



CHAD

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND AUGMENTATION OF ACCESS— SUPPLEMENTARY INFORMATION

April 24, 2015

Prepared By

African Department

This supplement provides information that has become available since the issuance of the staff report on April 13, 2015 (SM/15/36). The information does not alter the thrust of the staff appraisal.

1. A draft 2015 revised budget law was submitted to the National Assembly on April 13, 2015. The draft is consistent with the authorities' commitments in the MEFP and reflected in the staff report, with a non-oil primary deficit of CFAF 451 billion (8.4 percent of non-oil GDP). Thus the prior action identified for the completion of the first review has been met.
2. Staff can confirm that the authorities are progressing in their efforts to reschedule amortization payments linked to oil sales advances, consistent with assumptions about financing made in the program. The settlement of recent shipments reflect the mutual understandings reached between Glencore and the government of Chad prior to the payment due date, that amortization payments need not be made in full pending the finalization of negotiations. In light of this, staff does not consider that arrears have arisen for program purposes.
3. Price developments continue to be affected by the security conflicts in the region and disruptions in the Cameroonian port of Douala. At the end of February 2015, 12-month inflation reached 6.2 percent, its highest level since October 2012. The annual average

inflation rate increased to 2.1 percent (versus 1.7 percent at the end of 2014). Fish prices increased by more than 40 percent year-on-year due to the ongoing conflict with Boko Haram in the Lake Tchad area, while meat prices fell year-on-year by 13 percent as difficulties to export to Nigeria created a livestock surplus.



INTERNATIONAL MONETARY FUND



Press Release No. 15/181
FOR IMMEDIATE RELEASE
April 27, 2015

International Monetary Fund
Washington, D.C. 20431 USA

Chad -- IMF Executive Board Completes First Review Under the ECF Arrangement, Approves Augmentation and US\$27.7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Chad's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement.¹ It also approved the authorities' request for an augmentation of access by SDR 26.64 million (40 percent of the country's quota).

Completion of the review enables the immediate disbursement of SDR 19.97 million (about US\$27.7 million), including SDR 6.66 million (about US\$9.2 million) from the augmentation. This brings total disbursements under the arrangement so far to SDR 33.28 million (about US\$46.2 million).

The Board granted waivers for the nonobservance of the performance criteria on net domestic government financing and on poverty-reducing social spending.

In addition, the Board also agreed that Chad has taken the steps necessary to reach the completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. This decision on the HIPC completion point is contingent upon the Executive Board of the World Bank concluding that Chad has reached the completion point under the Enhanced HIPC Initiative, after which a joint press release will be issued.

Chad's three-year ECF arrangement in the amount equivalent to SDR 79.92 million (about US\$110.9 million), was approved by the Board on August 1, 2014 (see [Press Release No. 14/381](#)).

Following the Executive Board's discussion on Chad, Mr. Mitsuhiro Furusawa, Acting Chair and Deputy Managing Director, said:

¹ The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems.

“Despite the collapse in oil prices, the deterioration of regional security, and the attendant influx of refugees, performance under the Fund-supported economic program has been broadly satisfactory in 2014. In particular, the non-oil primary deficit target, the main fiscal anchor of the program, was achieved and progress on the structural agenda was in line with program objectives, with a continued focus on strengthening public financial management.

“The macroeconomic outlook for 2015 and the medium term is significantly affected by the prospects of lower oil revenues. The authorities have responded decisively, including by undertaking a sizable fiscal adjustment under the revised 2015 budget awaiting parliamentary approval, while protecting poverty-reducing spending. The revised budget is to be financed by domestic financing sources, the rescheduling of oil sale advances, and budget support from international partners as well as an augmentation of access under the current arrangement under the Fund’s Extended Credit Facility.

“Chad has made commendable progress in increasing the transparency of oil revenue flows and achieved full compliance with the standards of the Extractive Industries Transparency Initiative. Further efforts, however, are needed to keep pace with structural changes in the oil sector. The structural reform agenda remains focused on improving public financial management and removing obstacles to private sector development, economic diversification, and inclusive growth.

“The external debt burden will fall significantly after reaching the HIPC completion point, releasing resources for investment and poverty reduction. However, Chad remains at high risk of debt distress and prudent fiscal and borrowing policies remain essential.”

Statement by Mr. Ngueto Tiraina Yambaye, Executive Director for Chad April 27, 2015

I would like to thank Management and Staff for their continued support to Chad over the past years. My Chadian authorities are very grateful for the policy advice, technical support and financial assistance that the Fund has provided to Chad. They also appreciate the constructive discussions held with staff during their last mission to N'Djamena for the first review of the ECF-supported program. It is my authorities' view that the staff report gives a fair account of the discussions and their policies for 2015 and beyond.

Implementation of sound policies in recent years, coupled with progress in structural reforms, has enabled the country to restore macroeconomic stability. In particular, the current ECF-supported program, following a successful staff-monitored program in 2013-2014, provides an appropriate framework for pursuing reforms consistent with the objectives of the country's current National Development Plan (PND).

My Chadian authorities view the HIPC completion point as a milestone—but not an end—on the country's road to economic transformation and development. Reiterating their strong commitment to the objectives of the program beyond the achievement of the HIPC completion point, they look forward to further discussions with the Fund—in the context of future reviews—and with other development partners, on their long-term development plan embodied in "*Vision 2030: le Tchad que nous voulons*". The aim of *Vision 2030* is to transform Chad into an emerging economy by 2030 through the implementation of three successive five-year development plans. For its success, continued support from development partners will be of essence.

REQUESTS UNDER THE ECF ARRANGEMENT AND

REQUEST FOR HIPC COMPLETION POINT

My authorities' current economic program is being implemented in a difficult context with the occurrence of major shocks since its approval in August 2014. The first shock relates to the collapse of oil prices since the second half of 2014. This is a major adverse development for a country where oil contributes to more than 60 percent of revenues, 90 percent of exports and 30 percent of GDP. As a result of this shock, budgetary revenues declined sharply at the end of 2014. The second one stems from the security situation and mainly caused by the fight against the terrorist group Boko Haram in the Lake Chad region. As risks of regional destabilization, including in Chad, were mounting, Chad has launched military interventions against that group since January 2015 to stop its advancement and protect the life and peaceful existence of more than 30 million people. Chad's engagement for the security of the region and the continent is endorsed by the African Union. Beyond the fight against the terrorist group, Chad has been spending significant resources to bring about some stability along its borders, in a region marked with various conflicts.

Furthermore, the country is at the forefront of climate change, with increased warming, advancement of the desert, and continued shrinking of Lake Chad. My Chadian authorities have invested significant resources to ensure food security. Their actions have helped prevent hunger crises in the last few years.

All these shocks have had far-reaching economic, financial, human and humanitarian consequences. In particular, Chad is dealing with a humanitarian crisis as it has to cope with scores of refugees fleeing conflict-afflicted neighboring countries, and cross-border trade has been severely affected.

These unexpected adverse shocks have complicated the implementation of the ECF-supported program. My authorities have taken several fiscal adjustment measures to keep the program on-track. They notably revised the macroeconomic framework for 2015 in light of the new economic environment, with the assistance of Fund staff. More recently, a revised budget for 2015 with more prudent oil price assumptions than those in the initial budget has been adopted by the government and submitted to the Parliament. The revised budget is consistent with the revised macroeconomic framework. In addition, Chad has not accumulated arrears vis-à-vis its creditors, including on external commercial debt.

Despite this challenging environment, performance under the ECF has been satisfactory owing to the authorities' strong resolve. All but two performance criteria for end-December 2014 have been met. Furthermore, the implementation of structural reforms is progressing well, in line with the program objectives. Given the actions taken to maintain the program on track and to adapt it to the new economic conditions, my authorities are requesting (i) waivers for the nonobservance of performance criteria and (ii) modification to performance criteria in the program. In addition, they are requesting an augmentation of access under the ECF arrangement to help them cope with the significant decline in oil prices and the effects of refugees-related shocks. I would appreciate it if the Executive Board would consider these requests favorably.

The completion of the first review under the ECF will mark two years of continued satisfactory track record of policy implementation. My authorities therefore consider that they have implemented the HIPC completion point trigger related to macroeconomic stability. In addition, they have satisfactorily implemented their poverty reduction strategy (another HIPC completion point trigger) laid out in the National Development Plan since 2013 as recognized by the IMF and World Bank staff in the joint staff advisory note (JSAN). As regard other completion point triggers, 9 out of the 13 remaining triggers have been implemented, and progress has been positive in the areas where related triggers could not be met. Some of the latter triggers have in fact become irrelevant (health target), outdated (agricultural target) or simply delayed (budget settlement law, education). In any case, the authorities have made significant progress on all of these fronts. Accordingly, my authorities along with Fund and Bank staffs, consider that the spirit of the triggers has been largely respected and are requesting waivers for the nonobservance of the four completion point triggers.

Against this backdrop, I would appreciate that the Executive Board considers favorably the proposition that Chad has met all the conditions for reaching the completion point, and grant the country the HIPC completion point.

RECENT DEVELOPMENTS

Chad has had a good economic performance since last year. Growth accelerated in 2014 and is estimated at around 7 percent against 5.7 percent in 2013, although it was below the projected 9.6 percent in the program. Growth was mainly driven by the non-oil sector which grew by 7.1 percent thanks to higher agricultural production. Despite the entry into production of new oil fields, total oil production declined due to a dispute about environmental practices between the government and an oil company that has since been resolved. Inflation remained under control, at 1.7 percent in 2014, well below CEMAC's norm of 3 percent, despite disruption of imports from Nigeria. Bank credit increased, reflecting the pick-up in public investments related to the preparation for the African Union summit that was supposed to be held in Chad in mid-2015. The current account balance deficit remained stable in 2014 compared to 2013, at about 8.7 percent of GDP. International reserves declined by about USD 100 million to stand at USD 1.08 billion (just above 2 months of imports of goods and services) mainly due to the drawdown of deposits in the central bank to help cover the financing gap.

Public finances have remained under control. The sharp fall in oil prices in the second half of 2014 affected oil revenue negatively. In contrast, non-oil fiscal revenue was higher than expected thanks to strengthened collection efforts by the tax and customs administrations. Expenditure was streamlined, in line with the targets set in the revised 2014 budget. It is worth noting that a census of public servants was also conducted which helped to remove "ghost workers" from the payroll, thus saving some CFAF 17 billion. As result, the non-oil primary deficit dropped by about two percentage points to stand at 16.3 percent of non-oil GDP, which implies a cumulative adjustment of 3.8 percent of non-oil GDP over the past two years. The deficit was essentially financed by mobilizing exceptional revenue, in particular, following the settlement of the dispute in the oil sector, and by a drawdown of deposits at the central bank.

Progress has been made in the implementation of the fiscal reform program under the Action Plan for the Modernization of Public Finances (PAMFIP) with the support of the World Bank and other donors (European Union and France notably). In particular, non-oil tax collection procedures were enhanced, the computerization of the expenditure circuit and of payroll management is at an advanced stage, and competitive bidding for public procurement is increasingly used. As regards transparency in oil revenue management, Chad achieved the status of EITI-compliant country in October 2014. The transcription of fiscal-related CEMAC directives also progressed well.

PERFORMANCE UNDER THE ECF

As indicated above, four out of six quantitative performance criteria were met. Two performance criteria relating to net domestic financing and poverty expenditures have not been met. The ceiling for net domestic financing was exceeded by CFAF 276 billion due to a sharp fall in oil revenue (CFAF 313 billion compared to the program target). With respect to poverty-related spending, my authorities believe that the execution of priority spending (CFAF 309.3 billion) was in line with the target set in the revised 2014 budget (CFAF 309.6 billion). However, it is worth stressing that the quantitative performance target of the program (CFAF 394 billion) was inadvertently set on the basis of the initial 2014 budget instead of the revised 2014 budget.

My authorities made notable progress in the implementation of fiscal reforms, in line with the program objectives. In particular, they have (i) significantly reduced the use of extraordinary spending procedures (*Dépenses avant ordonnancement*, DAOs); (ii) strengthened the regulatory framework for debt management with the reorganization of the inter-ministerial committee on Debt (CONAD) and the associated technical unit (ETAVID); and (iii) introduced greater transparency in fiscal management, with notably the preparation and publication of quarterly budget execution reports for 2014 on the website of the Ministry of Finance and Budget.

PROGRAM FOR 2015 AND BEYOND

My authorities remain committed to the objectives of the program, notably maintaining macroeconomic stability and fiscal sustainability, consistent with the medium-term strategic framework defined in the National Development Plan (PND) 2013-2015. The latter is aimed at consolidating the foundations of a stronger, sustained and more inclusive growth. My authorities agree with the conclusion of the debt sustainability analysis (DSA) that the country is vulnerable to external shocks. They are therefore determined to pursue prudent macroeconomic policies aimed at enhancing macroeconomic stability, promoting fiscal sustainability and furthering economic diversification. Reaching the HIPC completion point will play a critical role in this regard by freeing up resources for priority spending.

My authorities have taken several important **fiscal adjustment measures** in 2015 to address the large oil revenue shortfalls created by the drastic fall in oil prices and to close the external financing gap. In particular, my authorities have decided not to host the African Union Summit which was planned for June 2015, thereby saving some CFAF 180 billion in 2015. They also revised the 2015 budget to reflect significant adjustment measures, which include reduction in primary spending (domestically-financed investment, transfers and subsidies, spending on goods and services) amounting to 4.5 percent of non-oil GDP. Adjustment also encompasses measures to increase non-oil revenue, notably through the broadening of the tax base and efforts to modernize the customs, in the order of 0.5 percent of non-oil GDP. Military expenditure and the wage bill have however increased in line with the need to recruit more security personnel to support Chad's security operations including in the region. The

revised budget which remains consistent with the objectives of the program has been submitted to the Parliament for approval.

The **fiscal deficit will be financed** through (i) issuance of securities in domestic and regional markets; (ii) a rescheduling of the repayment of the two advances on oil sales which Chad received in 2013 and 2014; (iii) higher assistance pledged by Chad's international development partners; (iv) the requested augmentation of Fund financial support under the ECF to help cope with the adverse impact of the oil and refugees-related shocks; and (v) HIPC and MDRI debt relief following the completion point.

On the repayments to Glencore of the two oil sales advances (Point (ii) above), it is usually made in-kind by way of a deduction on Chad's oil shipments (cargos). The negotiations with the company on the rescheduling of these repayments should be formally finalized in the next few weeks. In the meantime, an agreement between Chad and Glencore provides that amortizations need not to be made. Accordingly, Glencore already released back to Chad the full proceeds from the sale of some oil cargos in April 2015. The total amortization to be rescheduled would amount to US \$ 430 million (US \$ 130 million under the first advance and US \$ 300 million under the second advance).

The macroeconomic framework for 2015 has been revised to take into account recent international oil price developments and the authorities' policies for the period ahead. The medium-term economic prospects facing Chad are bright. While oil growth will accelerate over the medium-term owing mainly to new oil fields coming on stream—raising oil production by almost twofold by 2019—non-oil GDP is projected to expand on account of increased agriculture production and non petroleum manufacturing. Pursuing the objective of macroeconomic stability and public debt sustainability, the authorities will refine the path for the non-oil primary deficit according to more precise information on the evolution of oil revenues, at the time of the second review of the program.

Debt relief following the achievement of the completion point will create space for an increase in priority sector spending in order to alleviate poverty. In addition, my authorities expect an increase in financial commitments by international development partners, made possible by reaching the completion point.

My authorities will continue to carry out their **structural reform agenda**, notably with a view to enhancing public financial management, building on the progress made to date. They will pursue the reduction in the use of extraordinary spending procedures and will strengthen transparency in the oil sector by putting in place an inter-ministerial structure tasked with the monitoring, accounting, and forecasting of activities and resources in this sector. Furthermore, non-oil revenue mobilization will continue to be fostered. My authorities will continue to improve the business climate, notably through the promulgation of a new public procurement code meeting international standards and the restructuring of institutions in charge of enforcing it. Reforms underway in the areas of microfinance and entrepreneurship

will be pursued with the view to supporting local communities that are not usually covered by microfinance institutions, particularly women and the youth.

My authorities greatly value the **technical assistance** provided by development partners. They are thankful to the Fund and other partners for this support in the implementation of structural reforms, and are seeking additional Fund TA, notably in oil revenues forecasting.

COMPLETION POINT TRIGGERS

Chad reached the decision point for the Enhanced HIPC Initiative in May 2001, at which time 15 triggers for the floating completion point were determined, including the preparation of a full Poverty Reduction Strategy Paper (PRSP) and its satisfactory implementation for at least one year as well as continued macroeconomic stability as evidenced by satisfactory implementation of a Fund-supported program for at least six months. These two triggers have been met.

As regard other completion point triggers that are related to priority sectors (health, education, basic infrastructure and rural development), most have been implemented. As noted above, the remaining four triggers were not considered met because they were implemented with delay or their objectives became clearly outdated or irrelevant given much improved indicators and modernized policy strategies. In light of the good progress made in the related areas (health, agriculture, education and budget settlement laws) as well documented in the joint Bank-Fund completion point document, and given corrective actions taken, my authorities would welcome the granting of waivers for the nonobservance of the four triggers.

Creditors accounting for more than 87 percent of total HIPC-eligible debt have given satisfactory assurances of their participation in debt relief for Chad under the enhanced HIPC Initiative. My authorities are working toward obtaining participation of all remaining creditors, and seeking debt relief on terms similar to those with Paris Club creditors.

CONCLUSION

Despite severe shocks facing the country, my Chadian authorities have demonstrated strong commitment to prudent policy implementation with the adoption of decisive measures to maintain macroeconomic stability and achieve the program objectives set for December 2014. Given the satisfactory implementation, they are requesting an augmentation of access and the completion of the first review under the ECF. Furthermore, as progress has been made in meeting floating completion point triggers under the Enhanced HIPC Initiative, including a satisfactory track-record of macroeconomic stability under a Fund-supported program and the implementation of the national poverty reduction strategy, my authorities also request the Board's approval of the HIPC completion point for Chad. I would appreciate Directors' favorable consideration of my authorities' requests.