financing. It allocates resources to pay arrears to banks that emerged in 2016, all interest payment due in 2017, as well as the amortization of a syndicated bond, in addition to other maturing non-securitized loans. In total, this represents a negative net domestic financing from the banking sector of about CFAF 58 billion compared to positive net financing of over CFAF 169 million in 2016.

C. Tax and Customs Reforms and Policies

29. The yield of the non-oil tax system is weak, but the prospects for improvements are significant (Annex III). Despite good economic performance over the past fifteen years, non-oil revenue collection has been very weak, declining in the early 2000's and remaining very low since then. In 2016, it represented only 6.8 percent of GDP, significantly lower than the CEMAC and SSA averages (11.3 percent and 13 percent, respectively). The prevalence of exemptions, the proliferation of ad-hoc taxes, and weaknesses in tax and custom administration have created large distortions and weakened tax collection. In addition, tax and customs collection is affected by weak controls, particularly on exemption claims.

30. A key element of the program is strengthening non-oil revenue mobilization. Based on staff's cross country analysis (Annex III), and FAD TA reports, Chad's non-oil tax revenue potential could be around 10–13 percent of non-oil GDP, 2 to 5 percentage points higher than its current level. With economic diversification, the revenue potential can be further increased. Reflecting the importance of this issue, the authorities will set up a unit in charge of tax policy (SB), with the objective of identifying and advancing reforms to improve non-oil revenue mobilization (MEFP ¶24).

31. Efforts to strengthen non-oil tax revenue will encompass a wide range of measures. Priority is given to limiting exemptions through a decree imposing a moratorium on new exemptions, while efforts will be made to identify exemptions that could be removed.[5] In addition, work is ongoing to improve and modernize the customs administration (MEFP ¶26 and ¶27),

---

[4] The budget presents oil revenue net of (i) operational costs linked to SHT participation in the ESSO consortium; (ii) transportation costs for exporting government oil; and (iii) service on the debt to Glencore.

[5] FAD TA estimates VAT exemptions at about 3 percent of GDP in 2016, and singles out exemptions on electricity and water as potential candidates for removal.

including establishing a single customs window at Ngueli (SB), and modernize the excise goods management system for tobacco, beer, alcoholic beverages and soft drinks.

32. Over the medium term, efforts will focus on further broadening the tax base (MEFP ¶28). Regarding the VAT, the priority is to (i) broaden the tax base through a reduction in exemptions, notably in the electricity sector; and (ii) implement an effective VAT refund system. The authorities will also explore ways to simplify the personal income tax system and apply a single progressive scale for all taxpayers, and increase property tax revenues through better land and property registration and tax collection procedures.

D. Public Financial Management Reforms

33. PFM reforms are key to improve fiscal controls and avoid the accumulation of domestic arrears. The focus should be on strengthening the expenditure chain and cash management.

- The expenditure chain (commitment, validation, authorization, and payment) will be strengthened through the enhanced use of the computerized system (CID), which will help improve control, monitoring and transparency, especially in the payment phase. In addition, while aiming to limit their use, the authorities are committed to appropriately record in the budget (i.e., regularize) spending executed through emergency procedures (DAO) as soon as possible (indicative target) to limit the risk of overspending and/or new arrears accumulation (MEFP ¶30).
- The Cash Plan Committee is now fully operational. A cash management plan, including monthly forecasts of revenues and main expenditures (notably the wage bill, and domestic and external debt service) has been developed. Moving forward, efforts will focus on integrating other spending categories in the plan, and on strengthening the responsiveness of the Committee to revenue and expenditure forecast updates.

34. In addition to the repayment of recognized arrears, the authorities are committed to adopt a comprehensive strategy for the identification and payment of other potential arrears (MEFP, ¶32). An audit of unverified expenditure payment arrears is expected to be launched before the end of the year (SB). Based on its results, a comprehensive strategy of repayment that includes modalities (such as securitization of some arrears) and prioritization of repayment (based on the economic social and financial impact of repayment) will be defined. The strategy would be implemented consistently with the medium-term fiscal framework.

35. Improvements in debt management will target both the contracting and management of debt including strengthening public debt recording and monitoring capacity (MEFP ¶34). The fragmentation of responsibilities, and institutional and functional weaknesses, often lead to contracting debt without due consideration for its budgetary implications. Reform priorities include better control and enhancement of risk assessment as part of a medium-term debt strategy drawing on the findings of ongoing AFRITAC technical assistance missions to develop a medium-term debt strategy.

36. The authorities are determined to further enhance transparency in the oil sector (MEFP ¶36). While progress has been made in monitoring and forecasting oil revenue flows, better coordination and information sharing among government agencies (Annex IV), is necessary to help make relevant information publicly available on a timely basis. In this regard, the authorities will prepare and publish a quarterly oil sector note that includes information on financial flows that affect the budgetary oil revenue level (SB), and are committed to remain in compliance with the EITI.

E. Other Structural Reforms

37. The current economic crisis has fostered a consensus in Chad on the need to diversify the economy. Poverty is prevalent, particularly in rural areas. The population is young (45 percent is under 15 years) and expanding by 3 percent per year, and the government is the main source of formal sector employment in urban areas. A stronger private sector is needed to create jobs, reduce poverty, and promote more inclusive and sustainable growth.

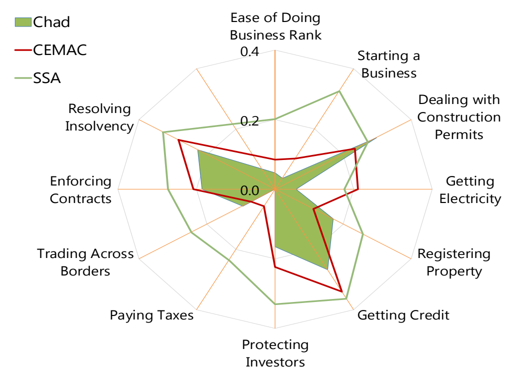
38. However, Chad faces significant structural competitiveness challenges that need to be addressed to achieve diversification (Figure 4). Business environment, competitiveness, institutional and governance indicators, rank Chad among the worst performers in the world. Structural reforms should aim to tackle impediments to private sector development particularly in sectors with potential to generate employment and inclusive growth, and improve the business climate (Annex II). The authorities also recognize the importance of controlling corruption. As part of a broader institutional reform agenda, they will create a special court for suppression of economic and financial crimes by June 2018 (SB), which will help strengthen the anti-corruption legal framework.

39. Deepening the financial sector and enhancing financial sector inclusion is important to support the diversification agenda. Access to financial services, already low in Chad, may worsen due to the recent deterioration in banking sector soundness. Short-term priority should be given to addressing the ongoing liquidity stress. Beyond that, reforms should aim to improve households' access to financial services, especially in rural areas. In addition, beyond measures to be taken at the regional level and coordinated with the regional supervisor, focus should be given to strengthening legal, regulatory, and institutional frameworks and effective enforcement of laws to protect property rights and creditor's rights. Finally, efforts to develop mobile banking would help improve financial inclusion.

40. Economic diversification is one of the main pillars of the 2017–21 National Development Plan (NDP). The NDP has benefited from a wide consultative process with internal and external stakeholders and is expected to be finalized soon (SB). It aims to focus on tackling the structural impediments to growth and focus on sectors in which Chad has the resources and expertise, such as agriculture and livestock, mining, and artisanal crafting. The authorities are preparing a donor conference in September to raise official financing, and aim to encourage private sector participation.

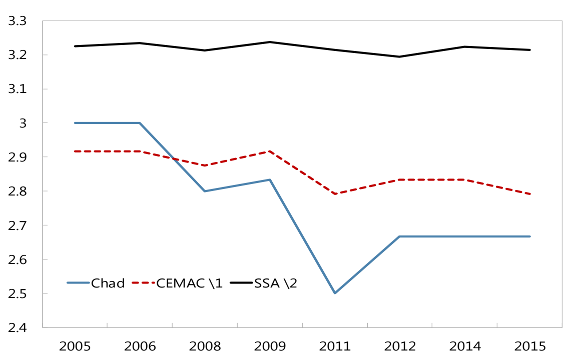
Figure 4. Chad: Structural Competitiveness Indicators, 2005–17

Chad: Doing Business Indicators Rank, 2017
(Normalized Ranking)

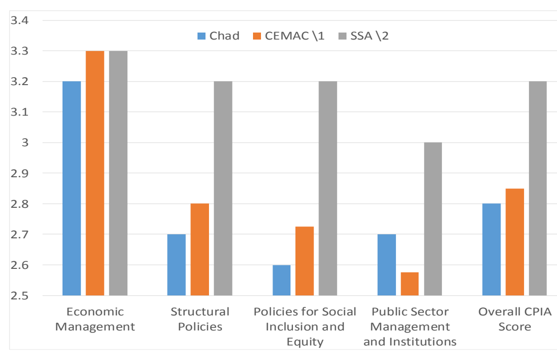


Chad: Most Problematic Factors for Doing Business, 2015
(Percent)

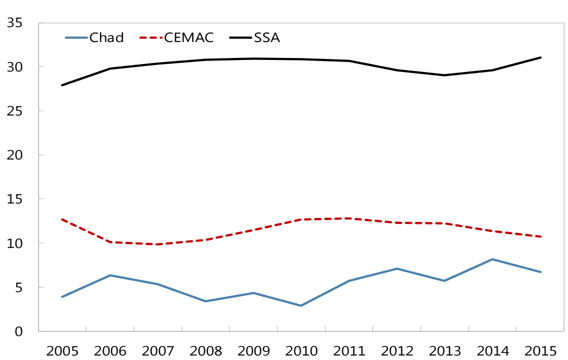
Chad: CPIA Structural Policies Cluster, 2005–15
(1 = worst, 6 = best)



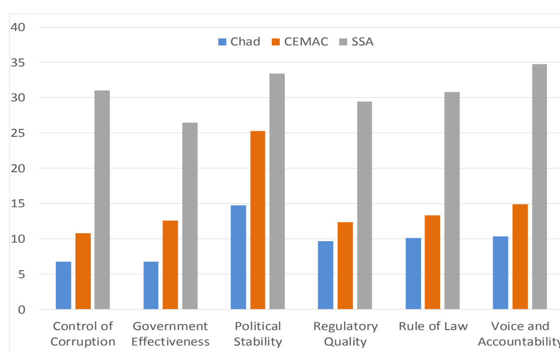
Chad: CPIA Scores by Clusters and Overall, 2015
(1 = worst, 6 = best)



Chad: Control of Corruption, 2005–15
(Percentile Rank)



Chad: World Governance Indicators, 2015
(Percentile Rank)



Sources: World Bank Doing Business Index, World Governance Indicators and CPIA; Africa Competitiveness Report, World Economic Forum.

[1/] Does not include Equatorial Guinea and Gabon.

[2/] Includes only IDA-eligible countries in Sub-Saharan Africa.

PROGRAM MODALITIES, SAFEGUARDS, AND RISKS

41. The authorities have decided to cancel the existing ECF arrangement and request high access to PRGT resources under a new three-year ECF arrangement of 160 percent quota (SDR 224.32 million) to support their reform program. With the credit outstanding of SDR 89.85 million as of end-April 2017, the proposed access will bring the total access for Chad to 224.1 percent of quota, net of repayments to the PRGT. The new arrangement would help catalyze a significant increase in budget financing from donors, which is critical for the success of the program. In this regard, financing assurances have been obtained from the various donors (World Bank, European Union, African Development Bank, and France), particularly for the next 12 months (Text Table 5). Regarding existing external arrears. the authorities are taking steps to regularize arrears to official bilateral creditors within the next 12 months, and with multilateral creditors within the program period, and these are integrated in the program baseline scenario (Tables 2 and 4). Arrears to the World Bank have been cleared. Chad is making a good faith effort to reach a collaborative agreement with the private creditor to whom arrears have emerged.

42. The proposed phasing considers the significant need for financing in the short run while keeping incentives for reform (Text Table 5). Disbursements in percent of quota would be phased as follows: 50 percent each year in 2017 and 2018, 40 percent in 2019, and 20 percent for the last review in 2020. The share of IMF financing in total official financing is projected to be around 30 percent in 2017–19, similar to 2015–16 (and about 18 percent of the total financing needed).

Text Table 5: Chad: Financing Needs in 2017–20 and Sources of Financing

(In million of US dollars)

	2017	2018	2019	2020
1. Financing gap under new Program	521	531	431	390
2. Commercial debt rescheduling	174	249	192	200
3. Budget support	252	187	163	153
4. Residual financing gap (1-2-3)	95	95	76	37
5. IMF financing *(160 percent of quota)*	95	95	76	37
percent of quota	*50*	*50*	*40*	*20*

Sources: Chadian authorities and IMF staff projections.

43. Program performance is proposed to be monitored through semi-annual QPCs, indicative targets (ITs), and SBs (MEFP, Tables 1 and 2). QPCs and ITs are set on the non-oil primary balance, customs revenue, net domestic government financing (excluding BEAC), net government financing from BEAC, stock of recognized arrears, external arrears, and non-concessional external debt. ITs are set for social spending, and regularization of spending through emergency procedures. Potential variation in budget support, exceptional receipts, and oil revenue would be dealt with through adjustments to the non-oil primary balance, the stock of recognized arrears, and the net domestic government financing.

44. The capacity to repay the IMF is adequate. Outstanding obligations to the IMF based on existing and prospective drawings would peak at 3.7 percent of GDP and 11.3 percent of exports of goods and services in 2020, while annual repayments will peak at 0.5 percent of GDP and 5 percent of tax revenue in 2025 (Table 10).

45. Ahead of the Board meeting, the authorities will have fulfilled the following prior actions: (i) approval by the council of ministers of a 2017 revised budget in line with the program parameters; and (ii) issuance of a ministerial decree reinforcing the moratorium on extension of tax and customs exemptions.

46. Staff considers that there are sufficient assurances regarding the debt restructuring needed to establish debt sustainability. The authorities have appointed debt advisors, who are developing options for the restructuring, and expect to achieve a restructuring in line with the program parameters. This entails significantly reducing the external debt service, which implies generating about $815 million in financing during 2017-2020. The objective is to place debt service on a firm downward path that restores debt sustainability and ensure that the program is fully financed (Text Table 5). The advisors explained that the collateral associated with this debt is not likely to undermine the ability of the government to generate the necessary financing to ensure the program is fully financed and restore debt sustainability.

47. The program faces challenges and risks, notably potential delays in the external debt restructuring. Any delay in debt restructuring will be reflected in lower resources for budget implementation unless additional resources could be mobilized. As such, it is critical to reduce the external debt service as soon as possible. Nonetheless, the proposed phasing aims to mitigate to resulting risk to IMF resources. Other risks to the program include social pressure, and the high turnover among high and mid-level officials which often complicates program implementation. The authorities' strong commitment to the program provides a good risk mitigating factor.

48. Safeguards assessment. The BEAC is finalizing implementation of remaining priority recommendations as part of IMF safeguards "rolling measures". Following numerous measures adopted in recent years, at end-March 2017, the BEAC Board of Directors and CEMAC Ministerial Committee successfully adopted the critical governance-focused amendments to the BEAC Charter, marking a key milestone on long-standing efforts to strengthen governance at the central bank. In addition, major advances have been made for the BEAC's full transition to International Financial Reporting Standards (IFRS) during 2017.[6] These are positive steps toward successful conclusion on safeguards "rolling measures". A full safeguards assessment under the periodic four-year cycle for regional central banks is scheduled for June 2017.

STAFF APPRAISAL

49. The economic crisis deepened in 2016 and calls for a better balance between adjustment and financing with more gradual adjustment combined with significantly more external support. The oil price shock, the security shock, and the heavy burden of external

[6] The implementation of safeguards recommendations is currently monitored annually as a condition for continued IMF financial engagement with CEMAC countries.

commercial debt continue to have serious economic, social, and financial repercussions in spite of dramatic fiscal adjustments over the past two years. Economic activity contracted sharply in 2016, fiscal pressures deepened, the banking sector has been under pressure, and social tension has risen. So far in 2017, there are no signs of improvement, and the authorities continue to implement the budget under acute liquidity constraints.

50. Despite progressively worsening conditions, performance under the ECF was broadly satisfactory until June 2016, reflecting strong commitment by the authorities. However, their ability to implement the program has been undermined by the deepening of the crisis in the second half of 2016.

51. Staff welcomes the authorities' commitment to take the necessary measures to stabilize the economy and to lay the foundation for a sustainable recovery over the medium-term. Fiscal policy should aim for a more gradual approach to adjustment that relies primarily on improving non-oil revenue mobilization, while maintaining a tight spending envelope. This is necessary to allow room for a gradual clearance of domestic arrears needed to boost economic activity and support the banking sector. Strengthening PFM and diversifying the economy, which are two of the main pillars of the forthcoming 2017–21 National Development Plan, are expected to support the efforts to strengthen the fiscal position and boost the non-oil sector.

52. Staff assesses that reducing the burden of external debt through a restructuring of the Glencore debt is critical for the success of this strategy. To this end, the authorities have taken credible initial steps, including contacting the creditor, publicly announcing the intention to restructure the debt, and appointing financial and debt advisors to achieve the necessary restructuring. Based on this and the views of Chad's debt advisors regarding the collateralized nature of the debt, staff considers that adequate assurances are in place to restore debt sustainability and ensure the program is fully financed. Furthermore, staff concludes that the authorities are in compliance with the Fund's arrears policies based on the authorities' plan to regularize arrears to official creditors during the period of the arrangement and based on their good faith efforts to reach collaborative agreement with their private creditor.

53. Measures to address short-term liquidity pressures among some domestic banks are also needed to improve the health of the banking sector. Banks' high exposure to the government should be reduced in 2017 and 2018, while an adequate framework for liquidity provision to banks is being developed. This should be done in close cooperation between the national authorities, the BEAC, and the relevant regional regulators. The objective is to ensure banks continue to have the necessary confidence to rollover maturing government securities and lend to the private sector.

54. Strong and timely support from donors, complemented by IMF disbursements, is critical. Given the sizeable financing needs over the 2017–20 period, the authorities need to intensify their effort in mobilizing budget support, including by showing progress in the reforms required to enable the development partners to proceed with their budget support operations. The program supported by the IMF and its associated disbursements will continue to play a catalytic role in this regard.

55. Staff notes the Chadian authorities' cancellation of the existing ECF arrangement and supports their request for a new 3-year ECF arrangement with access of 160 percent of quota. The program would also contribute to restoring external stability of the region. The authorities' strong commitment to the program, including to the debt restructuring, adequately balances the risks to the program.

Table 1. Chad: Selected Economic and Financial Indicators, 2014–21

	2014	2015	2016	2017	2018	2019	2020	2021
	Prel.	Prel.	Prel.			Proj.		
	(Annual percentage change, unless otherwise indicated)							
Real economy								
GDP at constant prices	6.9	1.8	-6.4	0.6	2.4	3.1	3.9	3.6
Oil GDP	5.7	32.1	-8.4	3.0	6.1	5.8	5.4	1.7
Non-oil GDP	7.1	-2.9	-6.0	0.1	1.6	2.6	3.6	4.0
GDP deflator	0.8	-8.0	-1.2	0.1	1.7	2.3	3.1	3.0
Non-oil GDP deflator	3.3	3.1	-0.7	0.0	1.7	2.4	3.1	3.0
Consumer price index (annual average)	1.7	6.8	-1.1	0.2	1.9	2.4	3.0	3.0
Consumer price index (end of year)	3.7	4.1	-4.9	0.7	2.3	2.7	3.2	3.0
Oil prices								
WEO (US$/barrel)[1]	96.2	50.8	42.8	55.2	55.1	54.1	54.0	54.4
Chadian price (US$/barrel)[2]	94.0	39.9	36.2	50.4	49.9	49.0	48.9	49.5
Oil production (millions of barrels)	33.2	47.5	44.4	46.0	49.0	52.0	55.0	56.0
Exchange rate CFAF per US$ (period average)	493.6	591.2	592.7	…	…	…	…	…
Money and credit[3]								
Net foreign assets	-1.8	-40.3	-38.2	8.9	…	…	…	…
Net domestic assets	28.2	35.6	30.5	-3.2	…	…	…	…
Of which : net claims on central government	21.4	32.2	26.5	-3.9	…	…	…	…
Of which : credit to private sector	17.8	1.1	-2.7	0.7	…	…	…	…
Broad money	26.5	-4.7	-7.7	5.8	…	…	…	…
Income velocity (non-oil GDP/broad money)	4.8	5.0	5.1	4.8	…	…	…	…
External sector (valued in US dollar)								
Exports of goods and services, f.o.b.	1.4	-34.0	-15.4	29.4	5.7	4.6	5.7	4.0
Imports of goods and services, f.o.b.	9.9	-23.7	-15.3	3.8	3.8	4.8	5.0	3.1
Export volume	5.9	29.2	-3.9	1.0	5.8	5.6	5.1	1.9
Import volume	9.3	-21.8	-10.4	1.0	2.0	3.1	3.6	1.4
Overall balance of payments (percent of GDP)	0.1	-6.4	-8.6	-0.5	-2.0	-1.2	-0.7	0.4
Current account balance, including official transfers (percent of GDP)	-8.9	-12.3	-9.2	-2.2	-3.2	-3.5	-3.3	-3.5
Terms of trade	-4.8	-47.7	-6.9	24.7	-1.8	-2.6	-0.8	0.4
External debt (percent of GDP)	29.1	25.0	27.1	28.6	27.8	26.3	24.2	22.1
NPV of external debt (percent of exports of goods and services)	62.9	98.5	97.2	73.0	69.0	65.0	60.0	55.7
	(Percent of non-oil GDP, unless otherwise indicated)							
Government finance								
Revenue and grants	23.2	17.1	14.9	19.9	19.2	19.2	19.5	19.0
Of which : oil revenue	11.7	4.9	3.5	6.4	6.5	6.3	6.2	6.1
Of which : non-oil revenue	9.4	8.3	8.4	8.1	8.4	8.8	9.4	9.8
Expenditure	29.4	22.9	18.0	18.8	18.5	18.7	18.2	17.5
Current	16.6	15.6	14.2	14.0	13.3	12.7	12.1	11.3
Capital	12.8	7.3	3.7	4.7	5.3	6.0	6.1	6.2
Non-oil primary balance (commitment basis, excl. grants)[4]	-16.2	-9.7	-4.4	-4.6	-4.3	-4.2	-3.6	-2.8
Overall fiscal balance (incl. grants, commitments basis)	-6.2	-5.9	-3.0	1.1	0.7	0.5	1.3	1.5
Total debt (in percent of GDP)[5]	39.4	43.3	51.2	50.5	47.7	44.8	41.1	38.2
Of which : domestic debt	10.3	18.3	24.0	21.9	19.9	18.5	16.9	16.1
Memorandum items:								
Nominal GDP (billions of CFA francs)	6,912	6,474	5,984	6,023	6,271	6,618	7,094	7,569
Of which: non-oil GDP	5,179	5,184	4,838	4,843	5,006	5,257	5,616	6,021

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

[1] WEO, latest Crude Oil Price Baseline.

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

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

Table 2. Chad: Fiscal Operations of the Central Government, 2014–21

(In billions of CFAF, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021
		Prel.	Prel.			Proj.		
Total revenue and grants	1,202	884	721	962	964	1,008	1,094	1,145
Revenue	1,094	682	576	701	748	795	878	960
Oil[1]	607	254	171	311	327	330	348	367
Non-oil	487	428	405	390	421	465	530	592
Tax	464	407	339	354	396	438	502	562
Non-tax	23	22	66	37	25	26	28	30
Grants	107	202	145	261	216	214	216	185
Budget support	0	90	65	179	117	101	95	50
Project grants	107	112	81	82	99	113	121	135
Expenditure	1,525	1,187	869	909	927	982	1,022	1,055
Current	861	811	689	679	664	669	681	679
Wages and salaries	341	369	365	348	354	359	363	367
Goods and services	147	93	96	85	88	97	112	120
Transfers and subsidies	327	240	108	109	113	123	135	145
Interest	46	109	121	137	109	90	71	46
Domestic	24	13	12	42	36	33	33	32
External	22	96	109	96	73	58	38	14
Investment	664	377	180	230	263	313	341	376
Domestically financed	510	231	51	69	83	108	121	131
Foreign financed[2]	154	146	129	161	180	205	220	245
Overall balance (incl. grants, commitment)	-323	-303	-147	53	37	26	72	90
Non-oil primary balance (excl. grants, commitment)[3]	-838	-504	-214	-221	-218	-222	-201	-171
Float from previous year[4]	-135	-181	-103	-95	-75	-78	-81	-83
Float at end of period[4]	181	103	95	75	78	81	83	89
Var. of Arrears[5]	12	148	-32	-30	-40	-40	-20	-10
Repayment of other arrears[6]			-51			-10	-10	-20
Overall balance (incl. grants, cash)	-230	-233	-238	4	0	-21	44	66
Non-oil primary balance (excl. grants,cash)	-779	-434	-255	-270	-255	-259	-219	-175
Financing	230	233	238	-170	-214	-147	-191	-129
Domestic financing	363	265	285	-95	-50	5	-24	-3
Bank financing	118	289	50	-44	-16	-53	-55	-61
Central Bank (BEAC)	113	292	61	-44	-16	-53	-55	-61
Deposits	104	26	-6	-5	-10	-5	-5	-5
Advances (net)	0	232	30	-39	-6	-48	-48	-48
IMF	9	34	37	0	0	0	-2	-8
Commercial banks (deposits)	5	-3	-11	0	0	0	0	0
Other financing (net), of which:	-32	-48	235	-50	-34	58	31	58
Amortization	*-80*	*-234*	*-53*	*-88*	*-178*	*-58*	*-138*	*-99*
Commercial banks loans (net)	*-9*	*-32*	*-10*	*0*	*0*	*0*	*10*	*10*
Non-bank loans (gross) [7]		*9*	*60*	*20*	*25*	*28*	*28*	*30*
Treasury bills (net)	*27*	*49*	*80*	*-24*	*-6*	*2*	*0*	*10*
Treasury Bonds (gross)	*0*	*139*	*159*	*41*	*125*	*86*	*132*	*107*
Privatization and other exceptional receipts[8]	277	24	0	0	0	0	0	0
Foreign financing	-133	-32	-47	-76	-164	-151	-168	-126
Loans (net)	-133	-56	-104	-104	-187	-175	-193	-154
Disbursements	46	34	18	145	56	64	71	81
Budget borrowings	0	0	0	87	0	0	0	0
Project loans	46	34	18	58	56	64	71	81
Amortization	-179	-91	-122	-249	-243	-239	-265	-235
Debt relief/rescheduling (HIPC)	0	20	30	32	30	29	28	28
External arreras[9]	0	0	27	-4	-7	-6	-2	0
Financing gap	0	0	0	167	214	167	148	64
Expected Commercial debt restructuring				108	155	120	125	63
Residual Financing gap				59	59	47	23	0
IMF planned disbursements under ECF				59	59	47	23	
Non-oil GDP	5,179	5,184	4,838	4,843	5,006	5,257	5,616	6,021
Poverty-reducing social spending	309	260	196	205				
Bank deposits (including BEAC)	119	97	114	119	129	134	139	144
(In months of domestically-financed spending)	1.0	1.1	1.9	1.9	2.1	2.1	2.1	2.1
BEAC advances[10]	223	455	485	454	449	401	353	305

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

[1] Starting 2015, net of cash calls and transportation costs linked to SHT participation in oil companies.

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

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

[4] Difference between committed and cash expenditure.

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

[6] Other arrears, total amount of which will be specified after audit.

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

[8] Extraordinary receipts linked to a settlement of a dispute with an oil company are included in 2014.

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

[10] Includes exceptional advances in 2015.

Table 3. Chad: Fiscal Operations of the Central Government, 2014–21

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

	2014	2015	2016	2017	2018	2019	2020	2021
		Prel.	Prel.			Proj.		
Total revenue and grants	23.2	17.1	14.9	19.9	19.2	19.2	19.5	19.0
Revenue	21.1	13.2	11.9	14.5	14.9	15.1	15.6	15.9
Oil[1]	11.7	4.9	3.5	6.4	6.5	6.3	6.2	6.1
Non-oil	9.4	8.3	8.4	8.1	8.4	8.8	9.4	9.8
Tax	9.0	7.8	7.0	7.3	7.9	8.3	8.9	9.3
Non-tax	0.4	0.4	1.4	0.8	0.5	0.5	0.5	0.5
Grants	2.1	3.9	3.0	5.4	4.3	4.1	4.1	3.5
Budget support	0.0	1.7	1.3	3.7	2.3	1.9	1.8	1.0
Project grants	2.1	2.2	1.7	1.7	2.0	2.1	2.3	2.6
Expenditure	29.4	22.9	18.0	18.8	18.5	18.7	18.2	17.5
Current	16.6	15.6	14.2	14.0	13.3	12.7	12.1	11.3
Wages and salaries	6.6	7.1	7.5	7.2	7.1	6.8	6.5	6.1
Goods and services	2.8	1.8	2.0	1.8	1.8	1.8	2.0	2.0
Transfers and subsidies	6.3	4.6	2.2	2.3	2.3	2.3	2.4	2.4
Interest	0.9	2.1	2.5	2.8	2.2	1.7	1.3	0.8
Domestic	0.5	0.2	0.2	0.9	0.7	0.6	0.6	0.5
External	0.4	1.9	2.3	2.0	1.5	1.1	0.7	0.2
Investment	12.8	7.3	3.7	4.7	5.3	6.0	6.1	6.2
Domestically financed	9.9	4.4	1.1	1.4	1.7	2.1	2.2	2.2
Foreign financed[2]	3.0	2.8	2.7	3.3	3.6	3.9	3.9	4.1
Overall balance (incl. grants, commitment)	-6.2	-5.9	-3.0	1.1	0.7	0.5	1.3	1.5
Non-oil primary balance (excl. grants, commitment)[3]	-16.2	-9.7	-4.4	-4.6	-4.3	-4.2	-3.6	-2.8
Float from previous year[4]	-2.6	-3.5	-2.1	-2.0	-1.5	-1.5	-1.4	-1.4
Float at end of year[4]	3.5	2.0	2.0	1.5	1.6	1.5	1.5	1.5
Var of Arrears[5]	0.2	2.9	-0.7	-0.6	-0.8	-0.8	-0.4	-0.2
Repayment of other arrears[6]		…	-1.0	0.0	0.0	-0.2	-0.2	-0.3
Overall balance (incl. grants, cash)	-4.4	-4.5	-4.9	0.1	0.0	-0.4	0.8	1.1
Non-oil primary balance (excl. grants, cash)	-15.0	-8.4	-5.3	-5.6	-5.1	-4.9	-3.9	-2.9
Financing	4.4	4.5	4.9	-3.5	-4.3	-2.8	-3.4	-2.1
Domestic financing	7.0	5.1	5.9	-2.0	-1.0	0.1	-0.4	-0.1
Bank financing	2.3	5.6	1.0	-0.9	-0.3	-1.0	-1.0	-1.0
Central Bank (BEAC)	2.2	5.6	1.3	-0.9	-0.3	-1.0	-1.0	-1.0
Deposits	2.0	0.5	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1
Advances (net)	0.0	4.5	0.6	-0.8	-0.1	-0.9	-0.9	-0.8
IMF	0.2	0.7	0.8	0.0	0.0	0.0	0.0	-0.1
Commercial banks (deposits)	0.1	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0
Other financing (net)	-0.6	-0.9	4.9	-1.0	-0.7	1.1	0.6	1.0
Privatization and other exceptional receipts[7]	5.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	-2.6	-0.6	-1.0	-1.6	-3.3	-2.9	-3.0	-2.1
Loans (net)	-2.6	-1.1	-2.2	-2.1	-3.7	-3.3	-3.4	-2.6
Disbursements	0.9	0.7	0.4	3.0	1.1	1.2	1.3	1.3
Amortization	-3.5	-1.7	-2.5	-5.1	-4.9	-4.5	-4.7	-3.9
Debt relief/rescheduling (HIPC)	0.0	0.4	0.6	0.7	0.6	0.6	0.5	0.5
Accumulation of external arrears[8]			0.6	-0.1	-0.1	-0.1	0.0	0.0
	…	…	…	…				
Financing gap	0.0	0.0	0.0	3.4	4.3	3.2	2.6	1.1
Expected Commercial debt restructuring				2.2	3.1	2.3	2.2	1.0
Residual Financing gap				1.2	1.2	0.9	0.4	0.0
IMF planned disbursements under ECF				1.2	1.2	0.9	0.4	0.0
Non-oil GDP	5,179	5,184	4,838	4,843	5,006	5,257	5,616	6,021
Poverty-reducing social spending	6.0	5.0	4.1	4.2				
Bank deposits (including BEAC)	2.3	1.9	2.4	2.5	2.6	2.6	2.5	2.4
(In months of domestically-financed spending)	1.0	1.1	1.9	1.9	2.1	2.1	2.1	2.1
BEAC statutory advances[9]	4.3	8.8	10.0	9.4	9.0	7.6	6.3	5.1

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

[1] Starting 2015, net of debt service on oil sales advances, and of cash calls and transportation costs linked to SHT participation in oil companies.
[2] Includes projects financed by the BDEAC, but the corresponding loans (in CFAF) are counted as domestic financing.
[3] Total revenue, less grants and oil revenue, minus total expenditures, less net interest payments and foreign financed investment.
[4] Difference between committed and cash expenditure.
[5] Recognized arrears, as registered by the Treasury in the "restes à payer" table.
[6] Other arrears, total amount of which will be specified after audit.
[7] Extraordinary receipts linked to a settlement of a dispute with an oil company are included in 2014.
[8] Include arrears to China, cleared through an agreement in April 2017.
[9] Includes exceptional advances in 2015.

Table 4. Chad: Balance of Payments, 2014–21

(In billions of CFAF, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021
	Prel.	Prel.	Prel.			Proj.		
Current account[1], incl. official transfers	-617	-796	-549	-135	-198	-229	-236	-267
Trade balance	197	34	135	531	594	624	651	677
Exports, f.o.b.	1,944	1,555	1,318	1,818	1,927	2,013	2,130	2,222
Of which : oil	1,592	1,191	955	1,430	1,516	1,577	1,665	1,722
Imports, f.o.b.	-1,747	-1,521	-1,184	-1,288	-1,333	-1,389	-1,479	-1,545
Services (net)	-1,060	-1,092	-1,035	-1,115	-1,163	-1,225	-1,266	-1,292
Income (net)	-298	-196	-107	-138	-176	-171	-166	-167
Transfers (net)	544	458	458	587	546	542	546	514
Official (net)	303	196	173	284	228	209	197	158
Private (net)	240	262	285	302	318	334	348	356
Financial and capital account[2]	477	353	34	104	70	150	185	295
Capital transfers	104	108	77	78	95	109	117	131
Foreign direct investment[3]	-334	331	145	195	211	247	284	301
Other medium and long term investment	547	-33	-131	-117	-201	-190	-208	-169
Public sector	558	-22	-119	-104	-187	-175	-193	-154
Private sector	-11	-11	-12	-13	-14	-15	-15	-15
Short-term capital	160	-54	-57	-53	-35	-16	-8	32
Errors and omissions	145	31	0	0	0	0	0	0
Overall balance	5	-412	-516	-31	-128	-79	-50	28
Financing	-6	359	421	-163	-109	-111	-124	-119
Change in official reserves (decrease +)	-6	359	421	-163	-109	-111	-124	-119
IMF (net)	9							
Financing gap	0	-53	-94	-195	-237	-190	-174	-91
Financing gap (percent of GDP)	0	-0.8	-1.6	-3.2	-3.8	-2.9	-2.5	-1.2
Exceptional Financing		54	94	136	178	144	151	91
IMF ECF		34	37	0	0	0	0	0
Debt relief (HIPC)		20	30	32	30	29	28	28
External arrears accumulation			27	-4	-7	-6	-2	0
Expected Commercial Debt Restructuring				108	155	120	125	63
Remaining gap (before IMF disbursements)				-59	-59	-47	-23	0
IMF 2017-ECF				59	59	47	23	0
Remaining gap after ECF augmentation				0	0	0	0	0
Memorandum items:								
Current account (percent of GDP)	-8.9	-12.3	-9.2	-2.2	-3.2	-3.5	-3.3	-3.5
Overall Balance of Payment (percent of GDP)	0.1	-6.4	-8.6	-0.5	-2.0	-1.2	-0.7	0.4
Exports (percent of GDP)	28.1	24.0	22.0	30.2	30.7	30.4	30.0	29.4
Of which : oil	23.0	18.4	16.0	23.7	24.2	23.8	23.5	22.7
Imports (percent of GDP)	-25.3	-23.5	-19.8	-21.4	-21.2	-21.0	-20.9	-20.4
FDI (percent of GDP)	-4.8	5.1	2.4	3.2	3.4	3.7	4.0	4.0
Gross official reserves (billions of USD)	1.2	0.4	-0.3	0.0	0.1	0.3	0.5	0.7
(In months of imports of goods and services)	2.1	1.0	-1.0	-0.1	0.4	0.8	1.3	1.7
(Idem, excluding oil sector imports)	2.5	1.2	-1.1	-0.2	0.4	1.0	1.5	2.0

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

[1] Starting 2016, including interest payment to the Glencore Debt

[2] Starting 2016, including Amortization to the Glencore Debt

[3] FDI are negative in 2014 due to the disinvestment by Chevron in Chad's biggest oil consortium.

Table 5. Chad: Monetary Survey, 2014–20

(In billions of CFAF, unless otherwise indicated)

	2014	2015	2016	2017				2018				2019	2020
			Prel.	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Net foreign assets	522.7	88.6	-303.7	-309.0	-289.6	-237.6	-219.0	-216.6	-232.6	-207.6	-200.0	-133.5	-24.9
Central bank	534.5	145.4	-302.2	-291.0	-269.6	-215.6	-194.0	-192.6	-197.6	-169.6	-155.0	-83.5	15.1
Foreign assets	588.6	229.4	13.0	14.0	15.0	19.0	22.0	21.0	41.0	67.0	110.0	210.0	318.8
Foreign liabilities	-54.0	-84.0	-315.2	-305.0	-284.6	-234.6	-216.0	-213.6	-238.6	-236.6	-265.0	-293.5	-303.6
o/w. IMF financing	-10.7	-37.9	-75.2	-75.2	-104.6	-104.6	-134.0	-133.6	-162.6	-162.6	-192.6	-239.7	-261.2
Commercial banks	-11.9	-56.8	-1.5	-18.0	-20.0	-22.0	-25.0	-24.0	-35.0	-38.0	-45.0	-50.0	-40.0
Net domestic assets	555.0	938.5	1251.7	1219.0	1231.6	1201.6	1221.6	1224.6	1248.6	1239.6	1276.9	1294.1	1286.9
Domestic credit	761.2	1120.8	1365.6	1333.0	1345.6	1315.6	1335.6	1338.6	1362.6	1353.6	1390.9	1408.1	1400.9
Claims on the government (net)	232.5	580.0	852.3	824.2	830.0	795.0	815.3	805.0	818.0	805.0	848.2	847.5	830.2
Treasury (net)	193.9	520.2	796.6	774.2	790.0	760.0	780.3	770.0	783.0	770.0	813.2	812.5	785.2
Central bank	228.7	492.2	592.7	564.2	585.0	570.0	607.3	592.0	610.0	602.0	650.2	644.5	612.2
Claims on general government	268.2	530.0	603.9	574.0	600.0	585.0	623.3	610.0	630.0	625.0	676.2	675.5	649.2
o/w. Advances[1]	222.5	454.6	494.0	464.0	464.0	464.0	454.6	454.6	454.6	454.6	448.8	401.1	353.3
o/w. IMF financing	10.7	37.9	75.2	75.2	104.6	104.6	134.0	133.6	162.6	162.6	192.6	239.7	261.2
Liabilities to general government	-39.5	-37.7	-11.2	-9.8	-15.0	-15.0	-16.0	-18.0	-20.0	-23.0	-26.0	-31.0	-37.0
Commercial banks	-34.9	28.0	203.9	210.0	205.0	190.0	173.0	178.0	173.0	168.0	163.0	168.0	173.0
Claims on general government	114.5	177.1	331.1	320.0	320.0	310.0	300.0	305.0	300.0	295.0	290.0	295.0	300.0
Liabilities to general government	-149.3	-149.1	-127.3	-110.0	-115.0	-120.0	-127.0	-127.0	-127.0	-127.0	-127.0	-127.0	-127.0
Other non-treasury	38.6	59.8	55.8	50.0	40.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	45.0
Credit to the economy	528.7	540.7	513.3	508.8	515.6	520.6	520.3	533.6	544.6	548.6	542.7	560.6	570.7
Other items (net)	-206.0	-182.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0
Money and quasi money	1077.7	1027.0	948.0	910.0	942.0	964.0	1002.7	1008.0	1016.0	1032.0	1076.9	1160.6	1262.1
Currency outside banks	539.2	482.4	399.6	390.0	405.0	410.0	422.7	425.0	428.0	435.0	454.0	489.2	532.0
Demand deposits	460.5	453.9	438.2	410.0	425.0	440.0	463.4	465.0	468.0	475.0	497.7	536.4	583.3
Time and savings deposits	78.0	90.8	110.2	110.0	112.0	114.0	116.6	118.0	120.0	122.0	125.2	134.9	146.7
Memorandum items:													
Broad money (annual percentage change)	26.5	-4.7	-7.7				5.8				7.4	7.8	8.7
Credit to the economy (annual percentage change)	40.2	2.3	-5.1				1.4				4.3	3.3	1.8
Credit to the economy (percent of GDP)	7.6	8.4	8.6				8.6				8.7	8.5	8.0
Credit to the economy (percent of non-oil GDP)	10.2	10.4	10.6				10.7				10.8	10.7	10.2
Velocity (non-oil GDP)	4.8	5.0	5.1				4.8				4.6	4.5	4.4
Velocity (total GDP)	6.4	6.3	6.3				6.0				5.8	5.7	5.6

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

[1] Include statutory and exceptional advances

Table 6. Chad: Financial Soundness Indicators, 2011–16

	2011	2012	2013	2014	2015	2016
Capital Adequacy						
Regulatory capital / Risk-weighted assets	20.0	18.1	22.0	13.4	14.7	13.2
Asset Quality						
Gross credits in arrears[1]/Gross banking loans	7.6	7.4	9.8	11.7	17.0	20.9
Provisions / Credits in arrears	89.0	64.5	65.3	68.3	56.1	52.4
Net credits in arrears/Gross banking loans	0.8	2.6	3.4	3.7	7.3	...
Profitability						
Return on assets	2.6	2.2	2.8	2.1	1.6	1.4
Return on equity	19.2	15.5	21.1	19.4	15.2	14.6
Liquidity						
Liquid assets / Total assets	29.9	31.8	28.6	30.8	26.0	23.1
Liquid assets / Short term liabilities	149.3	146.6	139.3	152.9	142.1	155.0

Source: COBAC.

Table 7. Chad: Quantitative Performance Criteria in December 2016 Under 2014–17 ECF Arrangement

	Target	Actual	Comment
Floor on non-oil primary budget balance	(196)	(214)	missed
Ceiling on net domestic government financing	213	285	missed
Ceiling on the accumulation of domestic payment arrears by the government	0	[0]	met
Ceiling on the accumulation of new external payment arrears by the government or non-financial public enterprises[1]	0	[27]	missed
Ceiling on contracting or guaranteeing of new non-concessional external debt by the government and non-financial public enterprises, but for ordinary external trade financing of at most one-year maturity[1]	0	0	met
Floor for poverty-reducing social spending	191	196	met

Sources: Chadian authorities; and IMF staff.
[1]To be respected continuously.

Table 8. Chad: Summary Table of Projected External Borrowing Program

PPG external debt	2017	
	USD millions[1]	Percent
By sources of debt financing	**235**	**100**
Concessional debt of which	**235**	**100**
Multilateral debt	73	31
Bilateral debt	162	69
Other	0	0
Non-concessional	0	0
Use of debt financing	**235**	**100**
Infrastructure	25	11
Social (education, health)	4	2
Agriculture and livestock	32	14
Energy	24	10
Budget Financing[2]	142	60
Other	9	4

Sources: Chadian authorities and IMF Staff

[1] Nominal value of new debt. Excludes financing from IMF.

[2] Includes loans from Angola and France

Table 9. Chad: Schedule of Disbursements Under the ECF Arrangement

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

Sources: IMF Staff estimates and projections.

Table 10. Chad: Indicators of Capacity to Repay the IMF, 2017–31

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Fund obligations based on existing credit															
Principal	0.0	0.0	0.0	2.0	8.1	17.0	19.2	19.7	15.0	8.9	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Fund obligations based on existing and prospective credit															
Principal	0.0	0.0	0.0	2.0	8.1	20.5	36.7	50.5	57.1	53.8	41.4	27.3	14.0	2.8	0.0
Charges and interest	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total obligations based on existing and prospective credit															
SDR millions	0.2	0.3	0.3	2.3	8.4	20.8	36.9	50.8	57.3	54.0	41.6	27.6	14.3	3.1	0.3
CFAF billions	0.2	0.2	0.2	1.9	7.0	17.5	31.1	42.7	48.2	45.4	35.0	23.2	12.0	2.6	0.2
Percent of exports of goods and services	0.0	0.0	0.0	0.1	0.3	0.7	1.2	1.6	1.7	1.6	1.2	0.8	0.4	0.1	0.0
Percent of debt service[1]	0.1	0.2	0.1	1.3	4.5	11.1	17.6	21.8	23.7	22.2	17.1	19.7	14.7	3.2	0.2
Percent of GDP	0.0	0.0	0.0	0.0	0.1	0.2	0.4	0.5	0.5	0.4	0.3	0.2	0.1	0.0	0.0
Percent of tax revenue	0.0	0.0	0.0	0.3	1.2	2.5	4.0	5.0	5.1	4.3	3.0	1.8	0.9	0.2	0.0
Percent of quota	0.2	0.2	0.2	1.6	6.0	14.8	26.3	36.2	40.9	38.5	29.7	19.7	10.2	2.2	0.2
Outstanding IMF credit based on existing and prospective drawings															
SDR millions	160.0	230.1	286.1	312.2	304.1	283.5	246.9	196.3	139.3	85.5	44.2	16.8	2.8	0.0	0.0
CFAF billions	133.8	192.6	239.5	261.1	254.8	238.5	207.7	165.2	117.2	71.9	37.1	14.1	2.4	0.0	0.0
Percent of exports of goods and services	6.8	9.2	11.0	11.3	10.6	9.6	8.0	6.1	4.2	2.5	1.3	0.5	0.1	0.0	0.0
Percent of debt service[1]	81.6	146.9	163.0	174.0	161.9	151.9	117.8	84.4	57.5	35.1	18.1	12.0	2.9	0.0	0.0
Percent of GDP	2.2	3.1	3.6	3.7	3.4	3.0	2.4	1.8	1.2	0.7	0.3	0.1	0.0	0.0	0.0
Percent of tax revenue	35.2	45.4	50.2	48.3	42.4	34.1	27.0	19.3	12.3	6.8	3.2	1.1	0.2	0.0	0.0
Percent of quota	114.1	164.1	204.1	222.7	216.9	202.2	176.1	140.0	99.3	61.0	31.5	12.0	2.0	0.0	0.0
Net use of IMF credit (SDR millions)	70.1	70.1	56.1	26.0	-8.1	-20.5	-36.7	-50.5	-57.1	-53.8	-41.4	-27.3	-14.0	-2.8	0.0
Disbursements	70.1	70.1	56.1	28.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.0	0.0	0.0	2.0	8.1	20.5	36.7	50.5	57.1	53.8	41.4	27.3	14.0	2.8	0.0
Memorandum items:															
Exports of goods and services (CFAF billions)	1,970	2,085	2,180	2,302	2,401	2,493	2,610	2,693	2,816	2,910	2,964	3,079	3,136	3,162	3,242
External Debt service (CFAF billions)[1]	164	131	147	150	157	157	176	196	204	205	205	118	81	81	85
Nominal GDP (CFAF billions)	6,023	6,271	6,618	7,094	7,569	8,071	8,532	9,082	9,704	10,361	10,994	11,726	12,439	13,144	14,003
Tax revenue (CFAF billions)	381	425	477	541	601	700	770	854	951	1,059	1,157	1,256	1,350	1,456	1,579
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	141.2

Sources: IMF staff estimates and projections.

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

Annex I. External Sector Assessment[1]

The current account deficit is expected to moderate from pick up in oil exports. While the real effective exchange rate has depreciated recently, existing methodologies estimate that Chad's external position is substantially weaker than warranted by fundamentals and desirable policies. Structural reforms to strengthen competitiveness should focus on improving the business climate, and enhancing sectors with high potential for inclusive growth.

A. Balance of Payments and Exchange Rate Developments

1. The current account deficit projected to moderate. While the external current account deficit averaged 9 percent of GDP between 2010 and 2016, it is projected to improve to around 2 percent in 2017 (Figure 1). The historical deficits have been consistently larger than in the CEMAC region. The evolution of the current account balance was mainly driven by the goods and services balance, which deteriorated from -8 percent of GDP in 2011 to -15 percent of GDP in 2016, especially as a result of the drop in oil exports, despite significant reduction in imports of goods and services in the last two years. With pick up in oil prices and recovery in oil production, the current account deficit is expected to be around 3 percent in 2017–21. Non-oil exports remain concentrated in a few products (especially cotton and livestock) and their contribution to total exports which averaged around 5 percent of GDP, is expected to remain steady over the medium term.

2. The contraction in the oil sector has led to a reduction in Foreign Direct Investment (FDI). The current account deficits have been partially financed by FDI, which has been concentrated in the oil sector and fluctuated between 2 and 5 percent of GDP in the period 2010–16 (except in 2014 when it recorded a negative value, associated with the government's purchase of a share in the country's largest oil consortium, which was financed with external debt). Investment from oil companies is envisaged to increase slightly in 2017, driving FDI to around 3.2 percent of GDP.

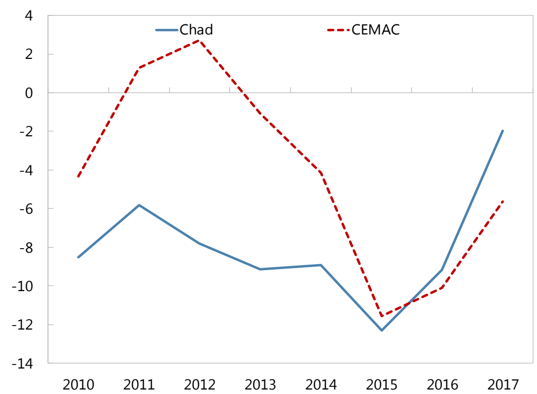
3. The real effective exchange rate (REER) has recently depreciated. Since 2013 the path of the REER has broadly tracked the evolution of the nominal effective exchange rate (NEER). However, the recent depreciation of the REER is mostly driven by the negative inflation in 2016. The lack of export diversification and the limited potential for import substitution suggest that the benefits derived from gains in price competitiveness may not be significant.

4. Reserve adequacy and debt sustainability indicators confirm the weakness of the external position. The most recent analysis of reserve adequacy in the CEMAC (IMF Country Report No. 16/277, August 2016) found that by end-March 2016 reserves were below an adequate level for a resource-rich monetary union with a fixed exchange rate. The level of pooled reserves imputed to Chad fell to negative levels in 2016 (equivalent to -1 month of imports). The debt sustainability analysis (DSA) shows that Chad is in external debt distress and debt is unsustainable without external debt restructuring.

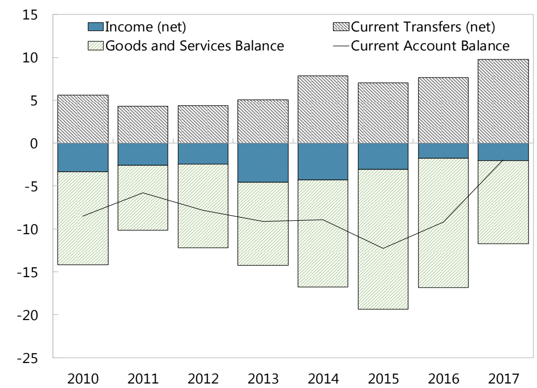
[1] Prepared by Saad Quayyum and Marwa Ibrahim. The results for the Araujo et al. (2013) model-based approach were obtained in collaboration with Nathalie Gonzales Prieto (RES).

Figure 1. Chad: Selected External Indicators

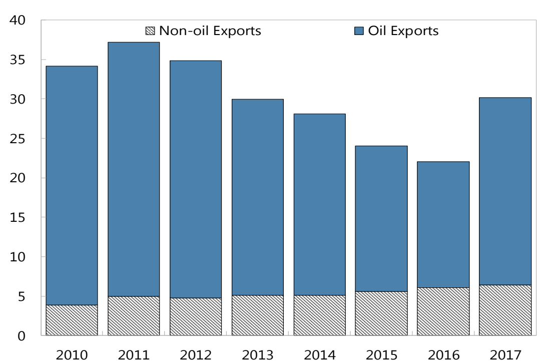
Chad and CEMAC: Current Account Balance, 2010–17
Percent of GDP)



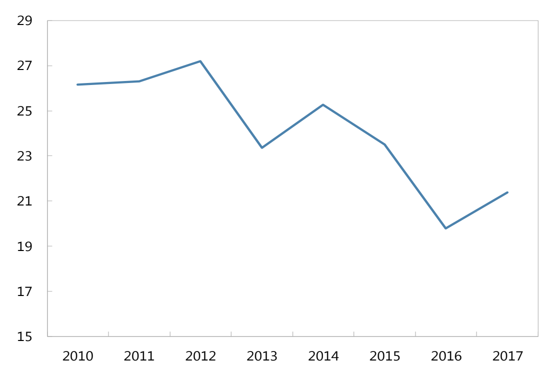
Chad: Current Account Balance Components, 2010–17



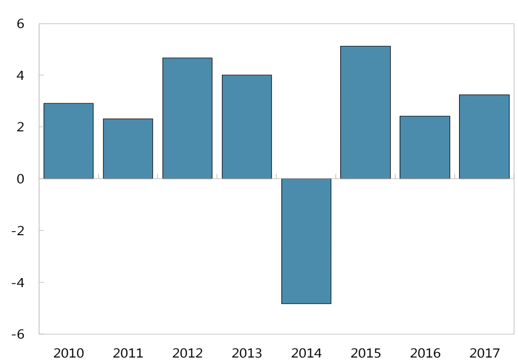
Chad: Oil and Non-oil Exports of Goods, 2010–17
(Percent of GDP)



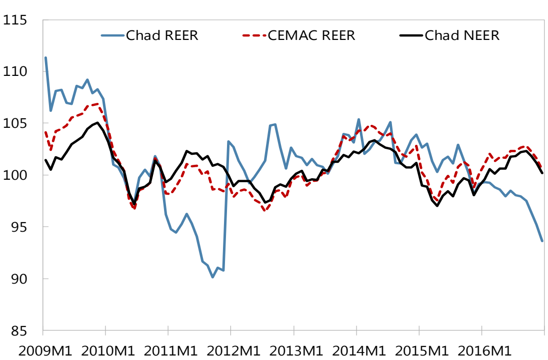
Chad: Imports of Goods, 2010–17
(Percent of GDP)



Chad: Foreign Direct Investment, 2010-17
(Percent of GDP)



Chad and CEMAC: REER and NEER, 2009-16
(2010=100)



Source: Country authorities, BEAC, IMF staff estimates and projections for 2017.

B. Model-Based Real Exchange Rate Assessment

5. Two standard approaches were used to assess the potential misalignment of the current account and the REER.

- The Araujo et al. (2013) approach suggests a current account norm of 3.4 percent of GDP in 2021, corresponding to a REER overvaluation of 12 percent. This model takes into account external borrowing constraints as well as inefficiencies and absorptive capacity constraints in investment.

Text Table 1. Chad: Current-Account Norms and Implied REER Adjustment[1/]

	Year: 2021 (Percent of GDP)	Implied Real Exchange Rate adjustment (%) CA Elasticity: -0.6
Underlying current account	-3.8	
CA norm (Araujo et al., 2013)	3.4	12
CA norm (Constant real annuity - Bems and Carvalho Filho, 2009)	5.6	16

Source: IMF staff estimates.
[1/] The current account elasticity is based on the import and export elasticities reported in Tokarick (2010) (-1.4 and 0.25, respectively) and staff's projections for imports and exports in 2021.

- The Bems and Carvalho's (2009) constant real annuity approach suggests a current account norm of 5.2 percent of GDP in 2021, corresponding to a REER overvaluation of 16 percent. The finding of a higher current account norm than in the Araujo et al. (2013) methodology arises because the Bems and Carvalho (2009) model ignores external borrowing constraints, implying a larger current account surplus as the optimal response to a natural resource windfall.

C. Structural Competitiveness

6. Chad faces significant structural competitiveness challenges. A number of business environment, institutional, and governance indicators rank Chad among the worst performers in the world (see Figure 2 in the main text). This represents a key constraint to export diversification and to attracting FDI. Given Chad's membership in a currency union, bold structural reforms are necessary to strengthen the country's competitiveness and external position. Priority reform areas are discussed in Annex II.

Annex II. The Road to Economic Diversification[1]

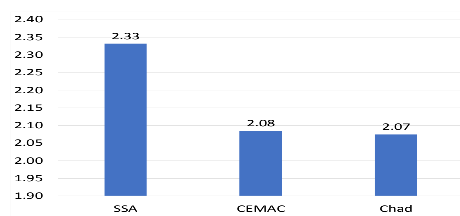
1. Chad began to rely heavily on oil after the beginning of commercial extraction of crude oil in 2003. Oil accounted for about 20 percent of the economy and 60 percent of government revenue over the past decade. The collapse of international oil prices in mid-2014 led to significant and lasting impact on the economy which helped build wide internal consensus on the need to diversify the economy away from the oil sector.

2. Diversification is one of the main pillars of the 2017–21 National Development Plan, currently under preparation. The authorities have emphasized the importance of focusing the diversification effort on sectors where Chad has the necessary resources and skills, including the mining sector, agriculture and livestock sector, and artisanal craft sector. They recognize that the success of the diversification strategy does not only hinge on financial and technical support from donors, but also on the government's ability to put in place the right elements to support the diversification.

3. Effective elements to diversify the economy include investing in infrastructure and human capital, enhancing the role of the private sector, and deepening the financial sector.[2]

- **Infrastructure** (Text Figure 1). Chad is a large landlocked country with poor infrastructure and is estimated to have one of the highest trade costs in the world. While investment in transportation infrastructure has increased prior to the onset of the current crisis, statistical indicators show that Chad trails its peer in terms of quality of trade and transport-related infrastructure. Anecdotal evidence suggests that the cost of transporting a cargo from a seaport in Cameroon to N'Djamena could be as high as the cost of moving a cargo from East Asia to Cameroon.

Text Figure 1. Chad: Quality of Trade and Transport-Related Infrastructure, 2016 (1=lowest, 5=highest)



Source: World Bank Governance Logistics Performance Index.

[1] Prepared by Alex Ho and Saad Quayyum.

[2] See IMF Policy Paper (2014), *Sustaining Long-Run Growth and Macroeconomic Stability in Low-Income Countries-The Role of Structural Transformation and Diversification.*

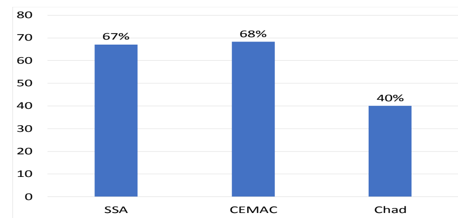
- **Human capital.** According to the World Development Indicators, the adult literacy rate in Chad is among the lowest in the world (Text Figure 2). A low level of education attainment greatly limits investors' incentive to invest in more technologically intense industries in Chad. The authorities see that improving the education system is a critical element, not only for diversification, but also for improving the quality of life in Chad.

- **Business environment**. Chad ranked 180th out of 190 countries in the 2017 Doing Business Report. Competitiveness indicators on the quality of institutions and governance, barriers to starting a business, and contract enforcement are weak. It is expected that improvements in these indicators would support growth in the non-oil sector.

- **Financial inclusion.** As discussed in the 2016 Article IV Consultation, Chad's financial sector is underdeveloped and dominated by a few commercial banks located in urban areas, with the public sector as the major customer (Text Figure 4). The lack of access to financial services in rural areas could hinder the development of the agricultural and livestock sectors.[3] Thus, a deeper and well-functioning financial market is important to nurture the growth of private sector, especially, the agricultural and live stocks sectors.

Text Figure 2. Chad: Adult Literacy Rate 15+ years, 2015

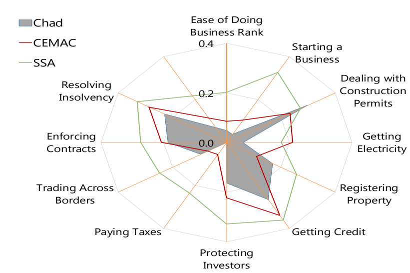
(Percent of population)



Source: World Bank – WDI.

Text Figure 3. Chad: Ease of Doing Business in Chad, 2017 account

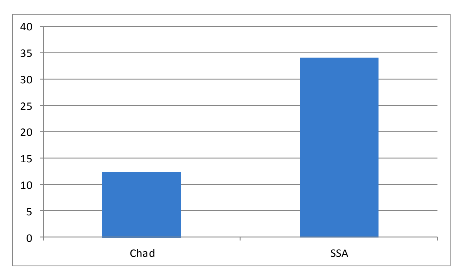
(Normalized ranking)



Source: World Bank Doing Business Database.

Text Figure 4. Chad: Population with an account

(Percent of total population)



Source: World Bank – Global Findex.

[3] Ruiz, Claudia (2014), How Can Finance Influence Productivity of Agricultural Firms?, World Bank Blog Post, http://blogs.worldbank.org/allaboutfinance/how-can-finance-influence-productivity-agricultural-firms

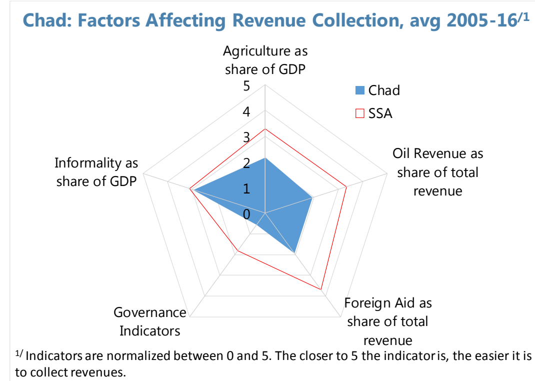
Annex III. Non-Oil Revenue Mobilization in Chad[1]

This annex describes the Chadian tax system and its performance over the past decade, and identifies the main challenges in mobilizing non-oil revenues in Chad. It also provides an assessment of tax potential and tax effort in Chad, based on different methodologies and existing empirical works. Lastly, it details recent measures taken by the authorities and identifies actions to increase non-oil revenues in the short and long term.

A. Challenges in Non-Oil Revenue Mobilization

1. Chad faces many characteristics which contribute to a relatively weak non-oil revenue performance.[2] The informal sector in Chad accounts for about 40 percent of GDP,[3] among the highest in Sub-Saharan Africa and in Central Africa. Small and micro businesses represent a significant share of economic activity. With regards its geography, Chad is a landlocked country, with 6,400 border kilometers in a region strongly affected by security issues, which makes it more difficult to mobilize customs revenue at the border. In addition, Chad has been relying on foreign aid and, since 2003, it has become an oil producer, two factors which negatively affect non-oil revenue performance.

Text Figure 1. Chad: Factors Affecting Revenue Collection, avg 2005-16[1]



Source: IMF staff calculation, World Bank Governance Indicators database.

B. Tax System and Overall Tax Performance

2. Non-oil revenue in Chad is mostly raised through Personal Income Tax (PIT), Corporate Income Tax (CIT) and Custom revenue, while the Value-Added Tax (VAT) revenue is among the lowest in Africa.[4] For example, in 2015:

- **The *Personal Income Tax*** generated about one third of total non-oil revenue (less than 2 percent of GDP). The tax base on the PIT mostly consists in wages, and the tax rate schedule is progressive. PIT is then adjusted with a family size quotient.
- ***The Corporate Income Tax*** accounted for about 25 percent of total non-oil revenue (1.5 percent of GDP) in 2015. It is composed of three different regimes, depending on several indicators related to the size of the company. The "*Régime synthétique*" is applied to very small businesses

[1] Prepared by Samuel Delepierre and Marwa Ibrahim.

[2] See Revenue Mobilization in Developing Countries (IMF, 2011).

[3] Sub-Sahara Africa - Regional Economic Outlook (May 2017).

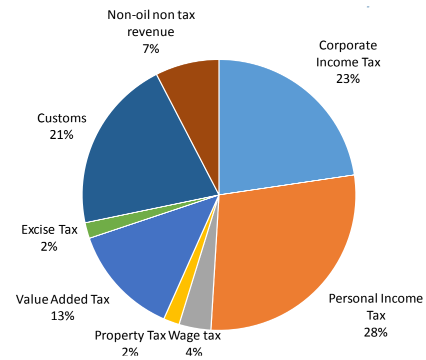
[4] The Chadian tax system is complex and consists of a multitude of small taxes. This section describes staff's understanding of the main components of the system.

(turnover below CFAF 10 million), the "*Régime reel simplifié*" is applied to medium size companies (turnover between CFAF 10 and 60 million), and the *"Régime réel"* is applied to large companies (turnover above CFAF 60 million).

- ***Customs revenue*** accounted for 23 percent of non-oil revenue (1.5 percent of GDP) in 2016. Despite a relatively high share of total revenue, the collection of customs revenues is highly inefficient. This reflects weaknesses in custom administration, numerous exemptions and insufficient control of existing exemptions.

- **The *Value-Added Tax*** only accounted for about 15 percent of non-oil revenue (less than 1 percent of GDP) in 2015, one of the worst performance among developing countries and Sub-Saharan Africa, despite a rate (18 percent) similar to other Sub-Saharan African countries. One of the reasons of such low performance is the prevalence of exemptions. Some of them are in line with CEMAC Directives (on agriculture, fishery, social health and education) but some are granted on an ad-hoc basis through conventions.[5]

Text Figure 2. Chad: Breakdown of Non-Oil Revenue, 2015

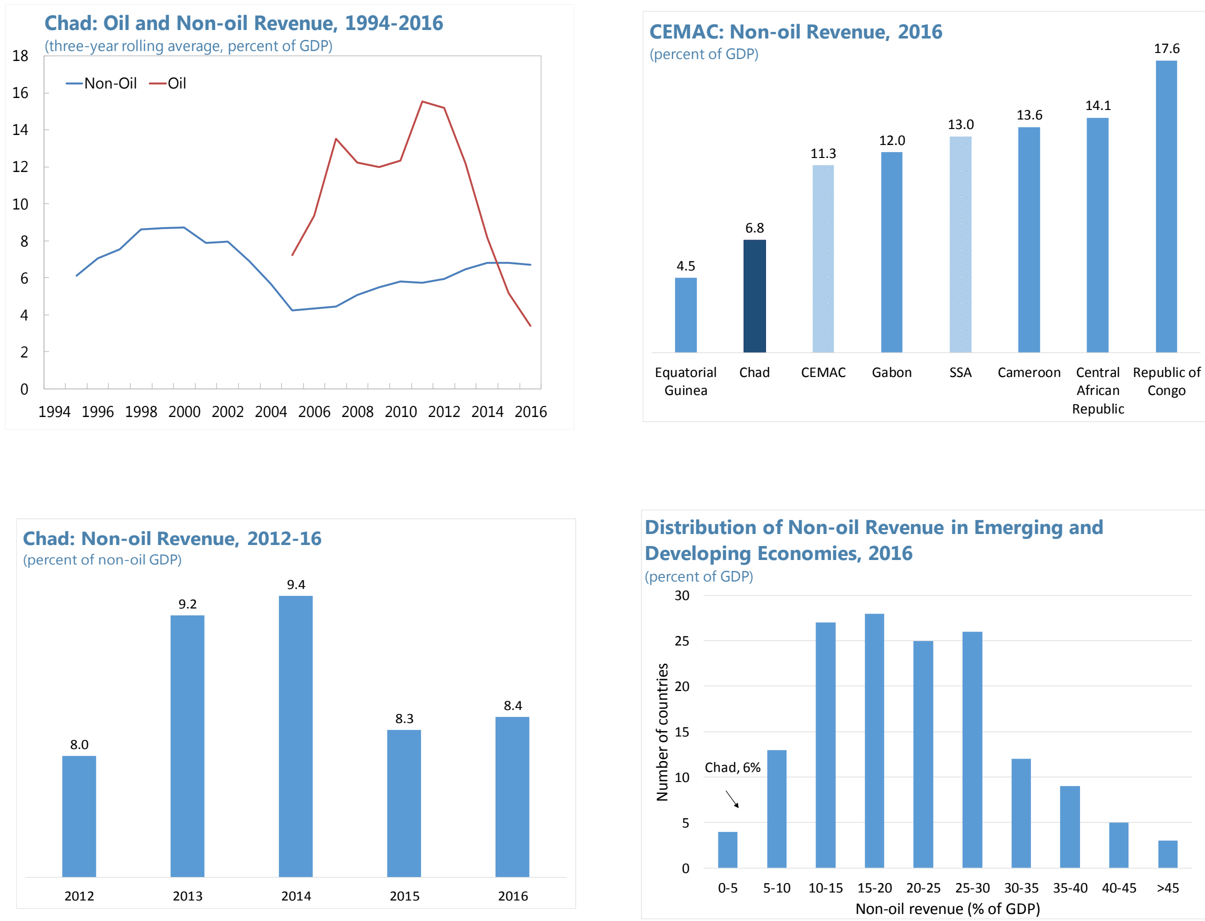


Source: IMF staff calculation

3. Despite a relatively high growth rate in the non-oil sector over the past fifteen years, non-oil revenue collection has been very weak. Chad now has one of the lowest non-oil revenue to GDP ratios in Africa. In 2016, non-oil revenue to GDP ratio was at 6.8 percent, among the lowest among low income countries and peer countries in the region, and well below the CEMAC average (11.3 percent). With such a low level, Chad stands in the bottom 5 percent of the distribution. More worryingly, recent years have seen a decline in non-oil revenue, from 9.4 percent of non-oil GDP in 2014 to 8.4 percent in 2016.

[5] A study by FAD on a sample of 24 conventions shows that all of them include VAT exemptions (IMF, 2016).

Text Figure 3. Chad: Non-oil Revenue



Source: IMF staff calculations.

C. Assessing Tax Potential and Tax Effort

4. Assessing tax capacity or tax potential is needed to estimate the tax effort. While tax capacity represents the maximum tax revenue that a country can collect given its economic, social, institutional, and demographic characteristics, tax effort is the ratio of the actual revenue performance to this tax capacity.

5. Staff analysis based on existing empirical literature suggests that non-oil tax potential in Chad stands about 10 percent of non-oil GDP, and its tax effort is around 85 percent.[6] While these results should be interpreted with caution especially given the data weaknesses in Chad, they

[6] Staff applied a fixed effect linear specification to estimate tax potential and tax effort in Chad using a panel data for 153 countries between 2000 and 2015. The dependent variable is the share of non-oil revenue to non-oil GDP. The independent variables are: (i) the lag of GDP per capita; (ii) trade openness expressed; (iii) the share of foreign aid to total revenue; (iv) gross fixed capital formation as share of GDP; (v) the lag of the dependent variable; (vi) an indicator of governance; and (vii) a resource dummy.

are useful in drawing preliminary lessons. First, without any change in tax policy and simply by ensuring that tax administration performance meets the average for developing countries or Sub-Saharan African countries, Chad would be able to raise about an additional 2 percent of non-oil GDP in non-oil revenue. Second, in the medium to long term, in order to raise its tax potential, Chad needs to improve its governance indicators and to diversify its economy.

Text Table 1: Non-oil Revenue Regression Results

	Emerging and Developing Countries	Landlocked Emerging and Developing Countries	Sub-Saharan Africa
	(1)	(2)	(3)
VARIABLES	lnnonoilrev_nonoilgdp	lnnonoilrev_nonoilgdp	lnnonoilrev_nonoilgdp
lnpercapita_gdp, t-1	0.02**	0.03**	0.01
	(0.01)	(0.01)	(0.02)
lntrade_openness, t	0.10***	0.04	0.13**
	(0.03)	(0.03)	(0.05)
lnforeign_aid_rev, t	-0.00	-0.02**	-0.01**
	(0.00)	(0.01)	(0.00)
lninvestment_gdp, t	0.03*	0.05	0.10***
	(0.02)	(0.04)	(0.03)
Δlngovernance_indicators, t	0.05**	0.05*	0.08**
	(0.02)	(0.03)	(0.03)
resource_dummy	-0.07**	-0.09	-0.09***
	(0.03)	(0.06)	(0.02)
lnnonoilrev_nonoilgdp, t-1	0.66***	0.67***	0.48***
	(0.05)	(0.05)	(0.08)
Constant	0.66***	0.54***	1.05***
	(0.14)	(0.13)	(0.25)
Observations	1,499	375	554
Number of countries	104	26	38
R-squared	0.919	0.914	0.867
within	0.652	0.649	0.557
between	0.880	0.762	0.820
Adj R-squared	0.512	0.600	0.242
Robust standard errors in parentheses			
*** p<0.01, ** p<0.05, * p<0.1			
Using these coefficients for Chad gives non-oil revenue to non-oil GDP	9.8%	10.1%	9.9%

D. Measures to Increase Non-Oil Revenue

6. **In 2017, Chad has taken some measures to improve non-oil revenue mobilization, which are showing positive results.** First, the additional tax on oil products led to a significant improvement in the first two months of the year (yielding an additional CFAF 2.5 billion). Second, the implementation

of an 18 percent excise tax on communications (replacing several of less efficient taxes), yielded CFAF 2.4 billion in revenue, more than twice the amount collected last year (MEFP ¶25).

7. The Government is seeking to further improve customs revenue in 2017. The main objectives would be to (i) improve the control on the transaction value; (ii) modernize the customs administration; and (iii) enhance exchange of information between the Directorate General of Customs and the Directorate General of the Treasury. Based on recent IMF TA missions, the authorities aim to implement measures to (i) activate the ASYCUDA module for the bonded warehouses; (ii) start controlling imported goods from their point of origin; (iii) set up a single window in Ngueli for custom operations; (iv) enhance the enforcement and the control of existing exemptions; and (v) make it mandatory to make import duties payment through bank account. In addition, addressing the issue of exemptions will be key in improving customs revenue. In 2016, customs exemptions alone are estimated to have generated CFAF 140 billion loss in revenue.

8. VAT performance is among the lowest in Africa and the potential for improvement is significant. Although the VAT rate (18 percent) is in line with CEMAC Directive, the tax base is very narrow due to extensive exemptions. Notably, the exemption on water and electricity leads to important loss in VAT revenue collection. More broadly, exemptions have been used as a way to offset the absence of VAT refund. Currently standing between 1 and 1.5 percent of GDP, VAT revenue could increase to 5 percent of GDP according IMF financed TA report.[7] To this end, the two main priorities should be to (i) broaden the tax base through a reduction in exemptions, notably in the electricity sector; and (ii) implement an affective VAT refund system.

9. Others measures to increase revenue include:

- **Improving the collection of excise taxes on tobacco, beer, alcoholic beverages and soft drinks.** Revenues performance from excise on these products has been very weak, averaging 0.1 percent of GDP since 2010. Although estimates in this area are difficult, as much as 50 percent of production could evade excise tax on these products, proportionally reducing excise revenue. Therefore, the authorities aim to modernize the excise goods management system, including by using stamp technology to monitor collection.
- **Improving the yield of the personal income tax.** The current system is complex, with different scales and diverse tax reliefs. Priority in reforming the system should be to (i) simplify it, and (ii) apply a unique progressive scale for all wages, taking into account its impact on different categories of revenues.
- **Reforming the land and property tax system.** Property and land taxes represented only 2 percent of total non-oil revenue in 2015, with only 5,000 land titles registered in Chad. There is significant potential, provided that land and property registration and tax collection procedure are enhanced (MEFP ¶28).

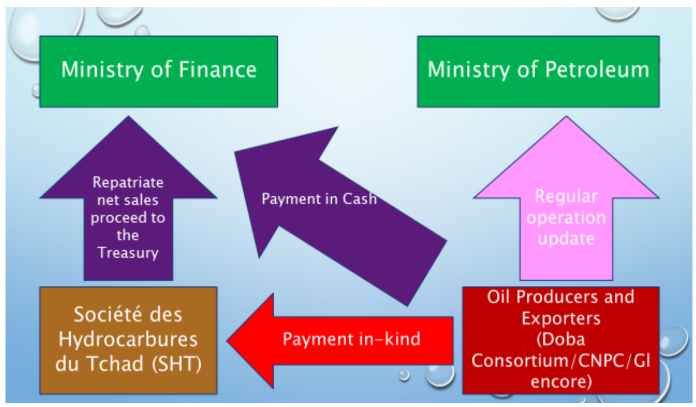
[7] *Réformes de la Fiscalité Intérieure dans un Contexte de Chocs* (Chambas et Brun, IMF, 2016).

Annex IV. Monitoring Oil Revenue Flows in Chad[1]

This annex builds on the discussion in the 2016 Article Consultation Selected Issues on the oil sector. It elaborates further the organization of the sector and discusses how information flows among agencies.

1. Three governmental entities are involved in the oil sector operations (Text Figure 1): (i) the Ministry of Petroleum (MoP), responsible for issuing exploration and production licenses, and regulating operational details of oil production; (ii) *Société des Hydrocarbures du Tchad* (SHT), public enterprise that manages the government's oil assets and markets government's oils; and (iii) the Ministry of Finance (MoF), responsible for collecting taxes and fees from oil companies. The MoF mainly relies on data from the MoP and SHT to monitor and forecast oil revenue.

Text Figure 1. Structure of the Oil Sector in Chad



Sources: IMF staff and country authorities.

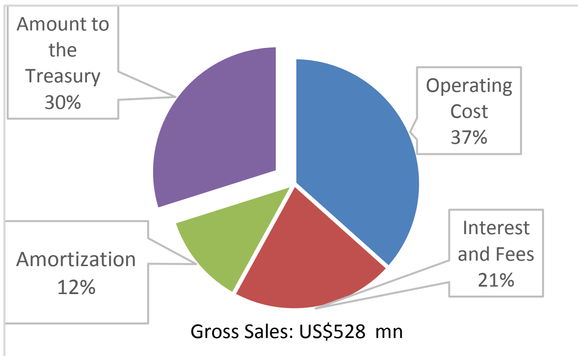
2. Coordination and information sharing among these entities is largely done on a discretionary basis, which undermines the ability to project oil receipts. Much of the data required by the MoF is supplied routinely by oil companies to the MoP or to SHT. However, an effective information sharing platform has yet to become operational. In September 2016, the authorities established a technical inter-ministerial committee (which replaced a high level inter-ministerial committee) to help improve information sharing and transparency. The committee, which comprises representatives of the MoP, MoF, SHT and other relevant agencies, is set to begin its work soon.

3. Another major complication in determining the net amount of oil sales revenue that go to the Treasury is the service of the Glencore debt (see Box 1 in the main staff report). The debt service, which is paid from the proceeds of government oil sale, is determined in an opaque manner. The loan contract only specifies the payment priorities to different items. The first cut goes to cover the operating cost associated with the government stake in the oil consortium, then to servicing the loan, with the residual going to the Treasury. However, the exact amount of debt service per period

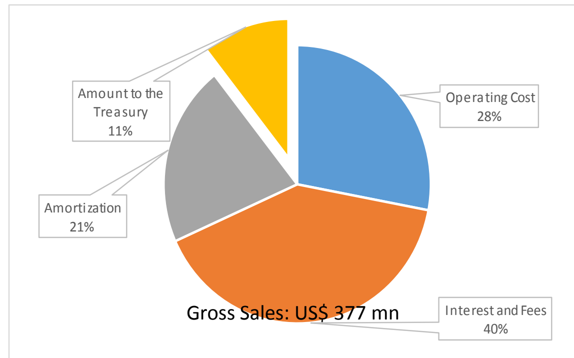
[1] Prepared by Alex Ho.

is uncertain because it is linked to the value of oil shipments and other cost factors. Glencore, presumably in discussion with SHT, decides on the final allocation of payments to service the loan per oil shipment. The MoF does not participate in this process and has little a priori information of the final amount paid to the Treasury which varies significantly (Text Figure 2a and 2b).

Text Figure 2a. Chad: Distribution of Government Oil Sales Revenue in 2015



Text Figure 2b. Chad: Distribution of Government Oil Sales Revenue in 2016



4. Transparency in the oil sector was an important objective of the 2013 staff monitored program and the 2014 ECF, and some progress has been made. Recently, staff has been supporting MoF's effort to improve the monitoring of oil revenue. In December 2016, staff made presentations on the structure of the oil sector to the MoF and the National Assembly, which generated lively discussions on the transparency issue. In addition, staff developed an Excel-based template on oil revenue to help the MoF collect and organize information from other agencies. The authorities are committed to improve the oil sector transparency in the new ECF arrangement. They have decided to activate the technical level inter-ministerial committee as soon as possible and tasked the committee to publish a quarterly note on oil sector development with detailed discussion on activities in the oil sector and breakdown of oil revenues, debt service to the Glencore loan and other costs related to the Government's financial interest.

Appendix I. Letter of Intent

June 16, 2017

Madam Managing Director,

This letter of intent and the attached Memorandum of Economic and Financial Policies (MEFP) present recent economic developments and outcomes of the economic program supported by an Extended Credit Facility (ECF) arrangement, as well as the policies that the Government will implement in the rest of the 2017 and the medium term.

The Executive Board of the IMF approved, on August 1, 2014, an ECF arrangement covering the period July 1, 2014 through June 30, 2017. Four reviews under this arrangement have already been concluded. The first and second reviews were concluded in April and December 2015, respectively. The third and fourth reviews were concluded together in November 2016 and the arrangement was extended until November 30, 2017.

Over the past three years, the Government has implemented the ECF-supported economic program in a particularly difficult context, characterized by the occurrence of three exogenous shocks: (i) the sudden, prolonged and substantial decline in oil prices; (ii) the worsening of the security situation following recurrent terrorist attacks in the region and in Chad; and (iii) the humanitarian crisis in light of the heightened terrorist threat and regional instability. Low oil prices since the second half of 2014, together with the service of the external commercial debt to Glencore, have adversely affected budgetary oil revenues in 2015 and even more in 2016. Security crises at Chad's borders have severely disrupted cross-border trade and lowered budgetary non-oil revenues. At the same time, the involvement of Chadian troops in the fight against terrorist groups to preserve peace and regional stability weighs heavily on the level of public spending. Finally, with heightened terrorist threat and conflict at its borders (including the Lake Chad region), Chad continues to host at least 700,000 refugees and displaced or repatriated persons in its territory.

Despite the difficult environment, the Government has implemented with great determination the ECF-supported program, with performance until through June 2016 broadly satisfactory. However, the persistence and extent of the current economic crisis and its worsening during the second half of 2016 have undermined the Government's capacity to implement the program. In spite of large spending cuts, the floor on the non-oil primary balance was missed, and arrears to external and domestic creditors accumulated.

Thus, the Government is convinced of the need for a new stabilization and reform package to get the country out of the crisis. With unchanged economic policies, the vicious circle of "low revenues, low expenditures, and decline in economic activity" will continue, seriously exacerbating social tensions.

In this context, the Government has developed a new medium-term economic program aimed at stabilizing the economy and laying the foundations for sustainable economic recovery. The Government is committed to dialogue closely with all internal and external stakeholders, whose support is necessary to ensure the success of the program.

Achieving fiscal and debt sustainability is the priority of the new program. The government will adopt a revised budget for 2017, with the non-oil primary deficit kept below 5 percent of non-oil GDP in 2017 (compared to 16 percent and 10 percent respectively in 2014 and 2015). To achieve this level, the Government is committed to contain the public sector wage bill, and level of spending on goods and services, and transfers and subsidies, while providing some space for a small increase public investment. Social spending will remain a high priority. The Government also aims to start repaying arrears on spending that has gone through the spending chain.

The Government is firmly committed and has publicly announced its plan to reduce the burden of external commercial debt owed to Glencore to restore debt sustainability. The Government is confident that, with the support of financial and legal advisors, it will achieve a restructuring in line with the program parameters. In consultation with its advisors, the Government understands that that the collateral associated with this debt is not likely to undermine its ability to generate the necessary financing to ensure the new program is fully financed and restore debt sustainability.

On managing public debt, the Government will take the necessary measures to secure the refinancing of domestic debt maturing over the coming months. This will entail providing space in the revised budget to repay arrears that accumulated to banks in November 2016, and to stay current on all its interest payment. The Government also plans to clear arrears to official bilateral creditors within 12 months.

Strengthening the mobilization of non-oil revenues to improve the viability of public finances is an essential part of the new economic program. Efforts in this regard started already in the original 2017 budget which included new tax measures that have yielded good results, and with the decision of the government to reinforce the moratorium on the granting of new tax and customs exemptions that deprive the budget of significant resources. Moving forward, the Government will take the necessary measures to improve the tax and customs administrations, and will consider options to broaden the tax base, with priority accorded to reforms of the personal income tax, VAT and property tax.

The Government will continue its efforts to improve public financial management. This includes improvement of the chain of expenditure and cash management system, and the adoption of a comprehensive strategy for repaying the stock of domestic arrears once those are audited properly. Improved transparency of the oil sector operations will continue to be at the forefront of the Government’s priorities.

The Government is committed to diversify the economy to reduce its dependence on oil, including by improving the business climate to encourage private investment. Specific measures will be set out in the framework of its new National Development Plan 2017-21, which is being finalized, and a donors round table for mobilizing funding is planned for early September.

Based on the policies described in this letter and its attachments, the Government has decided to cancel the current ECF arrangement and requests the IMF Executive Board to approve a new three-year ECF arrangement for an amount of SDR 224.320 million (160 percent of quota) in support of our new medium-term economic program. The new ECF arrangement should address the country's protracted balance of payments problems by supporting the policies necessary to stabilize and revive the economy. This would allow the disbursement of the equivalent of about CFAF 59 billion in 2017 (sum of two equal installments of SDR 35.05 million, disbursed respectively after the approval of the new ECF arrangement and after the conclusion of the first review), provided that the relevant conditions attached to these disbursements are met.

The Government believes that the policies and measures set forth in the MEFP will help to achieve the program objectives. The government will adopt any additional measures required for this purpose. The Chadian authorities will consult with the IMF on the adoption of any additional measures in advance of revisions to the policies contained in the MEFP, in accordance with IMF policies on such consultations. To facilitate monitoring and assessment, the government has established a negotiation committee within the Ministry of Finance and Budget, which is tasked to report all required information to Fund staff on a regular and timely manner, pursuant to the Technical Memorandum of Understanding (TMU).

In closing, the Government consents to the publication on the IMF website, following the conclusion of the approval of the new ECF arrangement, by the IMF Board of Directors of this Letter, the attached MEFP, the TMU, and the IMF staff report on the request of new ECF arrangement.

Very truly yours,

/s/

Christian Georges Diguimbaye
Minister of Finance and Budget

Attachment I. Memorandum of Economic and Financial Policies

OVERVIEW

1. Since August 2014, the Government of Chad has made steadfast efforts to effectively implement its economic and financial program supported by the IMF under the Extended Credit Facility (ECF). The three-year ECF arrangement was approved on August 1st, 2014 in support of the Government's medium-term economic program. The satisfactory implementation of the ECF, with the completion of the first review paved the way for reaching the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative in April 2015, an important milestone for Chad. Since then, while exogenous shocks have complicated policy implementation, Chad was able to complete three additional reviews.

2. The external shocks faced by Chad since mid-2014 have continued to weigh on the economic, financial and social situation:

- While international oil prices recovered slightly and stabilized in the second half of 2016, on average, the Chadian oil price was still lower in 2016 than in 2015, and its current level (about 45 U.S. dollars per barrel) still represents about half of the 2014 average price. This, along with the heavy burden of servicing a commercial debt which stood at about US$1.37 billion at end-2016), has drastically reduced oil revenues that enter the Treasury. The Government had to slash education, health, and investment spending and struggled to pay salaries, all of which led to increased social tension.
- The Chadian security forces continue to be heavily involved in regional peace-keeping efforts, especially in the Lake Chad basin. These efforts are crucial to maintain regional security, but the stationing of military personnel in Cameroon, Mali, Nigeria, Niger, Central African Republic, as well as on the border with Sudan and Libya, entails significant pressures on the budget and more generally on the economy. Indeed, the security situation continues to disrupt cross-border trade and crucial economic activities including in the livestock and agriculture sectors.
- The humanitarian crisis in the region is also an important source of pressure on Chad. Chad hosts about 700,000 refugees, displaced persons, and returnees. While the direct fiscal cost is difficult to measure, the Government is supporting refugees' access to land, basic community services and settlement in host communities.

3. The renewed efforts to contain the impact of the crisis since September 2016 have helped deepen Chad's engagement with the IMF and other international partners, but the fiscal pressures remain acute. Despite very difficult circumstances, the Government's strong commitment to reform has helped Chad complete the third and fourth reviews under the ECF arrangement on November 11, 2016. Disbursements of budget support from the IMF, World Bank, the European Union, the African Development Bank, and France have helped the Government regularize wage payments later in 2016 and early 2017. In spite of these efforts and the dramatic fiscal adjustment of the past two years, the Government continues to face serious liquidity pressures making it difficult to stabilize the fiscal and macroeconomic position.

4. The Government is therefore convinced that a new stabilization and reform strategy is urgently needed to lift the country out of the ongoing crisis and is requesting IMF support in this regard. Without changes in economic policies, the vicious circle of low revenue, low spending, and depressed economic activity will continue, with high risk of disorderly adjustment and further raising social tension. In this context, the Government has built a new medium-term economic program, aimed at stabilizing the economy and laying the foundation for a durable recovery. The Government is committed to engage closely with the relevant creditors and all its external and internal stakeholders, whose support (including financial support) is needed to ensure the success of the program.

5. This memorandum lays out the specific elements of the Government's reform strategy under the requested new ECF arrangement. It describes the difficult recent economic developments, the Government's efforts to implement policies agreed under the existing program supported by the current arrangement, the macroeconomic prospects, as well as the Government policies and reforms agenda for the 2017–20 period.

RECENT ECONOMIC DEVELOPMENTS AND IMPLEMENTATION OF THE 2014–17 ECF ARRANGEMENT

A. Recent Economic Developments

6. The economic and financial situation continued to worsen in the second half of 2016, with a deep contraction of the economic activity. Sharp cuts in Government spending, together with investment cuts and large layoffs in oil companies had strong spillovers on the rest of the economy. The non-oil private sector companies have also curtailed their activity, particularly in the construction sector, an important source of employment. As a result, economic activity contracted in 2016 for the second year in a row, even more markedly than in 2015. Weak domestic demand as well as continued cross border trade disruptions have led to deflation.

7. Fiscal pressures continued to deepen throughout 2016. Both oil and non-oil revenue underperformed in 2016, and acute liquidity pressures prevailed throughout the year. In particular, oil revenues have dropped to around one-third of the amount observed in 2014. In response, the Government executed the budget on a cash basis for most of the year, with priority given to essential security spending, wage payment, debt service, and poverty reducing social expenditure. Since the middle of 2016, the Government has taken courageous measures such as reducing bonuses to contain the wage bill, drastically cutting investment spending to only 1.1 percent of non-oil GDP (compared to about 8 percent average between 2006 and 2015), and significantly reducing transfers and subsidies, to help balance the budget. However, these measures and the coming onboard of exceptional receipts from previous tax disputes have proven to be insufficient to stem the liquidity pressures. The pressures intensified further in the second half of the year in large part due to further underperformance of non-oil revenue and led to delays in the payment of wages and salaries, and the accumulation of some arrears to domestic and external creditors.

8. The economic slowdown and the Government liquidity crunch have also taken a toll on banks. Non-performing loans have increased markedly due to the accumulation of domestic arrears by the Government to private companies which in turn could not service their debts to banks. This was exacerbated by the decline in public procurement (on which the private sector is highly dependent) which has led to a decline in overall economic activity. This, together with the fact that some banks (which increased significantly their exposure to public securities in the last two years) have reached the refinancing limit at the BEAC, is generating liquidity pressures. The weakened situation of the banking sector has fed back into the real sector (as banks are no longer able to provide credit to the economy) and the public sector with the Government now facing difficulties placing new debt, and rolling over some of the existing debt.

B. Performance under the 2014–17 Extended Credit Facility

9. Despite the unfavorable environment, the Government demonstrated strong determination to implement the program. Performance up to June 2016 was broadly in line with targets set under the program.

- With the exception of the ceilings on accumulation of external and domestic payment arrears, the quantitative performance criteria (QPCs) were met. In particular, the non-oil primary deficit target, which is the fiscal anchor of the existing program, has been met in all the four reviews of the program. Meanwhile, the poverty-reducing social spending target, the ceiling for net domestic Government financing and the zero contracting or guaranteeing of non-concessional loans targets have also been met in all but one review.
- Most of the SBs set under the program up to the combined third and fourth reviews were observed, although a few with delays, notably the benchmarks on adopting a regulatory framework for debt management and on publishing a debt management report.

10. More recently, however, despite the Government's strong commitment, the deepening economic crisis has undermined its ability to implement the program. Three of the six QPCs for end-2016 were not met. The non-oil primary balance floor was missed due to a shortfall in non-oil revenue. The ceiling on net domestic financing has also been exceeded, as domestic debt amortization was lower than projected, and the Government accumulated arrears to the banking system. Finally, external payment arrears have accumulated, despite the Government's efforts to stay current on its external obligations. While these QPCs were not met, the Government made large spending cuts to prevent a further deterioration in the fiscal position, and made every effort to protect social spending, thus meeting the relevant PC. Two of the structural benchmarks for end 2016 were not met: (i) the submission of the National Development Plan to the Assembly has been delayed to allow time for sufficient consultation with external partners and to refine the underlying macroeconomic framework; and (ii) the Government decided to wait for clarity on the financing of the audit on domestic arrears before finalizing its terms of reference.

ECONOMIC AND FINANCIAL POLICIES UNDER A NEW THREE-YEAR ECF ARRANGEMENT

11. The Government has developed a comprehensive strategy to address the challenges facing the country, put the economy on a sustainable path of recovery, and improve the socio-economic conditions of the population. It entails policies that would help stabilize the economy, support a resumption in non-oil growth and build the foundation for inclusive and sustainable growth. The main elements of the strategy, detailed below, are to (i) ensure fiscal and debt sustainability, including by restructuring external commercial debt, preserving the bulk of the fiscal adjustment of the last two years, increasing non-oil revenue, and clearing domestic arrears which is key for economic recovery and banking sector stability; (ii) strengthen public financial management (PFM), including the efficiency of public spending, which also help avoid the reemergence of domestic arrears; and (iii) improve the business environment and promote economic diversification.

C. Short and Medium-Term Fiscal Policies: Enhancing Fiscal and Debt Sustainability

12. The Government will follow a two-pronged approach to enhance fiscal and debt sustainability starting with a revised budget for 2017 (prior action). First, the Government will preserve much of the adjustment in current spending of the past two years, and focus on redirecting resources to areas where the previous cuts had detrimental social consequences and to investment spending. Spending control will be enhanced by measures to contain the wage bill as well as transfers and subsidies. Second, the Government will aim to raise non-oil revenue in a gradual but determined way. This will allow a steady improvement in the non-oil primary deficit after an initial slight widening in 2017. A performance criterion on the non-oil primary balance (Table 1) would serve as the main fiscal anchor of the program supported by a new ECF arrangement. In addition, the Government is committed to repay domestic arrears at a pace consistent with the availability of resources.

13. Both short and long term-measures will be implemented to maintain the wage bill at a sustainable level. The Government is determined to bring the wage bill to a level consistent with medium-term budgetary revenue forecasts, and taking into account the need to preserve other priority spending. Measures in the short term will include a hiring freeze in the civil service including potential hire eligible to join the civil service, but who have not joined it yet, freeze on wage increases, and reduction in bonuses. This is expected to help contain the wage bill to no more than CFAF 348 billion in 2017. Beyond these measures, the Government will adopt an action plan (structural benchmark) drawing on the results of the audit of payroll financed by the EU, to improve the management of the wage bill with the objective to reduce it to about 6.5 percent of non-oil GDP and to less than 70 percent of non-oil revenue by 2020. This audit shows that by cleaning the wage bill registry (in particular by eliminating ghost workers), at least CFAF 40 billion (about 0.8 percent of 2017 non-oil GDP) can be saved. In addition, an audit of the diplomas of civil servants, will identify people who have falsely reported their education attainment. This will help dismiss or reduce the salaries of those identified.

14. The Government is also committed to streamline transfers and subsidies. The adjustment of the past two years was also drastic for transfers and subsidies. While a large part of these transfers and subsidies are allocated to crucial sectors (education, health, agriculture, security), there is room to reduce some subsidies that are proven to be inefficient. An audit of transfers and subsidies (structural benchmark), to be launched in 2018, would help to identify potential sources of savings. In the meantime, the Government has implemented measures, such as the merger of public entities in order to streamline their operations, which could also reduce their subsidies, to keep the level at around 2.5 percent of non-oil GDP per year, about half the level that prevailed during 2010–14.

15. Poverty reducing social spending will remain a high priority. While the economic and financial crisis has complicated the implementation of basic social programs, the Government attaches the utmost importance to social spending. For 2017, the Government will increase the level of poverty reducing social spending to maintain its high share (of about 30 percent) of domestically financed primary expenditure. The Government plans further increases in both 2018 and 2019. Social spending, that have been defined in collaboration with the World Bank, will be monitored through an indicative floor (Table 1).

16. Investment spending will be increased gradually. The Government is aware that returning to the levels of investment spending prior to the crisis is not feasible and sustainable given that they were supported by exceptionally (and temporarily) high levels of oil revenue. Nonetheless, investment spending plays a crucial role in reviving the economy and supporting medium-term growth potential. As such, the Government plans to increase domestically financed investment spending to 1.4 percent of non-oil GDP in 2017, followed by a gradual increase toward 2.2 percent of non-oil GDP by 2021.

17. The Government's program will also aim to repay domestic arrears in a manner consistent with resources availability. In March 2016, the Government launched an operation to clear CFAF 65 billion out of the stock of recognized arrears by the Treasury in the "*Reste à Payer table*", which was financed by two bonds issuances. Subsequently, the amount of arrears repayment was raised by about CFAF 20 billion, and was financed by additional bond issuance. Unfortunately, due to the continuing liquidity pressures, new arrears accumulated and offset much of these payments. In 2017, the Government plans to pay at least CFAF 30 billion in arrears with the objective of clearing the entire amount that accumulated in the first half of the year. The Government is committed to prioritize the payments on the basis of their economic and social impact, and will take into consideration the effect they will have on the banking sector. The exact amount to be cleared per year will depend on the level of budgetary resources available. In this regard, the Government is seeking financial support (external concessional or domestic at favorable terms) to help repay the arrears in a manner consistent with a well-designed clearance strategy (see below and paragraph 32 for details). Consequently, the ceiling on the stock of domestic payment arrears recognized by the Treasury (performance criterion under the ECF arrangement, see Table 1) would be adjusted depending on the availability of resources (see Technical Memorandum of Understanding -TMU- for details). Over the medium term, the Government is determined to implement a comprehensive strategy to verify and clear potential arrears and resolve the problem of arrears accumulation (see Paragraph 32 for details).

18. **The Government is committed to clear all its external debt arrears.** We have reached out to relevant creditors to seek an agreement to clear the arrears. We have also adopted a plan to repay all the external arrears pending confirmation by the respective creditors. Arrears to official bilateral creditors are planned to be cleared within the next 12 months, and those to multilateral creditors within the program period. We are also seeking the clearance of arrears with a private commercial creditor in Taiwan Province of China. Going forward we are committed to economic and financial policies that would prevent further accumulation of arrears.

19. **The Government will seek the rollover of domestic debt maturing in coming months.** In 2015 and 2016, the Government raised respectively CFAF 192 and 241 billion through domestic public securities auctioned in the regional market. In light of recent difficulties to raise additional financing in the regional market, the Government is working closely with banks in coordination with the BEAC to pay the arrears that emerged last year, stay current on the 2013–18 Emprunt Obligataire, pay all interest coming due on treasury bills and bonds, and rollover the maturing principal in 2017. In line with BEAC policies, the Government is committed to refrain from any new financing from the BEAC and to gradually repay its debt to the BEAC with the aim of eliminating it by 2028.

20. **The Government is committed to use prudently higher than projected budgetary resources** (including exceptional receipt, oil revenue, and external support). While priority will be given to social spending, domestic investment, if necessary the Government will use those resources to reduce debt to banks and repay additional recognized domestic arrears. If possible, the Government will build higher Government deposits as a buffer and to further support the regional stabilization efforts. In the event of lower donors financing or lower oil revenue, the Government would at first consider repaying less domestic recognized arrears and then resort to domestic financing only if such a move does not risk undermining the soundness of domestic banks (see TMU).

21. **Strengthening non-oil revenue mobilization is a major element of the Government program to improve fiscal sustainability**. Under its economic program, the Government is targeting a gradual increase in non-oil tax revenue of about 2 percent of non-oil GDP by 2020, to a level equivalent to about 9 percent of non-oil GDP. The fiscal measures already taken under the 2017 budget, as well as the Government plans regarding tax and customs reforms and policy are detailed in section II B.

22. **The Government recognizes that reducing the burden of commercial debt is crucial to restore debt sustainability.** It has become clear that in spite of the increase in oil price and the projected increase in the volume of oil production, oil revenue that accrue to the treasury will continue to be modest in the short and medium term because of the large debt service of a private commercial debt (Glencore debt). The Government is fully committed to seek a restructuring of this debt that would provide a significant reduction in debt burden in line with the program parameters.

It has already approached the creditor in this regard, and has appointed debt and legal advisors who are working closely with IMF staff toward this end. The objective is to rapidly reduce debt service to revenue substantially in the near and medium term while reducing the present value of debt. The Government is determined to reach the necessary restructuring by the time of the first review of the requested program.

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

D. Tax and Customs Reforms and Policies

24. The Government recognizes the weaknesses of the tax system and is committed to address them. There is a wide consensus that the budget should not remain dependent on oil revenues, and that a better mobilization of non-oil revenue is essential. The weakness of non-oil revenue, which is far below what can be observed in other African countries, including other CEMAC members, is due to various factors including limited technical capacity in the revenue administrations, suboptimal tax system, and problems in the application of the existing rules. To address these weaknesses in a holistic manner, the Government will set up a unit in charge of tax policy (Structural Benchmark). Under the direct supervision of the Minister of Finance and Budget, the unit will promote and coordinate the identification of reforms to improve non-oil revenue mobilization, and their advancement. The Government will consider whether to create a new unit or ensure that an existing structure within the tax administration has the mandate to deliver in this regard.

25. In 2017, the Government expects an improvement in non-oil tax revenue mobilization particularly on the back of new tax measures implemented in the 2017 budget. Several measures included in the 2017 budget have begun to give results. In particular, the additional tax on oil products yielded almost CFAF 2.5 billion in the first two months of the year. Furthermore, the implementation of an 18 percent excise tax on communications (replacing a number of less efficient taxes), has yielded CFAF 2.4 billion in the first two months of the year, which represents more than a doubling of the amount collected in the same period last year. Other measures include the VAT withholding tax on all contracts and public orders, and the shifting to the normal taxation system of all travel agencies. Moving forward, the Government will explore possibilities to simplify taxation in other sectors.

26. In addition, the Government will begin tackling the prevalence of tax and customs exemptions which deprive the budget of important resources. The cost of exemptions is particularly high. The cost of exemptions for the General Directorate of Customs alone is estimated at about CFAF 140 billion in 2016. In addition, based on a sample of 39 (out of a total of 150–250) "*conventions d'établissement*", an EU study estimates the cost of exemptions for the Tax Directorate at about CFAF 45 billion in 2015. To begin dealing with these losses, the Government will reinforce soon the September 2016 moratorium on the enactment of new exemptions and extension of existing ones, by a new decree of the Minister of Finance and Budget (prior action). The moratorium would remain in place until the Government publishes a full list of exemptions provided under common law or contractual instruments ("*conventions d'établissement, conventions ad-hoc*"). The national workshop organized by the Government in March 2017, with support from EU, emphasized the necessity of assessing the impact of exemptions before they are approved. Following the finalization of ongoing TA from the EU, actions will be taken to reduce the exemptions. This could include several sectors, notably construction and electricity.

27. The Government will pursue measures to improve Tax and Customs Administration. Regarding tax administration, efforts are underway for the modernization and computerization of tax filling and payment procedures, as well as for a better classification of small and medium-sized enterprises for taxation purposes. The Government is also seeking to improve excise revenue collection on tobacco, alcohol and soft drinks. On customs, the Government welcomes the results of recent IMF Technical Assistance missions, and will follow up on their recommendations. Those are focused in particular on the full activation of the ASYCUDA module for the bonded warehouses, which is expected to reduce loss of revenue due to shipments that bypass registration and control. The Government has started implementing a contract signed with BIVAC International for the control of imported goods from their point of origin, aiming at minimizing customs revenue losses. BIVAC will also contribute to the implementation of a single window (in Ngueli) for customs operations (structural benchmark), in collaboration with the Directorate-General of Customs and Indirect Taxes (DGDDI), which will facilitate the clearance of customs operations and is expected to improve the control and collection of custom duties. The Government also plans to extend to all customs offices the mandatory payment of import duties and taxes directly to the banks. In view of the importance of the mobilization of non-oil customs revenue, a performance criterion is established under the new ECF arrangement (Table 1 and TMU for details).

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

E. Structural Reforms on Public Financial Management

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

30. The improvement of the expenditure chain remains a high priority for the Government.

- In a context of cash flow management difficulties made acute by the economic crisis and the liquidity shortages, emergency spending procedures ("*dépenses avant ordonnancement*", DAO), have been extensively used in 2016. This use of DAOs (22 percent of total domestically financed expenditures in 2016, excluding wages and salaries and debt service) also reflects the large compression in spending categories like investment that are typically executed through ordinary procedures. The Government is firmly committed to limit the use of DAO in 2017, and instructions have been given in this regard, requiring ministries to commit expenditures through the normal chain of payment. Above all, it is crucial that payments made via DAOs be regularized as soon as possible to limit the risks of over-spending and the accumulation of arrears. In order to achieve this objective, the Government is committed to regularize 90 percent of DAOs within 45 days after each quarter which will be monitored through an indicative target (Table 1).
- More broadly, the expenditure chain has to be better applied. The four phases of the expenditure chain (commitment, validation, authorization of payment order, and cash payment) should be implemented and monitored through the computerized system (CID). This is especially important for the last phase (cash payment), which has not been activated and led to difficulties tracking exact date of payment and potential arrears.

31. The Government has made progress in moving to medium-term program budgeting. Currently, with technical assistance from the World Bank, the tools for organizing the draft budget preparation discussions have been developed, and the medium-term expenditure framework and medium-term budgetary framework have been consolidated for five "pilot" ministries (Health, Education, Infrastructure, Agriculture, and Finance and Budget). For the five selected ministries, specific programs were formulated and served as the framework for the development of annual performance projects (PAPs), which present public policy objectives and performance indicators.

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

- In addition to the already validated arrears (estimated at about CFAF 270 billion by end-April 2017) which are reported in the *Reste a Payer* table prepared by the Treasury, other potential claims that could be sizeable exist. In this regard, an FAD technical assistance mission on managing and preventing domestic payment arrears took place in September 15-28, 2016. The TA mission estimates the size of potential additional claims at CFAF 300 billion although this estimate is subject to a wide variation. They include but may not be limited to: (i) claims related to capital expenditures incurred under public procurement contracts but which have not gone through the standard spending chain, (for instance "*décomptes*", which are an acknowledgement by a line ministries that a tranche of a public procurement contract has to be paid, but has not been transmitted to the Treasury for commitment and payment); (ii) claims related to goods and services expenditures that have not gone through the standard spending chain; (iii) claims related to public procurement contracts for capital expenditures that have not generated any "*décomptes*"; and (iv) debt not approved by the Debt Directorate (under litigation process), which includes some liabilities of public enterprises.

- The Government is committed to verify and validate the authenticity and nature of all potential claims and plans to launch an audit of these claims by October 2017 (structural benchmark). The Terms of Reference (ToR) for the audit will be in line with the recommendations made in the FAD Report. The Government is actively seeking donor support to finance the audit.
- The clearance of arrears will then continue at a pace consistent with the medium-term fiscal framework. In the past year, under pressure to resume some projects that had been halted due to non-payment of obligations, the Government repaid some of its arrears that were not included in the *Reste à Payer* table about CFAF 50 billion. Moving forward, recognizing the importance of clearing arrears in a predictable and comprehensive manner, the Government is committed: (i) not to repay any more arrears other than those reported by the Treasury in the *Reste à Payer* table at end-April 2017 before the audit is completed; (ii) to follow a well-articulated repayment strategy that prioritizes repayment of arrears based on their economic and social impact; (iii) to establish clear modalities for repayment after the audit is completed, which could include cash payment, securitization of arrears, and potential discounts; and (iv) to publicly communicate its repayment strategy. The clearance strategy will depend on the size of identified arrears and will be in line with available resources.

33. The Government continues to work towards a more efficient cash management system.

- The Cash Plan Committee is now fully operational. The committee is in charge of cash flow forecasts and management, monitoring the current Treasury account at the BEAC, and centralizing public accounting operations, cash flow and public debt. A cash management plan, including monthly forecast of revenue and main expenditure (notably the wage bill, and domestic and external debt service) has been developed. The current 2017 cash-management plan has been provided to IMF staff. Moving forward, efforts would focus on strengthening the responsiveness of the Committee to update revenue and expenditure forecasts.
- The Treasury Unit in charge of the issuance of Treasury bills and bonds on the CEMAC regional market is taking actions to ensure better programming and visibility of issuances, strengthen the network of primary dealers (SVT) which increased from seven to eight banks in 2016, and improve dialogue with them.

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

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

36. Transparency in the oil sector operations has been enhanced steadily, but the Government is determined to make further progress. The Technical Committee in charge of monitoring oil revenue has been established by ministerial decree on September 14, 2016. This committee will prepare and publish an oil sector note. The note will include information on production trends, exported cargoes (shipments), shipment schedule, the discount of the Chadian crude oil (Doba Blend) relative to the Brent price, oil revenues and their detailed breakdown. In addition, it will include all information on financial flows relating to SHT that affect the budgetary oil revenue level, such as cash-call paid to the Doba consortium (and also any other current and future participations), transportation costs, and debt-service (interest payments, amortization and fees) of the Glencore loan. A template, developed with IMF staff support will be used to disseminate this information. The first note will be published by end-September 2017 and on a quarterly basis thereafter (Structural Benchmark). In addition, the Government is fully committed to remain compliant with the EITI requirements: the 2014 report has been published in December 2016 (http://itie-tchad.org/?p=622) and the authorities are now facilitating the work of the EITI National Committee to publish the 2015 report. To this end, a series of training courses under the Program of Support to Good Governance of the European Union was held during March 6–10, 2017 in Bakara to strengthen the capacities of the members of the EITI National Committee.

F. Other Structural Reforms

37. Chad faces significant structural competitiveness challenges. With still poor transportation infrastructure and being landlocked, the country has one of the highest trade costs in the world. It also scores poorly in doing business and competitiveness indicators, trailing behind its peers in quality of institutions, barriers to starting a business, enforcing contracts, paying taxes and access to electricity. In addition, educational attainment among the population is also low. Addressing these structural weaknesses remains key for diversification and sustainable growth.

38. The Government is firmly committed to diversify the economy and reduce the dependence on the oil sector, and has made this a key objective under its new National Development Plan, which is expected to be finalized by end-July (structural benchmark). The draft NDP 2017–21 is anchored on national cohesion and sets as the overall objective, to structurally transform and diversify the economy and achieve strong, inclusive growth. The diversification of the economy will be based on comparative advantages of Chad including the development of value chains in agriculture, farming, fishing and mining. The contribution to GDP growth of mining, and handicraft will be enhanced through the development of sectoral strategies and the creation of a business-friendly environment. The development of agro-forest-pastoral industries will be based on promising value chains identified in the recent Chad Diagnostic Trade Integration Study (October 2016).

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

40. Aware of the fact that Chad is ranked 142nd out of 146 countries by Transparency International, the Government attaches high importance to the fight against corruption. A high-level committee on institutional reforms, placed under the authority of the Prime Minister, has been created in October 2016 to design and implement key institutional reforms, including the creation of a special court for suppression of economic and financial crimes. The fight against corruption is an essential component of the Government strategy to improve the business environment and promote cross-border trade and private investment. As such, the Government plans to issue the draft law creating a special court by end-June 2018 (structural benchmark).

MONITORING THE IMPLEMENTATION OF THE PROGRAM

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

42. The program will be monitored through bi–annual reviews by the IMF Executive Board on the basis of performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2 attached). The indicators are outlined in the Technical Memorandum of Understanding (TMU) attached. The first program review will be based on end-June test dates and should be completed on or after September 15, 2017. The second review will be based on end-December test dates and should be completed on or after February 15, 2018.

43. **During the program period, the Government undertakes not to introduce or step up restrictions on payments and transfers for current international transactions, nor introduce multiple currency practices, sign bilateral payment agreements that would be inconsistent with Article VIII of the IMF Articles of Agreement, impose or tighten import restrictions in order to ensure balance of payments equilibrium.** In addition, the Government undertakes to adopt, in consultation with IMF staff, any new financial or structural measures, which may be necessary for the success of the program.

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

(In billion of CFAF, unless otherwise indicated)

	End-June 2017 QPC	End-Sept 2017 IT	End-Dec 2017 QPC	End-Mar 2018 IT	End-June 2018 IT
1. Floor on non-oil primary budget balance (NOPB)	-139	-185	-221	-65	-125
2. Floor on customs revenue	35	70	110	25	45
3. Ceiling on net domestic government financing excluding BEAC	0	-15	-40	0	-5
4. Ceiling on net government financing from the BEAC	-1	-1	29	0	30
5. Ceiling on the stock of domestic payment arrears by the government	270	263	240	230	210
6. Ceiling on new external arrears of the government and non-financial public enterprises	0	0	0	0	0
7. Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises	0	0	0	0	0
	IT	IT	IT	IT	IT
8. Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO)	90	90	90	90	90
9. Floor for poverty-reducing social spending	80	140	205	45	92
Memo item:					
10. Ceiling on new domestic payment arrears by the government	*0*	*0*	*0*	*0*	*0*
11. External concessional borrowing (US$ million)	*147*	*215*	*235*	*35*	*70*
12. Oil Revenue	*135*	*214*	*310*	*79*	*156*
13. Grants	*109*	*186*	*261*	*45*	*90*

Sources: Chadian authorities; and IMF Staff.

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

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

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

4. Includes statutory and exceptional advances, "créances consolidées" as well as IMF disbursments, see Technical memorandum of understanding.

5. Stock of verified arrears, as given in the Table "Restes à payer".

6. Applies continuously.

7. Applies continuously.

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

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

11. Includes $100 million budget loan from Angola.

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

Table 2. Prior Actions and Structural Benchmarks for the Program Under the ECF Arrangement

Measures	Due Dates	macro-criticality
Prior Actions		
1. Moratorium on the enactment of new exemptions		
2. Revised 2017 budget		
Structural benchmarks		
1. Submission to the National Assembly of the new National Development Plan	End-July 2017	High
2. Set up a unit in charge of tax policy	End-Aug 2017	High
3. Publication of a quarterly note on the oil sector, in line with the template agreed with the authorities, including detailed information on debt service to Glencore.	Quarterly, starting end-September 2017	Medium
4. Launch of audit of unrecognized expenditure payment arrears	End-October 2017	High
5. Establishment of the single customs window at Ngueli	End-Dec 2017	Medium
6. Adoption of an action plan to improve management of the wage bill, drawing on the audit of payroll system to identify control weaknesses and/or ghost workers, financed by the EU	End-Dec 2017	High
7. Launch of audit to identify potential sources of saving in transfers and subsidies	End-Mar 2018	High
8. Create a special court for suppression of economic and financial crime	End-June 2018	Medium

Source: Chadian authorities and IMF staff

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Letter of Intent (LOI) and Memorandum on Economic and Financial Policies (MEFP) of June 16, 2017. It describes the information requirements to monitor performance under the ECF arrangement. The authorities will consult with the IMF before modifying measures contained in this TMU, or adopting new measures that would deviate from the goals of the program. It describes more specifically:

a) reporting procedures;

b) definitions and computation methods;

c) quantitative performance criteria;

d) indicative targets;

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

f) structural benchmarks.

A. Reporting procedures to the IMF

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

B. Definitions and computation methods

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

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

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

Compagnie Tchadienne de Textiles (COTEX), Sociètè Nationale de Ciment (SONACIM Tchad), CimenTchad, Société Industrielle de Materiels Agricoles et d'Assemblage des Tracteurs (SIMATRAC), Société Tchadienne d'Hydraulique (STH), Fonds d'Entretien Routier (FER).

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

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

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

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

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

9. **Total government expenditure** is understood to be the sum of expenditure on wages and salaries of government employees (as provided in the document "*Masse salariale*", see Paragraph 11 for details), goods and services, transfers (including subsidies, grants, social benefits, and other expenses), interest payments, and capital expenditure. All these categories are recorded on a commitment basis, unless otherwise stated. Except for capital expenditure, which is defined as shown in the Government Finance Statistics Manual 1986 (GFSM 1986),[2] all other spending items are

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- The outstanding amount in a payment order, to a private or public company, for an expenditure incurred, validated and certified by the financial controller and then created by the "*Direction of Ordonnancement*", is defined as a **float** after the payment authorization is issued by the Treasury. The outstanding amount of a float is classified as a **recognized expenditure payment arrear**

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

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

90 days after the issuance of the payment authorization. The recognized expenditures payment arrears so defined do not include domestic debt payment arrear and arrears on wage and salaries. **Unrecognized expenditure payment arrears** are defined as any potential expenditures payment arrears which have not gone through that standard spending procedure. The nature and the amount of those potential arrears will be determined by an audit of domestic arrears (see paragraph 23).

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

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

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

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

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

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

C. Quantitative Performance Criteria

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

- **A floor for the non–oil primary balance**. The non–oil primary balance is defined in paragraph 17 above.
- **A floor on custom revenue.** The custom revenue is defined in paragraph 6 above.
- **A ceiling on the net domestic government financing (excluding BEAC) relative to end-2016. This is the sum of net bank financing and net securitized financing as defined in para 19**. This ceiling does not apply to the new agreements on internal debts restructuring and arrears securitization.
- **A ceiling on net government financing from BEAC relative to end-2016** (as defined in para 19). The ceiling includes support from the IMF.
- **A ceiling on the stock of domestic recognized expenditure payment arrears**. Domestic recognized expenditure payment arrears are defined in paragraph 15. As of end-April 2017, the stock of recognized expenditure payment arrears is estimated at CFAF 270 billion based on information in the Table "*Reste à Payer*" (prepared by the Treasury). The ceiling would be adjusted to reflect developments until the date of the approval of the program.
- **A zero ceiling on the accumulation of any new external payment arrears by the government and public non-financial enterprises** (see paragraph 4 for definition). This ceiling applies continuously. Any non-observance to the ceiling will be reported promptly to the IMF with information regarding the date of the non-observance, amount of the missed payment and the creditor involved.
- **A zero ceiling on new non-concessional external debt contracted or guaranteed by the government and non–financial public enterprises, with a maturity of more than one year**. This ceiling applies continuously and does not include IMF financing. Debt is non-concessional if it includes a grant element of less than 35 percent, as described in Paragraph 14. Excluded from the ceiling are: (i) normal short–term credits for imports; and (ii) debt contracted before the ECF arrangement, and rescheduled during this arrangement to the extent that the rescheduling is assessed to improve the overall public debt profile.

D. Indicative Targets

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

- **A floor on regularization of spending executed through emergency spending procedures (DAO)**. Regularization of DAO (as define in paragraph 10) will be done within 45 days after the end of the quarter.
- **A floor on poverty–reducing social spending**. Poverty–reducing social spending is defined in paragraph 18.

E. Adjustors to Performance Criteria and Indicative Targets

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

- If the total budgetary receipts and loans are **lower** than the programmed amount, because of lower oil revenue or budget support, then the ceiling on the stock of domestic payment arrears can be adjusted **upward** up to the planned arrears repayment amount. An increase in net domestic financing (either net domestic government financing or net government financing from BEAC) could be envisaged up to 25 percent of the shortfall.
- If the total budgetary receipts and loans are **larger** than the programmed amount, because of higher oil revenue, additional budget support, or exceptional receipt, the floor for the non-oil primary balance can be adjusted **downward** by 50 percent of the excess amount. For the purpose of the TMU, baseline oil revenue, budget support and exceptional receipts are shown in the text table below.

Text Table 1. Baseline Projection of Selected Variables

(Cumulative on annual basis)

	2017			2018
	End-Jun	End-Sep	End-Dec	End-Mar
	(in CFAF Billion)			
Oil Revenue[1]	135	214	310	79
Budget Grants	69	125	178	0
Budget Loans	62	62	88	0
Exception Receipt	0	0	0	0
Total	267	401	576	79

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

- Should expenditure compression be needed, poverty-reducing social spending would be adjusted to the extent that it is reduced proportionally less than other domestically financed primary spending such that its ratio increases compared to the previous year.

F. Structural Benchmarks

22. **Structural benchmarks** are specified in Table 2 of the MEFP.

- Submit the new National Development Plan to the National Assembly by end-July 2017.
- Set up a unit in charge of tax policy end-August 2017. The unit will be in charge of identifying and advancing reforms to improve non-oil tax mobilization. This will include taking stock of existing tax and customs exemptions, identifying those that could be removed, and assessing the merit of new request for exemptions. In addition, the unit will be in charge of identifying reforms to simplify existing taxes, and identifying areas of reforms to the VAT, general income tax, and property tax.
- Publication of a quarterly note on the oil sector, in line with the template agreed with the IMF staff, including detailed information on debt service to Glencore, starting end-September 2017 (Table 2).
    i. The note will comment on the recent development in the oil sector, including information related to production, export, and new exploration over the previous quarter, and expectation and forecast for the next 6 months.
    ii. The note will also provide a detailed account of the flow of oil revenue. Oil revenue will be reported by categories and the corresponding types of payments, in-cash (payment made in cash by oil companies) and in-kind (payment made in crude oil by oil companies). Other information will include information on the sale of government-owned crude oils, such as gross sales revenue, volume sold, transaction prices, operating costs ("Cash-call") to oil companies, transportation cost, interest payments, principal repayment, other related fees paid to service the Glencore loan and the final amount of sales revenue accrued to the Treasury.
- Launch an audit of unrecognized expenditure payment arrears by end-October 2017. The Terms of Reference for the audit will be in line with the recommendation of a technical assistance mission provided by the Fiscal Affairs Department of the IMF which took place in September 2016.
- Establishment of the single customs window at Ngueli by end-December 2017.
- Adoption of an action plan by end-December 2017 to improve management of the wage bill, drawing on an audit on the payroll system to identify control weaknesses and/or ghost workers, financed by the EU.
- Launch an audit to identify potential sources of saving in transfers and subsidies by end-March 2018.
- Create a special court for suppression of economic and financial crimes through the issuance of a draft law by end-June 2018.

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

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

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

Data	***Provider***	***Periodicity and Target Date***
Monetary survey	BEAC	Monthly, within 45 days of month–end
Provisional monetary data from the BEAC *(Exchange rates, foreign reserves, assets and liabilities of the monetary authorities, base money, broad money, central bank balance sheet, consolidated balance sheet of the banking system, interest rates[3])*	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] Including maturities.

[2] Including the breakdown by currency and maturity

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

Table 2. Summary of Oil Revenue

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

INTERNATIONAL MONETARY FUND

CHAD

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND CANCELLATION OF THE CURRENT ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

June 19, 2017

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

Prepared by the Staffs of the International Monetary Fund and the International Development Association.

With the accumulation of external debt arrears, Chad is currently in debt distress and the debt sustainability analysis shows that debt is unsustainable without external commercial debt restructuring. Two external debt indicators exhibit protracted breaches of their indicative thresholds. The debt service to revenue ratio continues to be significantly above the threshold until 2021. Domestic debt has increased in recent years but is projected to decline starting in 2017. Preserving debt sustainability requires that the authorities maintain fiscal prudence to gradually improve the primary fiscal balance, and implement prudent debt management policies, including a comprehensive strategy for domestic arrears clearance. The debt restructuring currently being pursued by the authorities will be critical to reducing debt to sustainable levels and lowering the risk of debt distress. Progress in economic diversification would also strengthen debt sustainability.[1]

[1] Chad's average CPIA over 2013–15 is estimated at 2.7. This corresponds to a weak policy performance under the Debt Sustainability Framework for Low-Income Countries (LIC-DSA).

BACKGROUND

1. **The composition of Chad's public debt has changed significantly over the past decade.** Over the last few years, Chad has increasingly relied on domestic and regional banks, non-Paris Club creditors (e.g., China, Libya, and India), and commercial credits to address its financing needs. There is no recorded external private debt in Chad.

Public External Debt

2. **After stabilizing at around 20 percent, the external public debt-to-GDP ratio increased to 29 percent in 2014 following two non-concessional oil sales' advance operations with a commercial creditor, Glencore.** In 2013, the authorities signed two agreements for a total of US$600 million with Glencore to cover revenue shortfalls. In 2014, a new commercial borrowing operation for US$ 1.4 billion was contracted by SHT (a state-owned oil company) to finance the purchase of Chevron's shares in Chad's largest oil consortium in June of that year.

3. **In late 2015, a rescheduling agreement with Glencore consolidated the two oil sales' advance operations, extending their maturities.** The rescheduling agreement provided much needed debt service flow relief by extending maturity from 4 to over 6 years. However, the imposition of restructuring fees led to an increase in the present value of the debt. Repaying the Glencore loan using oil receipts, however, continues to place an excessive burden on the budget. The authorities have publicly announced their plan to reschedule this debt again.

4. **Following the achievement of the HIPC completion point in April 2015, Chad was able to secure at least US$756 million in debt relief.** This amount includes MDRI relief from International Development Association (IDA) and African Development Bank (AfDB), forgiveness from the IMF, and a hundred percent cancellation from the Paris Club. Regarding non-Paris Club members, the authorities signed a new agreement with Saudi Arabia in July 2015 which reschedules their remaining amount on IDA comparable terms.

5. **As of end-2016, about 53 percent of Chad's external debt was commercial debt (Text Table 1).** In addition, around 24 percent was owed to multilateral creditors, and 23 percent to bilateral creditors.

6. **External payment arrears accumulated in 2016 and in 2017.** As a result of liquidity challenges the government accrued external arrears vis-à-vis a number of multilateral, bilateral, and commercial creditors (a bank from Taiwan province of China). The stock of external arrears is estimated at about US$88 million (0.9 percent of GDP) at end-April 2017 (Text Table 2). The authorities reached out to the creditors to resolve the arrears. In April 2017, the government reached an agreement with EXIM Bank China to reschedule overdue (accrued in 2016) and upcoming maturities.

Text Table 1. Chad: External Debt Stock at Year-End, 2013–2016

(Billions of CFA francs)

	2013	2014	2015	2016
Total	1,410.7	2,010.2	1,616.6	1,619.0
(Percent of GDP)	22.0	29.1	25.0	27.1
Multilateral	719.9	734.8	375.1	387.9
IMF	0.9	11.1	38.3	74.7
World Bank/IDA	387.8	397.4	112.9	110.1
African Development Fund/Bank	181.4	180.7	68.6	55.9
Others	149.8	145.6	155.4	147.2
Bilateral	283.2	334.0	366.3	368.6
Paris Club official debt	13.8	11.5	2.1	[...]
Non-Paris Club official debt	269.4	322.5	364.2	368.6
of which: China, People's Republic	83.3	129.0	144.4	156.0
Libya	133.9	139.6	158.3	163.0
India	18.3	21.1	27.4	30.1
Commercial 1/	407.6	941.5	875.2	862.5

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

1/Glencore loan accounts for about 98 percent of commercial debt stock in 2016

Text Table 2. Chad: Estimated External Arrears at End April 2017

(Millions of US dollar)

Multilateral	**24.53**
World Bank	0.37
Development Bank of Central African States[1]	11.25
Islamic Development Bank	8.73
European Investment Bank	0.16
Arab Bank for Economic Development in Africa	0.72
OPEC Fund for International Development	3.15
International Fund for Agriculture Development	0.14
Bilateral	**61.42**
Libya	27.36
Kuwait	1.38
India	6.09
Congo[1]	26.58
Saudi Arabia	0.01
Commercial	
Mega International Commercial Bank[2]	2.27
Total	**88.21**

[1] In CFAF

[2] Commercial bank from Taiwan Province of China.

Public Domestic Debt

7. The stock of domestic public debt rose to about 24 percent of GDP in 2016, in part reflecting the authorities stepping up their domestic debt issuance program in the CEMAC market (Text Table 3). In 2016, Chad issued CFAF 174 billion (net) in Treasury Bonds, with maturities of two to five years, and CFAF 67 billion (net) in Treasury Bills bringing the combined stock of Treasury Bonds and Bills to CFAF 470 billion or 7.9 percent of GDP. This has exposed the government to significant rollover and interest rate risk. The stock of debt also includes sizeable advances by BEAC (the regional central bank), loans from commercial banks, Development Bank of Central African States (BDEAC), Republic of Congo (in 2012), Equatorial Guinea (in 2013), and Cameroon (2016), as well as verified domestic arrears of CFAF 168 million or 2.8 percent of GDP at end 2016.

8. Following at least 5 years of increase, the stock of domestic debt is projected to fall in 2017 under the proposed ECF program. The fall is driven by the repayment of domestic arrears and an exceptional advance received from the BEAC in late 2016, together with the projected payment of arrears to banks, arrears to suppliers, and other maturities on domestic currency debt. The program does not assume any new domestic borrowing; the authorities will only seek the rollover of maturing T-bills and T-bonds.

Text Table 3. Chad: Stock of Domestic Debt at Year-End, 2011-2017

(Billions of CFA francs)

	2011	2012	2013	2014	2015	2016	2017p
Total	**504.3**	**552.8**	**602.4**	**708.9**	**1185.0**	**1437.0**	**1319.6**
(Percent of GDP)	**8.8**	**8.7**	**9.4**	**10.3**	**18.3**	**24.0**	**21.9**
Central Bank financing	241.9	241.9	222.5	222.5	454.6	494.0	454.6
Statutory advances	*208.6*	*208.6*	*187.8*	*187.8*	*280.0*	*280.0*	*280.0*
Exceptional advance					*140.0*	*170.0*	*140.0*
Consolidated debt	*33.3*	*33.3*	*34.7*	*34.7*	*34.7*	*44.1*	*34.7*
Commercial banks' loans	8.5	8.5	15.1	137.6	86.8	55.2	41.4
2011 Bond[1]	107.6	107.6	80.7	53.8	26.9	0.0	0.0
2013 Bond[1]			90.3	72.2	54.2	54.2	18.0
Treasury Bonds[2]					139.3	298.6	314.1
BDEAC	3.0	4.8	11.0	12.2	19.9	47.7	63.2
Republic of Congo		50.3	40.3	30.3	20.3	20.3	10.3
Equatorial Guinea			15.0	13.3	11.7	10.0	8.3
Cameroon						30.0	30.0
Domestic arrears[3]	56.4	50.3	39.9	51.8	199.8	168.0	138.0
Others[4]	86.9	89.4	87.7	87.7	87.7	87.7	87.7
Memo items:							
Treasury Bills				*27.5*	*84.0*	*171.3*	*154.0*

Source: Chadian authorities

[1]Issued through banks' syndication

[2]Auctionned in regional securities' market

[3] Assumes full repayment of arrears accumulated in 2017

[4]Legal commitments, Standing payment orders, and accounting arrears

DSA ASSUMPTIONS

9. The DSA incorporates historical information on external debt until 2016. The historical information on external debt is based on the World Bank-DRS database and information provided by Chadian authorities.

10. The DSA's baseline scenario assumes fiscal adjustment under the proposed ECF program but does not include debt restructuring. It includes a stable path for oil price, a recovery in oil production, and policies to stabilize the fiscal position and support a sustainable recovery in non-oil activity. It assumes clearance of external arrears within the program period, substantial budget support from donors but does not assume the restructuring of commercial debt, which is necessary to reestablish debt sustainability and fill the financing gap that emerges under the proposed program.

11. Oil production: Chad's medium- and long-term macroeconomic outlook is characterized by gradual increase in oil production over the period 2017–21, but a steady decline over the longer term.

- Oil export is expected to rise from 122,000 bpd in 2016 to about 153,000 bpd in 2021. Proven reserves in the new fields are much smaller than in the original Doba basin and will also likely be nearly exhausted around 2030. Hence, oil production and exports are projected to decline steadily to negligible levels beyond 2030. These prospects might change with new oil exploration activities or with the use of new oil extraction techniques.[2]

- Chad's oil trades below the WEO reference price, reflecting a quality discount and transport cost of US$ 4-12 per barrel. For the medium term (five-year horizon) the price of a barrel of Chadian oil is assumed to average about US$50 in 2017–21, in line with the trend projected in the WEO. From 2021 onward, the price is assumed to increase, on average, by around 2 percent per year in U.S. dollar terms (Box 1).

12. Fiscal policy: The analysis assumes that the substantial fiscal adjustment of the past two years will be broadly preserved, with additional adjustment gradually implemented over the medium term through improvement in non-oil revenue. The non-oil primary deficit (NOPD) is expected to improve from 4.4 percent of non-oil GDP to 2.8 percent in 2021. Oil revenue is projected to increase to 6.4 percent of non-oil GDP in 2017 from 3.5 percent last year and then moderate over the medium and long term.[3] Over the longer term, in transition to the post-oil era, it is assumed that dwindling oil revenues will be partly offset by a stabilization of total government primary spending at around 19 percent of GDP, while the

[2] Oil production at the Doba oilfield (exploited by the Esso-led consortium) started in 2003, reached its peak of 63 million barrels in 2005 and, absent other oil developments, will decline with annual output projected to become negligible beyond 2030. In 2011, oil production began at a second oil field, Bongor, operated by CNPC (about one-third the size of the Doba field). Exports of crude oil from Bongor started in 2014. Oil from another smaller operator (Caracal, formerly Griffiths) started to be produced in late 2013.

[3] In contrast to previous DSAs, oil revenue is presented on gross basis, i.e., without excluding the debt service on oil sales advances (to Glencore). It only nets out the operation costs associated with the government ownership in the Doba consortium, and oil transportation cost.

primary balance will be adjusted gradually to reach a small deficit of less than 2 percent of non-oil GDP by the end of the projection horizon. The latter is projected to be achieved mainly by: (i) gradually increasing non-oil revenues (from about 8 percent of non-oil GDP at present to about 14 percent of non-oil GDP by 2037); ii) maintaining total investment outlays around 8 percent of non-oil GDP in the long term; and (iii) keeping recurrent spending at relatively low levels by streamlining transfers and subsidies to public enterprises and improving wage bill management. The analysis also assumes a comprehensive strategy for clearing domestic arrears and avoiding further accumulation going forward.

13. Arrears. The authorities' strategy is that arrears to external creditors will be paid within the program period. Arrears accumulated in 2017 are assumed to be repaid in the next few months. Clearance of arrears to official external creditors is programmed within the next 12 months. Arrears to other creditors are programmed to be cleared within the program period. The authorities are making good faith efforts to reach collaborative agreement with the bank from Taiwan province of China. The baseline scenario also includes a gradual reduction in the stock of verified domestic arrears. An audit of domestic arrears is planned to start in 2017 and depending on its outcome, the stock of domestic arrears and the path of repayment may change.

14. The DSA baseline remains subject to downside risks. Implementation challenges related to planned government reforms could weigh on growth prospects, particularly in the medium and longer run. Risks stem from additional domestic debt and arrears that may be off the books but remain to be identified through increased monitoring efforts, including planned audits in 2017. The SOE portfolio may add fiscal exposure. There is also uncertainty around future oil prices and the security situation. A further fall in oil prices would put additional pressure on fiscal accounts and compromise the government's ability to finance its planned expenditure and deb. In addition, unexpected security costs and increased expenditure demands of addressing economic disruptions could divert resources away from priority social and structural programs as well as institutional capacity-building. At the same time, a negative climatic shock would affect the prospects for agricultural growth and significantly reduce GDP growth.

Macroeconomic Assumptions

Real GDP growth is driven by a recovery in oil and non-oil production in the short term and a secular decline in oil production starting 2021, with upside risk over the long run given oil exploration activities. Non-oil GDP growth is projected at 4 percent per year over the medium to long term, driven by agriculture, commerce, and transportation.

Inflation is assumed to stabilize at 3 percent, consistent with the CEMAC convergence criterion.

The **fiscal outlook** features a modest increase in oil revenues in the medium term but a decline in the long term. The non-oil primary deficit is projected at 2.8 percent of non-oil GDP in 2021. The non-oil revenue is projected to gradually improve over the projection horizon starting in 2017. Domestically financed public investment is expected to recover gradually to about 2.2 percent of non-oil GDP in 2021.

The evolution of the **external current account** deficit will be largely driven by the oil price path. The current account deficit is projected at about 3.5 percent of GDP in 2021, thanks to an increase in oil export values. After 2021, barring new oil discoveries, the external current account is projected to remain in deficit, stabilizing at around 2 percent of GDP beyond 2030. Non-oil sector imports are assumed to evolve in line with non-oil GDP over the projection horizon, while oil sector imports would decrease over the medium to long term as foreign direct investment declines too.

Foreign direct investment (FDI) is expected to remain low but improve gradually in the short term, as investments from oil companies are envisaged to recover. FDI is assumed to stabilize in 2018–20 at around 4 percent of GDP before it declines to an average of about 2 percent of GDP in 2023–37 in line with the assumption of maturing oil fields and amortized investments.

External financing: The analysis incorporates significant donor support in the period 2017–20. External borrowing is assumed to be on concessional terms over the medium and long term.

Domestic financing: While most of domestic debt is expected to be rolled over in the near term, the program envisages a decline in government financing from the banking system in 2017–18. Arrears to banks from missed bond payment last year is expected to be paid this year. The program assumes no further advances from the BEAC and the repayment to BEAC is assumed to start in 2018.

Text Table 4. Chad: Medium-Term Projections

	2016	2017	2018	2019	2020	2021	2022	2017-22 Avg.	2023-37 Avg.
Real GDP growth (percent per year)	-6.4	0.6	2.4	3.1	3.9	3.6	3.7	2.9	3.3
Oil	-8.4	3.0	6.1	5.8	5.4	1.7	0.0	3.7	-3.2
Non-oil	-6.0	0.1	1.6	2.6	3.6	4.0	4.5	2.7	4.1
Consumer price inflation (percent per year)	-1.1	0.2	1.9	2.4	3.0	3.0	3.0	2.3	3.0
External current account balance (percent of GDP)	-9.2	-2.2	-3.2	-3.5	-3.3	-3.5	-2.8	-3.1	-2.1
Exports of goods and services (percent of GDP)	22.0	30.2	30.7	30.4	30.0	29.4	28.6	29.9	21.7
					(In percent of non-oil GDP)				
Government revenue and grants	14.9	19.9	19.2	19.2	19.5	19.0	19.4	19.4	19.1
Of which: oil revenue	3.5	6.4	6.5	6.3	6.2	6.1	5.9	6.2	3.7
Of which: grants	3.0	5.4	4.3	4.1	4.1	3.5	5.9	4.5	5.3
Government expenditure (commitment basis)	18.0	18.8	18.5	18.7	18.2	17.5	17.3	18.2	18.8
Overall fiscal balance (incl. grants; cash basis)	-4.9	0.1	0.0	-0.4	0.8	1.1	1.6	0.5	0.3
Non-oil primary fiscal bal. (excl. grants; commitment basis)	-4.4	-4.6	-4.3	-4.2	-3.6	-2.8	-2.2	-3.6	-1.5
Memorandum items:									
Chadian crude oil price (US$/barrel)	36.2	50.4	49.9	49.0	48.9	49.5	50.6	49.7	57.9

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

EXTERNAL DSA

15. The evolution of external debt is driven by the government's borrowing strategy which envisages a reasonable volume of project and budget support loans and no further usage of commercial loans. Under the ECF-supported program, external financing is assumed to be on concessional terms over the medium to long term mostly financed by disbursements from multilaterals such as the IMF, WB, AfDB, Islamic Development Bank, and Arab Bank for Economic Development in Africa, and from other development partners. This leads to a grant element of an average of 36.7 percent over the projection period (Figure 1).

16. Without debt restructuring, debt is unsustainable as reflected in particular by the large breach of the debt service to revenue threshold over the next four years (Figure 1, Table 1). Without debt restructuring, debt service is projected to be about 40 percent of revenue in 2017–18 and average above 30 percent per year during 2019–21.[4] Burdened by a high debt service and weak budgetary resources, the country accumulated significant domestic and external payment arrears in 2016 despite significant fiscal contraction. The country would not be able to continue to sustain such a high burden of debt service, which would lead to further fiscal contraction and a likely disorderly adjustment with severely adverse social and economic consequences.

Stress Tests

17. Stress tests highlight the susceptibility of Chad's external debt to shocks, especially in the next few years (Table 2, Figure 1). As in the baseline scenario, if the main economic variables remain at their historical averages, two of the indicators breach their indicative thresholds, one of which is a minor breach of the debt-to-revenue ratio in 2017. Bounds tests reveal that Chad is most vulnerable to an adverse shock to exports (although this is unlikely given that the oil price shock has happened in the past two years), and a scenario that combines different types of macroeconomic shocks. A one-time depreciation shock (30 percent nominal depreciation in 2017) generates further vulnerability in the debt service-to-revenue indicator. These shocks have the potential to raise the debt burden indicators significantly above their thresholds, especially over the short and medium term. The PV of debt-to-exports ratio is particularly sensitive to a poor export performance, showing a protracted breach under this stress test.

PUBLIC DSA

18. Domestic debt has increased in recent years, but is projected to decline (Table 3 and Figure 2). With the accumulation of domestic arrears and the increased issuances of debt securities in the regional market, the PV of debt-to-GDP ratio shows a breach in 2017–20 under the baseline scenario. Under the requested ECF arrangement, with prudent fiscal policies, the domestic debt component would fall from 22 percent of GDP in 2017 to 17 percent of GDP in 2020. Beyond 2020, domestic debt to GDP continues to

[4] The residuals in Table 1 are associated with the significant debt relief in 2015; and a substantial loss in international reserves in 2015 and 2016. The existence of historical and projected residuals can also be explained by shortcomings in quality affecting balance of payments data.

decline steadily until it reaches about 12.6 percent of GDP in 2037. Altogether, the public debt stock would decrease from about 50 percent of GDP in 2017 to 30 percent of GDP in 2022 until it stabilizes around an average of 23 percent of GDP in 2023–37.

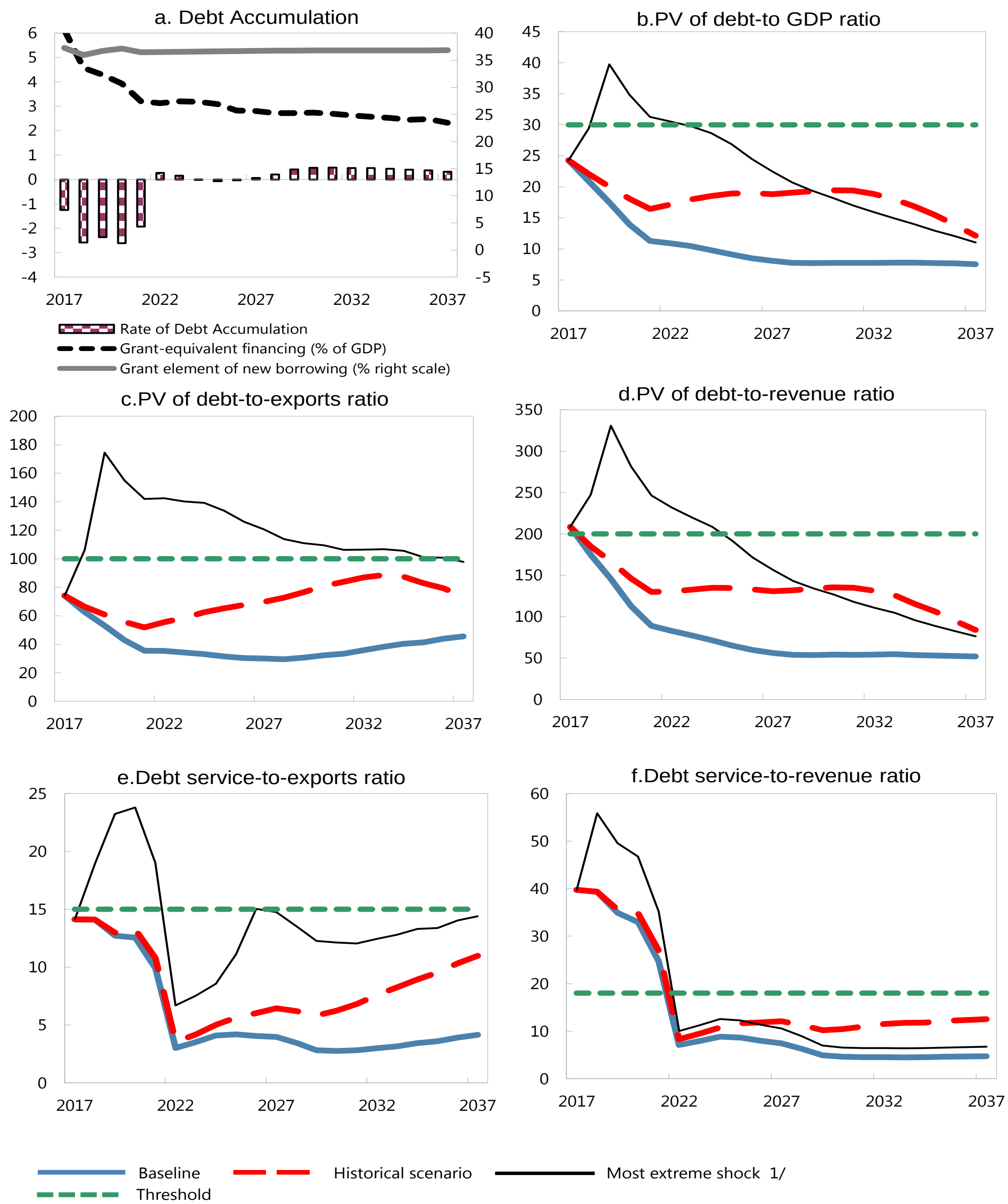
19. Standard stress tests indicate sustainability risks in the next few years. In particular, a real depreciation shock in 2016 could impair public debt sustainability in the short to medium term (Most Extreme Shock in Figure 2 and Bound Tests in Table 4).

CONCLUSION

20. Chad is in debt distress and debt is unsustainable without external commercial debt restructuring. The burden of external commercial debt service is taking a heavy toll on government finances. The government has accumulated significant domestic and external arrears despite significant fiscal adjustments. Without commercial debt restructuring, debt service to revenue ratio breaches the indicative threshold for the next four years by a significant margin. However, with the rescheduling of debt in line with parameters of the newly requested ECF arrangement, and the projected recovery in the oil and non-oil sector, debt ratios can decline significantly over the near and medium term, significantly reducing the risk of debt distress. With the appointment of financial and legal advisors, discussions with the creditor are set to begin soon. Given the exhaustible and volatile oil revenues, it is also necessary to strengthen fiscal and debt management, maintain a prudent external and domestic borrowing policy, and make further progress in diversifying the economy. Effective inter-agency coordination will be important for strengthening the capacity to record and monitor public debt.

21. The authorities broadly concur with the staff assessment. They agreed that the burden of debt service, particularly of the external commercial loan, was weighing heavily on the budgetary resources and on debt sustainability. They agreed that a debt restructuring is necessary to make debt sustainable. They have announced their intention to restructure the debt with Glencore and are firmly committed to achieve a restructuring that restore debt sustainability and is in line with the proposed program parameters. They are committed to a prudent borrowing policy, including seeking external loans on concessional terms in line with program assumptions. They have taken steps to improve debt management practices, including by improving interagency coordination and through technical assistance to improve their cash flow and debt management databases. They have started issuing annual debt management reports (with support from Fund TA), and will undertake institutional improvements in the management of domestic payment arrears in line with Fund TA recommendations. In addition, they also recognize the importance of diversifying their economy, and are finalizing a National Development Plan that strives to do so.

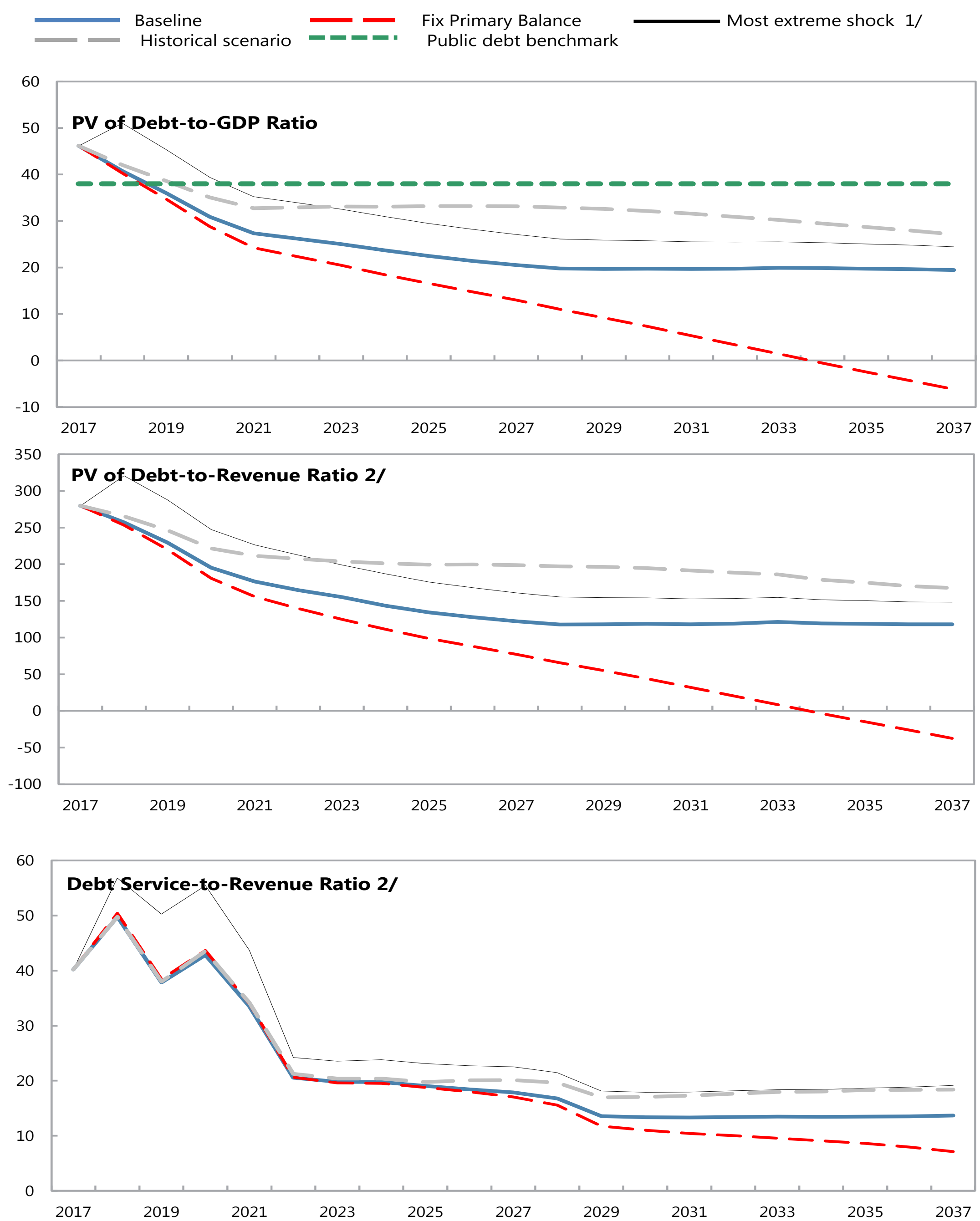
Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios 2017–37[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Chad: Indicators of Public Debt Under Alternative Scenarios, 2017–37[1]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

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

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-203 Average
External debt (nominal) 1/	29.1	25.0	27.1			27.1	24.3	21.4	17.8	15.0	14.4		11.1	10.6	
of which: public and publicly guaranteed (PPG)	29.1	25.0	27.1			27.1	24.3	21.4	17.8	15.0	14.4		11.1	10.6	
Change in external debt	8.0	-4.2	2.2			-0.1	-2.7	-2.9	-3.6	-2.8	-0.6		-0.5	-0.2	
Identified net debt-creating flows	2.2	15.4	8.9			-1.1	-0.8	-1.0	-1.5	-1.0	-1.3		-0.4	1.6	
Non-interest current account deficit	8.1	11.2	8.0	4.8	6.5	0.7	1.9	2.5	2.7	3.2	2.6		1.8	2.7	1.9
Deficit in balance of goods and services	12.5	16.3	15.0			9.7	9.1	9.1	8.7	8.1	7.1		4.8	6.8	
Exports	31.5	26.5	24.4			32.7	33.3	32.9	32.5	31.7	30.9		27.0	16.5	
Imports	43.9	42.9	39.4			42.4	42.3	42.0	41.1	39.8	38.0		31.8	23.3	
Net current transfers (negative = inflow)	-7.9	-7.1	-7.7	-6.1	1.5	-9.7	-8.7	-8.2	-7.7	-6.8	-6.5		-5.3	-4.0	-5.0
of which: official	-4.4	-3.0	-2.9			-4.7	-3.6	-3.2	-2.8	-2.1	-2.0		-1.7	-1.6	
Other current account flows (negative = net inflow)	3.5	2.0	0.6			0.8	1.5	1.6	1.7	1.9	2.0		2.3	0.0	
Net FDI (negative = inflow)	-5.2	-5.1	-2.4	-4.3	1.9	-3.2	-3.4	-3.7	-4.0	-4.0	-3.6		-2.0	-0.9	-1.8
Endogenous debt dynamics 2/	-0.7	9.3	3.3			1.4	0.6	0.3	-0.1	-0.3	-0.3		-0.2	-0.2	
Contribution from nominal interest rate	0.8	1.1	1.2			1.6	1.3	1.0	0.7	0.3	0.2		0.1	0.1	
Contribution from real GDP growth	-1.4	-0.7	1.7			-0.2	-0.6	-0.7	-0.8	-0.6	-0.5		-0.4	-0.3	
Contribution from price and exchange rate changes	-0.2	8.8	0.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	5.8	-19.5	-6.7			1.0	-1.9	-1.9	-2.1	-1.8	0.7		0.0	-1.8	
of which: exceptional financing	-0.1	-0.8	-1.1			-1.5	-1.4	-1.2	-0.7	-0.4	-0.4		-0.3	0.0	
PV of external debt 4/	...	...	25.9			24.3	20.9	17.6	13.9	11.3	10.9		8.1	7.5	
In percent of exports	...	...	106.2			74.4	62.9	53.4	42.9	35.5	35.3		30.0	45.5	
PV of PPG external debt	...	...	25.9			24.3	20.9	17.6	13.9	11.3	10.9		8.1	7.5	
In percent of exports	...	...	106.2			74.4	62.9	53.4	42.9	35.5	35.3		30.0	45.5	
In percent of government revenues	...	...	268.8			209.1	175.6	146.4	112.4	88.9	82.8		56.1	51.9	
Debt service-to-exports ratio (in percent)	6.8	10.4	12.3			14.1	14.1	12.7	12.6	9.9	3.0		4.0	4.2	
PPG debt service-to-exports ratio (in percent)	6.8	10.4	12.3			14.1	14.1	12.7	12.6	9.9	3.0		4.0	4.2	
PPG debt service-to-revenue ratio (in percent)	13.1	26.2	31.0			39.7	39.4	34.9	32.9	24.8	7.1		7.4	4.8	
Total gross financing need (Billions of U.S. dollars)	0.7	1.0	0.9			0.2	0.3	0.3	0.3	0.3	0.0		0.2	0.8	
Non-interest current account deficit that stabilizes debt ratio	0.1	15.4	5.9			0.8	4.6	5.4	6.3	6.1	3.2		2.3	2.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.9	1.8	-6.4	4.1	5.3	0.6	2.4	3.1	3.9	3.6	3.7	2.9	3.2	3.3	3.3
GDP deflator in US dollar terms (change in percent)	0.8	-23.2	-1.5	-0.1	12.5	-4.1	1.5	2.3	3.2	2.7	2.3	1.3	2.8	2.9	2.8
Effective interest rate (percent) 5/	4.1	3.1	4.3	5.0	1.3	5.6	4.8	4.3	3.3	1.8	1.3	3.5	1.2	1.2	1.2
Growth of exports of G&S (US dollar terms, in percent)	1.4	-34.0	-15.4	-1.7	19.7	29.4	5.7	4.6	5.7	4.0	3.2	8.8	1.9	0.6	1.8
Growth of imports of G&S (US dollar terms, in percent)	9.9	-23.7	-15.3	1.9	14.2	3.8	3.8	4.8	5.0	3.1	1.2	3.6	2.6	1.8	2.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	37.3	36.0	36.7	37.1	36.5	36.5	36.7	36.7	36.9	36.8
Government revenues (excluding grants, in percent of GDP)	16.5	10.5	9.6			11.6	11.9	12.0	12.4	12.7	13.2		14.4	14.5	14.3
Aid flows (in Billions of US dollars) 7/	0.4	0.4	0.3			0.7	0.5	0.5	0.5	0.4	0.4		0.5	0.7	
of which: Grants	0.3	0.4	0.3			0.5	0.4	0.4	0.4	0.3	0.4		0.4	0.6	
of which: Concessional loans	0.1	0.1	0.0			0.2	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			6.1	4.6	4.3	3.9	3.2	3.1		2.8	2.3	2.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			74.3	79.7	80.2	82.4	82.6	82.6		79.3	78.7	79.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.0	11.0	10.1			9.7	10.1	10.7	11.5	12.2	12.9		17.6	31.6	
Nominal dollar GDP growth	7.8	-21.8	-7.8			-3.5	3.9	5.5	7.3	6.4	6.1	4.3	6.1	6.2	6.1
PV of PPG external debt (in Billions of US dollars)			2.5			2.4	2.1	1.9	1.6	1.4	1.4		1.4	2.4	
(PVt-PVt-1)/GDPt-1 (in percent)						**-1.2**	-2.6	-2.4	-2.7	-1.9	0.3	-1.7	0.1	0.3	0.3
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	25.9			24.3	20.9	17.6	13.9	11.3	10.9		8.1	7.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	106.2			74.4	62.9	53.4	42.9	35.5	35.3		30.0	45.5	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	12.3			14.1	14.1	12.7	12.6	9.9	3.0		4.0	4.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

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

Table 2. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37[1]

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to GDP ratio								
Baseline	24	21	18	14	11	11	**8**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	24	22	20	18	16	17	**19**	12
A2. New public sector loans on less favorable terms in 2017-2037 2/	24	21	18	15	12	12	**10**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	24	22	19	15	12	12	**9**	8
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	24	26	32	28	25	25	**18**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	24	24	24	19	15	15	**11**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	24	24	24	20	17	17	**12**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	24	30	40	35	31	31	**23**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	24	30	25	20	16	15	**11**	11
PV of debt-to-exports ratio								
Baseline	74	63	53	43	36	35	**30**	45
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	74	67	61	56	52	56	**70**	73
A2. New public sector loans on less favorable terms in 2017-2037 2/	74	64	55	45	39	39	**39**	71
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	74	63	53	43	35	35	**30**	45
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	74	107	175	155	142	142	**121**	98
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	74	63	53	43	35	35	**30**	45
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	74	72	72	61	54	54	**46**	49
B5. Combination of B1-B4 using one-half standard deviation shocks	74	97	140	125	114	115	**97**	78
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	74	63	53	43	35	35	**30**	45
PV of debt-to-revenue ratio								
Baseline	209	176	146	112	89	83	**56**	52
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	209	186	168	146	130	130	**131**	84
A2. New public sector loans on less favorable terms in 2017-2037 2/	209	178	152	119	97	92	**73**	81
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	209	182	159	122	96	89	**61**	56
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	209	221	268	227	199	187	**126**	62
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	209	204	199	153	121	112	**76**	70
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	209	202	198	161	136	127	**86**	56
B5. Combination of B1-B4 using one-half standard deviation shocks	209	248	332	282	246	232	**156**	76
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	209	249	208	159	126	117	**79**	73

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

(In percent)

Debt service-to-exports ratio								
Baseline	14	14	13	13	10	3	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	14	14	13	13	11	4	**6**	11
A2. New public sector loans on less favorable terms in 2017-2037 2/	14	14	13	13	10	3	**4**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	14	14	13	13	10	3	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	14	19	23	24	19	7	**15**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	14	14	13	13	10	3	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	14	14	13	13	10	3	**6**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	14	17	18	19	15	5	**12**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	14	14	13	13	10	3	**4**	4
Debt service-to-revenue ratio								
Baseline	40	39	35	33	25	7	**7**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	40	39	36	35	27	8	**12**	13
A2. New public sector loans on less favorable terms in 2017-2037 2/	40	39	35	33	25	8	**7**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	40	41	38	36	27	8	**8**	5
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	40	39	36	35	27	9	**15**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	40	46	48	45	34	10	**10**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	40	39	35	34	26	8	**11**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	40	43	44	43	32	11	**19**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	40	56	50	47	35	10	**11**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	36	36	36	36	36	36	**36**	36

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that interest rate on new borrowing is by 2 percentage points higher than in the baseline. Grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Chad: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–37

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	39.4	43.3	51.2			49.0	44.2	39.9	34.8	31.1	29.7	38.1	23.6	22.5	22.8
of which: foreign-currency denominated	29.1	25.0	27.1			27.1	24.3	21.4	17.8	15.0	14.4		11.1	10.6	
Change in public sector debt	8.9	3.9	7.9			-2.2	-4.8	-4.3	-5.1	-3.7	-1.4		-0.9	-0.3	
Identified debt-creating flows	0.1	4.0	3.9			-2.3	-3.0	-3.6	-4.2	-3.8	-4.0		-3.2	-0.8	
Primary deficit 6/	2.5	1.8	0.5	0.3	3.9	-3.6	-3.1	-2.4	-2.4	-1.9	-2.2	-2.6	-1.9	0.2	-0.7
Revenue and grants	18.4	14.0	12.6			16.5	15.8	15.7	15.8	15.5	15.9		16.8	16.4	
of which: grants	2.0	3.4	2.9			4.9	3.9	3.7	3.4	2.8	2.7		2.4	2.0	
Primary (noninterest) expenditure	20.9	15.8	13.0			12.9	12.7	13.3	13.5	13.6	13.7		14.8	16.6	
Automatic debt dynamics	2.0	2.9	3.9			1.8	0.5	-0.8	-1.4	-1.5	-1.4		-1.0	-0.9	
Contribution from interest rate/growth differential	-0.9	-2.7	4.1			0.6	0.0	-0.9	-1.6	-1.6	-1.5		-1.0	-0.9	
of which: contribution from average real interest rate	1.1	-2.0	1.2			0.9	1.2	0.4	-0.1	-0.4	-0.5		-0.2	-0.2	
of which: contribution from real GDP growth	-2.0	-0.7	3.0			-0.3	-1.2	-1.3	-1.5	-1.2	-1.1		-0.8	-0.7	
Contribution from real exchange rate depreciation	2.9	5.6	-0.2			1.2	0.5	0.1	0.2	0.1	0.1		...	...	
Other identified debt-creating flows	-4.4	-0.7	-0.5			-0.5	-0.5	-0.4	-0.4	-0.4	-0.4		-0.3	-0.1	
Privatization receipts (negative)	-4.0	-0.4	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.4	-0.3	-0.5			-0.5	-0.5	-0.4	-0.4	-0.4	-0.4		-0.3	-0.1	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	8.8	-0.2	4.0			0.1	-1.7	-0.7	-0.9	0.1	2.6		2.3	0.6	
Other Sustainability Indicators															
PV of public sector debt	...	...	49.9			46.2	40.8	36.1	30.9	27.4	26.2		20.5	19.4	
of which: foreign-currency denominated	...	...	25.9			24.3	20.9	17.6	13.9	11.3	10.9		8.1	7.5	
of which: external	...	...	25.9			24.3	20.9	17.6	13.9	11.3	10.9		8.1	7.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.5	7.1	6.0			5.9	7.2	5.9	6.7	5.5	3.4		3.5	5.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	397.2			280.2	257.6	229.9	195.2	176.5	164.6		122.3	118.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	518.2			397.4	342.3	300.2	249.4	215.7	198.9		142.5	134.2	
of which: external 3/	...	...	268.8			209.1	175.6	146.4	112.4	88.9	82.8		56.1	51.9	
Debt service-to-revenue and grants ratio (in percent) 4/	16.6	35.2	33.1			40.2	49.8	37.8	42.8	33.5	20.5		17.9	13.7	
Debt service-to-revenue ratio (in percent) 4/	18.5	46.7	43.1			57.1	66.2	49.4	54.7	40.9	24.8		20.8	15.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-6.4	-2.1	-7.4			-1.4	1.7	2.0	2.8	1.8	-0.8		-1.0	0.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.9	1.8	-6.4	4.1	5.3	0.6	2.4	3.1	3.9	3.6	3.7	2.9	3.2	3.3	3.3
Average nominal interest rate on forex debt (in percent)	4.1	3.1	4.3	5.0	1.3	5.6	4.8	4.3	3.3	1.8	1.3	3.5	1.2	1.2	1.2
Average real interest rate on domestic debt (in percent)	5.1	-1.5	-1.3	1.7	3.4	2.4	1.7	0.0	-0.6	-1.1	-1.0	0.2	-0.4	-0.4	-0.4
Real exchange rate depreciation (in percent, + indicates depreciation)	14.2	20.9	-0.8	3.7	13.9	4.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-2.0	3.3	3.1	1.2	3.6	-0.7	0.0	1.7	2.4	3.1	3.0	1.6	2.8	3.0	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	5.5	-31.6	-25.8	-5.1	12.6	0.2	2.9	8.5	5.7	4.6	4.4	4.4	5.4	2.7	4.5
Grant element of new external borrowing (in percent)	...	...	...	...	...	37.3	36.0	36.7	37.1	36.5	36.5	36.7	36.7	36.9	...

Sources: Country authorities; and staff estimates and projections.
1/ The coverage of public sector debt comprises the obligations of the central government, including commercial debt. The definition of debt corresponds to gross debt.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
6/ The primary deficit grosses up oil revenue and debt service on the oil sales advances

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

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	46	41	36	31	27	26	21	19
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	46	42	39	35	33	33	33	27
A2. Primary balance is unchanged from 2017	46	40	35	29	24	22	13	-6
A3. Permanently lower GDP growth 1/	46	41	37	33	30	30	30	49
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	46	43	40	35	32	32	30	35
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	46	45	44	39	36	35	29	26
B3. Combination of B1-B2 using one half standard deviation shocks	46	44	43	38	35	34	29	29
B4. One-time 30 percent real depreciation in 2018	46	51	45	39	35	34	27	24
B5. 10 percent of GDP increase in other debt-creating flows in 2018	46	47	42	37	34	33	27	25
PV of Debt-to-Revenue Ratio 2/								
Baseline	280	258	230	195	177	165	122	118
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	280	266	247	222	211	207	199	168
A2. Primary balance is unchanged from 2017	280	254	221	181	156	140	77	-37
A3. Permanently lower GDP growth 1/	280	259	235	204	190	184	175	286
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	280	265	249	217	203	196	174	208
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	280	284	282	246	229	217	170	158
B3. Combination of B1-B2 using one half standard deviation shocks	280	279	272	237	222	211	172	174
B4. One-time 30 percent real depreciation in 2018	280	321	288	247	226	213	161	148
B5. 10 percent of GDP increase in other debt-creating flows in 2018	280	296	268	233	216	204	160	151
Debt Service-to-Revenue Ratio 2/								
Baseline	40	50	38	43	33	21	18	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	40	50	38	44	34	21	20	18
A2. Primary balance is unchanged from 2017	40	50	38	44	34	21	17	7
A3. Permanently lower GDP growth 1/	40	51	39	45	36	22	21	23
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	40	52	41	47	37	23	21	20
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	40	50	39	45	36	22	22	18
B3. Combination of B1-B2 using one half standard deviation shocks	40	51	40	46	36	22	22	18
B4. One-time 30 percent real depreciation in 2018	40	57	50	55	44	24	23	19
B5. 10 percent of GDP increase in other debt-creating flows in 2018	40	50	39	45	35	22	21	17

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Statement by Mr. Sembene, Mr. Alle, and Mr. Bangrim Kibassim on Chad
Executive Board Meeting
June 30, 2017

The Chadians authorities are thankful for the Fund's valuable support over the past years. The constructive engagement with staff has been instrumental in helping Chad cope with the daunting policy challenges facing the country. Indeed, implementation of Chad's ECF-supported program has been adversely affected by the oil and security shocks, which prompted dramatic spending cuts and other severe adjustment measures. This difficult situation and the associated social tensions contributed to delayed reviews and the occurrence of misreporting. In close consultation with Fund staff, the Chadian authorities have taken the corrective measures to address this incident. They look forward to continued Fund financial and technical support to restore macroeconomic stability and promote economic recovery.

Recent Developments and the 2014-17 Program

The Chadian economy is still suffering the impact of the drastic contraction in oil revenue between 2014 and 2016. The sharp reduction of government revenue paired with a heavy debt service burden have resulted in significant cuts in government spending. The government's fiscal position was further worsened by the security situation and Chad's contribution to the fight against terrorism in the region, while also facing a humanitarian crisis for hosting more than 700,000 refugees, displaced persons and returnees. The combination of these adverse developments has caused social tensions and a sharp contraction in economic activity in 2016.

Real oil GDP and real non-oil GDP contracted by 8.4 percent and 6 percent respectively in 2016. After contracting for a second year in a row – real non-oil GDP was reduced by 2.9 percent in 2015, the slowdown resulted in massive layoffs in oil companies, accumulation of domestic arrears and a virtual halt in construction activities, one of the most important economic sectors. In addition to a weak domestic demand, challenges posed by security issues to trade with neighboring countries led to about 1 percent deflation in 2016 on average. The developments in the first quarter of 2017 show no major improvement. The vicious cycle of contraction in non-oil economic activity, non-oil revenue, and government spending has resulted in domestic and external payment arrears and adversely impacted banks. Furthermore, the low oil receipts have impacted the external position.

The Chadian authorities have demonstrated a strong commitment to the 2014-17 ECF arrangement despite the challenging context of exogenous shocks. They have taken the adjustment measures in constant collaboration with staff. Most quantitative performance criteria and structural benchmarks were met through June 2016. The deepening of the crisis and the dire economic situation affected program implementation. Furthermore, the accumulation of external payments arrears caused by the fall in government revenue and the weak coordination between cash and debt management services facilitated the occurrence of the case of misreporting during the combined third and fourth reviews.

The Chadian authorities acknowledge that the information they reported on external payments arrears during the third and fourth reviews was incorrect; and they have since reported the correct amount due to the World bank, the African Development Bank and to other creditors. To prevent the accumulation of new arrears and cases of misreporting in the future, the authorities have taken the following correctives measures: i) improving interagency coordination to better track and report external debt payments; ii) strengthening the cash flow monitoring system; iii) updating the debt management database; and iv) implementing an external arrear clearance plan.

The authorities are confident that the new framework agreed upon with staff will pave the way for a smooth implementation of their medium-term policies. They are committed to pursuing prudent fiscal management, enhancing public financial management, strengthening public debt management and further structural reforms to revive the economy and bolster its resilience to shocks.

Outlook and Policies Under the New ECF Arrangement

The outlook is expected to improve gradually on the back of a combination of decisive structural reforms and the enhancement of the fiscal position. In particular, non-oil activity should recover starting in late 2017, supported by the authorities' planned actions to repay domestic arrears, help improve the health of the banking sector, diversify the economy, and by an expected pickup in foreign financed investment. As a result, real GDP is projected to grow from 0.6 percent in 2017 to 2.4 percent next year and keep pace over the medium-term. Inflation should pick up from negative territories and reach 0.2 percent in 2017 on the path to the 3 percent CEMAC-wide target in 2020.

The Chadian authorities have formulated a new economic program in the face of the protracted shocks and subsequent balance of payments needs. While striking a balance between domestic adjustment efforts and external financing, the new program is centered on a strategy whose building blocks include: (i) avoiding unnecessary spending cuts while maintaining fiscal prudence and allocating resources for domestic arrears clearance; (ii) reestablishing debt sustainability by restructuring external commercial debt; (iii) focusing on non-oil revenue mobilization to support gradual medium term adjustment; and (iv) reducing reliance on domestic financing and liquidity pressure on banks.

Fiscal policy and public financial management reforms

Enhancing fiscal policy and public financial management is at the core of the authorities' agenda. They are committed to preserving the gains of past adjustment efforts consented during the past two years while bringing investment and social spending gradually to required levels. In that regard, efforts will be made in gradually reducing the wage bill by controlling new hiring, freezing wage increases and reducing bonuses of civil servants. As well, transfers and subsidies will be further streamlined and domestic arrears cleared gradually.

Fiscal policy for the rest of the 2017 focuses on tax and customs reforms, while medium-term efforts will target the broadening of the tax base. The authorities have prepared a revised budget for 2017 - taking account of the adverse developments since mid-. It targets a widening of non-oil primary fiscal deficit to 4.6 percent of non-oil GDP in 2017 before improving gradually over the medium-term. Adjustment efforts will hinge on the revenue side while the spending envelope will remain tight throughout the medium-term. Revenue enhancing measures will include widening the tax base primarily through limiting exemptions, improving customs and tax administration, and simplifying taxes. The early yields from the new tax on oil and the 18 percent excise tax on communications are promising and should contribute to boost tax revenue by 0.3 percent of non-oil GDP in 2017. Oil revenue is also projected to improve, reflecting the planned restructuring of the Glencore debt.

The authorities are determined to initiate deep reforms in the tax and customs administrations to enhance non-oil revenue mobilization, which remains weak compared to peers. The authorities will issue a decree imposing a moratorium on new exemptions, while identifying exemptions that could be removed. They will also step up efforts to improve and modernize the customs administration, including establishing a single customs window at Ngueli, and modernize the excise goods management system for tobacco, beer, alcoholic beverages and soft drinks. The overall adjustment and reforms effort, including the repayment of domestic arrears, is expected to have a positive impact on economic activity.

Over the medium-term, the authorities will further broaden the tax base, implement an effective VAT refund system, simplify the personal income tax system and enhance property tax revenue collection.

In the area of public financial management, reforms aim at improving fiscal controls and avoiding the accumulation of domestic arrears, including by strengthening the expenditure chain and cash management. In this vein, the use of the computerized system will be enhanced to improve control, monitoring and transparency. At the same time, spending executed through emergency procedures will be significantly reduced going forward.
Furthermore, an audit of unverified expenditure payment arrears expected to be conducted before the end of the year, will inform a comprehensive repayment strategy to be developed by the authorities. The strategy will include less-costly modalities such as securitization and repayment will be prioritized based on its economic social and financial impact. The authorities are also taking steps to further enhance transparency in the oil sector. In this vein, while remaining in compliance with the EITI, they will prepare and publish a quarterly oil sector note that includes information on financial flows that affect budget projections of oil revenue.

Debt management

Staff DSA concludes that Chad is currently in debt distress and that debt is unsustainable without external commercial debt restructuring. The authorities concur with staff assessment and are cognizant of the heavy toll that the debt burden is taking on public finances and on the overall economy. The authorities are committed to achieving a deep restructuring of public debt. The restructuring aims at reducing the service burden, especially over the next four years, as well as its overall burden, with the view to achieving debt sustainability. The authorities have recruited debt advisors in this regard, and expect to reach agreement on a restructuring by September 2017. They are also improving the institutional framework and the debt management capacity, through reforms to strengthen interagency coordination, cash flow and debt management databases.

Going forward, the authorities would like to reaffirm their commitment to debt sustainability. The adverse shocks facing the economy have regrettably drained government revenue, prompted accumulation of payment arrears. The authorities are confident that their restructuring paired with efforts to revive economic activity and restore financial viability will contribute to bringing debt back to a sustainable level.

Monetary policy and financial sector reforms

The Chadian authorities' adjustment efforts will be supported by monetary policy actions and financial sector reforms undertaken at the regional level. The combination of national and regional policies should help to restore macroeconomic stability and external sustainability. On their side, the Chadian authorities have reaffirmed their commitment to contribute to the improvement in the external position by gradually building-up government deposits at the BEAC. As for the financial sector, the priority is to address the liquidity pressures experienced by some domestic banks. In this respect, the authorities are working with the BEAC and regulators on a framework for liquidity assistance to Chadian banks, as reported in the staff report.

Other structural reforms

Bolstering structural reforms to advance economic diversification ranks high on the authorities' agenda. Indeed, the current economic crisis has fostered a national consensus on the need to diversify the economy, and the authorities have subsequently made diversification one of the main pillars of the 2017–21 National Development Plan (NDP). For the period ahead, efforts will be made on the front of improving the business environment with the view to strengthen the private sector and make it the main source of job creation. In this regard, the institutional reforms will particularly address corruption and the inception of a special court will help curb economic and financial crimes.

We concur with staff recommendations on the need to deepen the financial sector and enhance financial sector inclusion to support the diversification agenda. In the short term, the authorities expect their actions in the fiscal area, notably the clearance of arrears, to have a positive impact on banks' balance sheets and liquidity position. Going forward, measures will be taken to improve the regulatory framework. As well, financial inclusion will be enhanced, including through the development of mobile banking.

Efforts to promote economic diversification will be further stepped up with the implementation of the NDP, which is being finalized. It aims notably at lifting the structural impediments to growth and realizing the country's potential in sectors such as agriculture and livestock, mining, and artisanal crafting. The authorities are expecting a large participation in the donor conference they are organizing in September 2017 to raise official financing and private sector investment.

Conclusion

Under the 2014-17 ECF-supported program, Chad has made important strides in macroeconomic reforms, thus achieving the HIPC completion point in April 2015. This positive momentum was severely compromised by a combination of oil price and security shocks, a refugee crisis and a heavy debt burden. The authorities have responded forcefully with difficult and successive adjustments, including drastic cuts in investment and social spending. They have also taken corrective measures to address the misreporting incident.

In the face of protracted adverse developments and the subsequent balance of payment needs, the authorities and staff have agreed on a reform and policy agenda that will help stabilize the economy and accelerate economic recovery over the medium-term. The authorities are committed to pursuing with their adjustments efforts with the view to reviving their economy and contribute to the overall regional stability.

In this endeavor, we would appreciate the Board support to the authorities' request for a three-year arrangement under the Extended Credit Facility and cancellation of the current arrangement.