STATEMENT BY THE INTERNATIONAL MONETARY FUND STAFF
CHAD DONORS' ROUNDTABLE
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This statement provides an assessment of recent economic developments and the outlook for Chad, including performance under the Extended Credit Facility (ECF) arrangement approved on June 30, 2017. The assessment is based on the IMF staff report for the new ECF (IMF Country Report No. 17/246) and has been informed by discussions with the Chadian authorities during an August 2017 staff visit to N'Djamena. Preliminary data suggest that the program is on track but that efforts need to continue to ensure that the economy stabilizes and achieves a sustainable recovery. A restructuring of external commercial debt and wage bill containment are critical. A mission to N'Djamena is planned for October 2017 to hold discussions on the first review under the ECF-supported program.

Recent economic developments

Chad has been hard hit by oil price and security shocks as well as a heavy external commercial debt service burden. In spite of dramatic fiscal adjustment over the past two years, the economic and social situation continued to worsen until recently, with the presence of a significant number of refugees from neighboring countries presenting an additional challenge.

Economic activity contracted sharply in 2016, for the second year in a row. This was primarily driven by large cuts in government spending (leading to an adjustment in the non-oil primary balance of almost 12 percentage points of non-oil GDP during 2015-16), accumulation of domestic arrears, and lower oil production and investment. Weak domestic demand, together with continued cross border trade disruption, including in the important livestock and agriculture sectors, led to deflation of about 1 percent in 2016. The banking sector is also facing pressure because of the significant direct and indirect exposure to the public sector. Non-performing loans have risen and liquidity has become very tight in banks that hold significant government securities.

The external position has remained weak. While imports have declined, the current account deficit remained large in 2016, mainly due to lower oil export receipts. In addition, FDI, largely related to the oil sector, halved in 2016. Improving competitiveness requires structural reforms to improve the business climate, reduce trade costs, and enhance human capital.

The new ECF arrangement approved by the IMF on June 30, 2017 is expected to address the country's protracted balance of payments imbalances by supporting policies under the authorities' program required to stabilize and revive the economy. It is also part of the ongoing coordinated effort at the CEMAC level to help redress regional imbalances and rebuild adequate buffers.

The program recalibrates the balance between financing and adjustment, recognizing that further sharp fiscal adjustment is not feasible, and that increased and more timely external support is therefore needed. The main elements of the strategy are: (i) to avoid further spending cuts while maintaining fiscal prudence and directing resources to investment, social sectors, and domestic arrears clearance; (ii) reestablish debt sustainability by restructuring external commercial debt; (iii) improve non-oil revenue mobilization; and (iv) reduce reliance on domestic financing to help alleviate liquidity pressures on banks. Structural reforms to improve public financial management and diversify the economy are essential for the success of the strategy.

Based on findings of the August 2017 staff visit, the economic and financial situation remains fragile, although signs of stabilization are emerging slowly and initial performance under the ECF arrangement appears to have been broadly satisfactory. Oil revenues were significantly lower than expected due to technical production difficulties faced by oil companies and lower oil prices. This was partly offset by an increase in non-oil revenue as the authorities strengthened their collection efforts. External financing was also limited in the first half of the year. On the expenditure side, except for the wage bill, domestically financed spending over the first six months was considerably restrained. The wage bill increased in the first half of the year, including on account of the coming onboard of new civil service and security personnel. However, the authorities took steps to reduce it in the past two months, primarily through further cuts in bonuses, and are continuing their efforts to further reduce it.

Good progress has been made on the structural benchmarks agreed under the ECF arrangement. In addition to the finalization of the National Development Plan, the authorities have [issued] a decree to establish a new tax policy unit to strengthen non-oil revenue, and with financial support from a donor they are on track for launching the audit of domestic arrears by end-October.

A return to economic stability hinges in large part on a successful restructuring of the external commercial debt. The authorities are firmly committed to the restructuring and work is ongoing with support from financial and legal advisors to restore debt sustainability and ensure that sufficient oil revenue resources flow to the government.

Significant external financing in the past two months has helped ease liquidity pressures. In addition to IMF and World Bank disbursements, the government received a payment from a major oil producer in the context of the agreement to settle an old tax dispute. This, along with the successful rollover of maturing domestic debt, helped the government pay some of its domestic arrears, including to domestic and regional banks.

Outlook

The outlook for the remainder of 2017 and 2018 depends in large part on continued fiscal prudence as well as timely disbursement of donors' support. On the fiscal side, priority needs to be given to ensuring debt sustainability through a successful restructuring of external commercial debt in line with the agreed program with the IMF, and an exclusive reliance on external concessional and grant financing. Containing the wage bill is critical to avoid a return to domestic arrears accumulation and prepare for potential lower oil revenue. Slippage in either of these areas would threaten the projected recovery.

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 is expected to underpin the start of a 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 thereafter. Oil production is expected to rise over the medium term as new fields start production and new production and transport technologies come on board.

IMF relations

The IMF will continue its close engagement with Chad. The current ECF arrangement is for a total amount of about [$312.1] million to be provided through early 2020. The IMF is also actively engaged in providing technical assistance in the fiscal and national accounts areas. Discussions for the first review under the ECF are planned for October 2017.