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CHAD

May 2015

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—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHAD

In the context of the 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, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 27, 2015, following discussions that ended on March 10, 2015, 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 April 10, 2015.
- A **Staff Supplement** of April 24, 2015 updating information on recent developments.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Chad.

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

HIPC Initiative Paper
Joint Staff Advisory Note of the Poverty Reduction Strategy Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

CHAD

April 10, 2015

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

KEY ISSUES

Context: Chad is facing a large exogenous shock with the sudden and sharp decline in oil prices since the second half of 2014. Its impact is exacerbated by regional security conflicts and the associated inflows of refugees and "retournés". With oil still the main source of export and fiscal receipts, the oil shock has complicated the economic outlook for 2015 and the medium-term, leading to balance of payments needs and a large fiscal shortfall, and resulting in a deceleration in non-oil GDP growth.

Program: The Executive Board approved the three-year arrangement under the Extended Credit Facility (ECF) on August 1st, 2014, with access of 120 percent of quota (SDR 79.92 million). Despite difficult circumstances, performance under the ECF supported program was broadly satisfactory in 2014, with four of six quantitative performance criteria observed as of end-December, and sustained implementation of the structural reform agenda. The authorities have adopted decisive measures to address large oil revenue shortfalls and close the external financing gap, particularly through a significant fiscal adjustment in 2015 and beyond. To complement their efforts, the authorities have requested an augmentation of access under the current arrangement by an amount equivalent to 40 percent of quota (SDR 26.64 million), phased over the first through fourth reviews.

Staff views: Staff supports the completion of the first review under the ECF arrangement, the waiver of nonobservance for two performance criteria, the modification of performance criteria, and the authorities' request for an augmentation of access under the ECF arrangement, which will be instrumental to catalyze donor support needed to address Chad's protracted balance of payments needs. Completion of the review will result in the disbursement of an amount equivalent to SDR 19.97 million (including part of the augmentation).

Approved By
David Robinson and Mark Flanagan

Discussions took place in N'Djamena (February 25-March 11). The staff team comprised Messrs. Villafuerte (Head), Kwalingana, Léost, Nachega (resident representative) (all AFR), Ms. Gieck (SPR), and Mr. Topeur (local economist). Mr. Diallo (Alternate Executive Director) and Mr. Nguema Affane (Advisor to the Executive Director) participated in these discussions. Representatives of the World Bank, AfDB, European Union, and bilateral partners also participated in some of the meetings. The team met with Mr. Kalzeubé Pahimi Deubet (Prime Minister); Mr. Bedoumra Kordje (Minister of Finance and Budget); Mrs. Mariam Mahamat Nour (Minister of Plan and International Cooperation); Mr. Djerassem Le Bemadjiel (Minister of Energy and Petroleum); Mr. Gata Ngoulou (Minister of Land Management, Urban Planning and Housing); Mr. Mahamat Allamine Bourma Treye
(National Director of the Bank of Central African States for Chad); other senior public administration officials; and representatives of the

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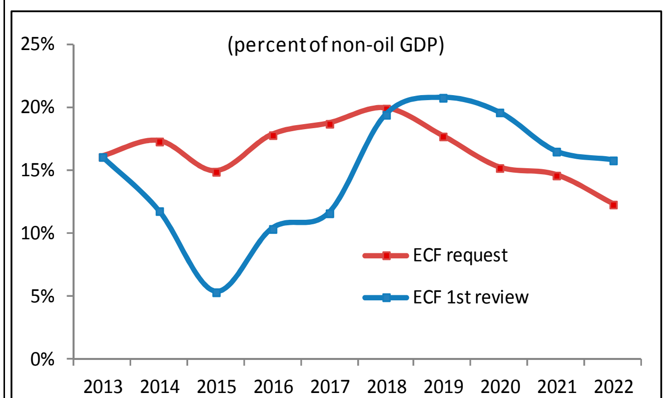
BACKGROUND

1. **The sudden and sharp decline in oil prices since the second half of 2014 is a massive shock to the Chadian economy leading to significant balance of payments needs in 2015 and 2016.** Chadian crude oil ended 2014 at a price of around US$45 per barrel against US$100 per barrel in early August 2014 (at the time of the approval of the ECF-supported program). Furthermore, the more recent WEO assumptions (March 2015) imply that international oil prices would be 50 percent lower in 2015 and around 30 percent lower over 2016-17 relative to the assumptions made then. They translate into a significant reduction in oil export receipts over the program period (Text Table 1), even though they are projected to fully recover in the following years (Text Figure 1).

Text Table 1. Decline in Projected Oil Export Receipts Relative to ECF Request

	2014	2015	2016	2017
Chadian oil price (US$ / barrel)				
ECF approval	103.0	97.9	93.0	88.6
ECF First Review	98.0	51.5	59.9	64.0
Oil revenue decline				
in CFAF billion	313	576	506	530
in percent of non-oil GDP	6.1	10.8	8.7	8.5

Text Figure 1: Fiscal oil revenues, 2013-2022



Sources: Country authorities; and staff projections

2. **Elevated security risks in the region have created a major humanitarian crisis in Chad.** There are at least 600,000 refugees and "retournés", mostly from Sudan and Central African Republic, but with an additional influx of refugees fleeing the attacks by *Boko Haram*—with at least 20,000 people coming from Nigeria in the first two months of 2015 according to the UNHCR (United Nations High Commissioner for Refugees). In that context, in mid-January Chad announced its active support to Cameroon and Nigeria in their fight against *Boko Haram* through the deployment of a troop contingent, leading to increased security costs of CFAF 50 billion. This intervention is backed by the African Union, which is also seeking a Security Council resolution giving it a U.N. mandate.

3. **There are uncertainties about the electoral calendar**. Parliamentary elections, originally scheduled for 2015, have been postponed due to delays in finalizing a biometric census, to a date yet to be determined in 2016, which is also the planned year for the presidential elections.

4. Despite recent improvements in economic management, Chad continues to rank poorly on social and institutional indicators. As previously reported, some progress towards poverty reduction has been made since 2003,[1] when Chad became an oil producer, but the rate of poverty reduction has been exceeded by the population growth rate, and the number of poor rose from 4.1 million in 2003 to 4.7 million in 2011. The country is ranked 184th of 187 countries on the 2014 UN's Human Development Index and life expectancy at birth is 51 years, compared to 57 years on average in Sub-Saharan Africa. According to Transparency International, Chad showed progress in reducing corruption perception in 2014, but remained 154th out of 175 ranked countries. Importantly, Chad achieved the status of EITI-compliant country in October 2014.

5. On August 1, 2014, the Executive Board approved a three-year ECF arrangement for Chad amounting to 120 percent of its quota.[2] It supports the government's medium-term economic program aimed at reinforcing economic growth and making it more inclusive, while maintaining macroeconomic stability and fiscal sustainability. The latter was predicated upon a smooth decline in the non-oil primary deficit (NOPD) in the context of a doubling of oil export volumes and a gradual decline in international oil prices. The government's structural reform agenda focuses on strengthening public financial management (PFM) and on improving governance and the business climate.

RECENT ECONOMIC DEVELOPMENTS

6. Macroeconomic performance in 2014 was positive, albeit weaker than projected:

- Total GDP grew by about 7 percent, compared to 9.6 percent anticipated under the program. Non-oil GDP expanded by 7.1 percent, a little higher than anticipated due to a stronger performance in agriculture. However, the projected expansion in oil production fell significantly short due to the temporary suspension of China National Petroleum Corporation (CNPC) exploration and export licenses,[3] as well as delays in production plans of another new player in the sector (Glencore).
- Broad money and bank credit to the private sector expanded strongly in 2014 (by 26.5 and 37.8 percent respectively) in the context of strong demand from contractors working for the African Union summit preparation. Despite this monetary expansion, inflation remained in the low single digits—1.7 percent on annual average and 3.7 percent year-on-year—but with increased volatility due to the temporary closure of the border with Nigeria (linked to concerns about Ebola and Boko Haram) and disruptions in the Cameroonian port of Douala.

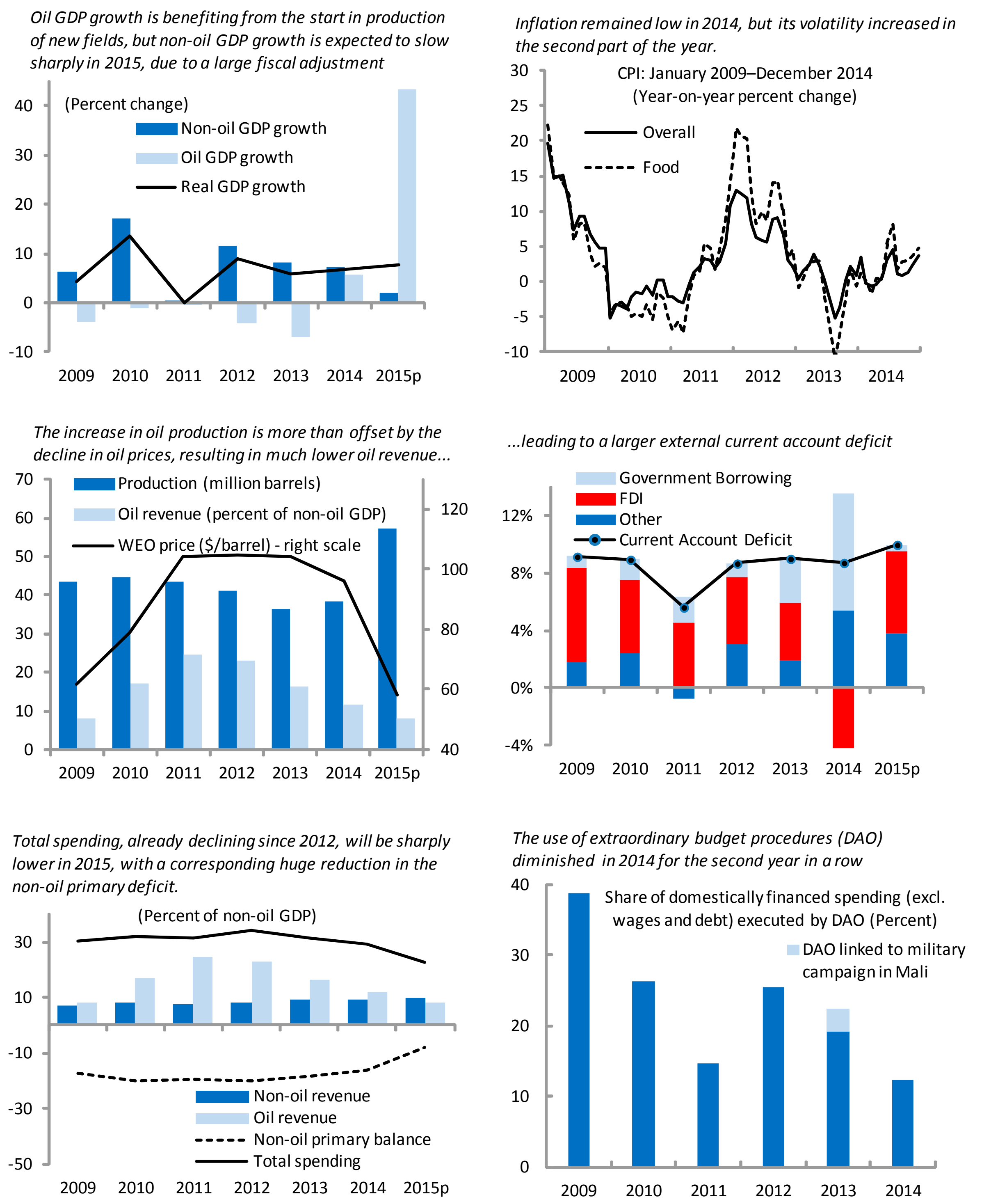
[1] The World Bank estimates that the poverty headcount declined from 55 percent in 2003 to 47 percent in 2011.

[2] EBS/14/96.

[3] In March 2014, Chad imposed a fine of US$1.2 billion on CNPC for violations of environmental standards. CNPC licenses were suspended in August. A settlement was signed in late October that included a payment of US$400 million by CNPC, reactivation of the licenses, and the conversion of the contractual modality in new fields to "production sharing contracts".

- The fiscal policy stance continued to tighten in 2014 with the non-oil primary deficit (NOPD) falling to 16.3 percent of non-oil GDP, but the overall fiscal deficit worsened to 5.9 percent of non-oil GDP in the context of lower than projected oil revenue as the result of delays in production plans, lower oil prices in the second half of the year, and greater operational costs by the ESSO consortium in order to maintain their production levels. By contrast, non-oil revenue performance was slightly above expectations, largely reflecting strengthened collection efforts and a pick-up in non-oil economic activity.
- The external current account deficit is projected to be 8.7 percent of GDP in 2014, larger than previously expected as a result of weaker oil export performance. International reserves fell by US$100 million in 2014, as government deposits were drawn down to meet financing needs. At US$1.08 billion at the end of the year, reserves covered just above 2 months of imports of goods and services.

Figure 1. Chad: Recent Economic Developments



Sources: Chadian authorities; and IMF staff estimates and projections

PROGRAM PERFORMANCE IN 2014

Performance under the ECF-supported economic program was broadly satisfactory in 2014, with four out of six quantitative performance criteria met and progress on the structural agenda in line with the program objectives.

7. **The NOPD target, the fiscal anchor of the program, and the zero ceilings on the accumulation of new external and domestic payment arrears as well as on the contracting of new non-concessional external debt were met**. The nominal NOPD target was met with a margin thanks to stronger non-oil revenue and measures to contain expenditures such as the identification and elimination of ghost workers from the government's payroll. The NOPD was equivalent to 16.3 percent of non-oil GDP in 2014, implying a cumulative adjustment of 3.8 percent of non-oil GDP over the last two years. However, the large and unexpected oil revenue shortfall over the second half of 2014 led to significant financing needs that were covered with a mix of supplementary revenue (including extraordinary receipts), additional domestic bond financing, and a drawdown of Treasury deposits (Text Table 2).

Text Table 2: Additional financing sources used to close the 2014 budget

- CFAF 11 billion increase in non-oil revenue compared to program assumptions
- CFAF 114 billion drawdown in Treasury deposits at BEAC; its balance falling to CFAF 110 billion at end-2014
- CFAF 70 billion in additional extraordinary receipts through the full use of the US$400 million environmental compensation paid by CNPC
- CFAF 40 billion borrowing from domestic commercial banks
- CFAF 50 billion in prepayment of income taxes by SHT (from its participation in the ESSO consortium)

Source: Chadian authorities, and IMF staff

8. **The ceiling on net domestic government financing was exceeded by CFAF 276 billion**. This amount has to be assessed relative to the shortfall in oil revenues of CFAF 313 billion compared to the program assumptions. The greater share of financing rather than adjustment reflects the initial uncertainty as to the likely permanence of the oil shock as well as difficulties in cutting spending mid-budget cycle especially given the commitment to host the 2015 African Union summit. The sizable fiscal adjustment being undertaken by the authorities in 2015 (¶12 below) is a meaningful corrective measure that justifies granting a waiver for the nonobservance of this performance criterion.

9. **The program's performance criterion on poverty-reducing social spending was also not met**. The execution of priority social expenditures (which include allocations to basic education,

health, agriculture, livestock, and micro-finance) was in line with the revised 2014 Budget enacted prior to the ECF arrangement approval. However, the performance criterion was based on the original (and larger) 2014 Budget. The fact that priority social expenditures are proportionally less affected by budgetary cuts in 2015 than other sectors, leading to an increase in its ratio to domestic primary spending compared to 2014 (MEFP, ¶17) is a corrective measure that justifies a waiver for its nonobservance.

10. Progress on the structural agenda was in line with the program objectives (Table 9 and MEFP, ¶12). Critically, the share of domestically financed spending (excluding wages and debt) executed through extraordinary budget procedures was limited to 13.7 percent in 2014, well below the structural benchmark of 17 percent, thanks to stronger controls in their use. Budget execution reports were prepared for the first two quarters of 2014 and posted on the ministry of finance's website before the end of September. The reports for the third and fourth quarters have also been published.[4] A 2015 draft budget targeting an NOPD of 14 percent of non-oil GDP was submitted to Parliament on October 30, 2014.[5] Finally, the reinforcement of the regulatory framework for debt management was largely achieved within the program parameters. A decree was issued last June[6] strengthening the organization and roles of the inter-ministerial committee for debt analysis and its associated technical unit (CONAD and ETAVID), and actions have been undertaken to reinforce human resource capacity. However, this structural benchmark was not met, because of a delay in the approval of two *arrêtés* (December instead of end-September 2014), one related to the functioning and the setting up of a permanent secretariat, and the other on the referral procedure. The World Bank assessed that these supporting operating procedures are in compliance with its technical recommendations.

POLICY DISCUSSIONS FOR 2015 AND THE REST OF THE PROGRAM

The 2015 macroeconomic outlook is dominated by large financing needs resulting from both the sharply lower oil prices and the deterioration in the regional security conditions. The authorities' policy response has focused on the introduction of substantial expenditure cuts, particularly on public investment, and the rescheduling of external non-concessional loans. Those efforts will be complemented by the resumption of budget support operations from international partners, part of which would be unlocked by reaching the HIPC completion point. In addition, the authorities requested an augmentation of access under the ECF.

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[4] http://finances.gouv.td/index.php/fr/budget-et-loi-de-finances

[5] This draft budget was later replaced by a new draft taking into account an updated forecast of international oil prices (see policy discussion for 2015).

[6] http://finances.gouv.td/index.php/fr/arretes-et-decrets/134-decret-n-408-pr-pm-mfb-2014-portant-reorganisation-de-la-commission-nationale-d-analyse-de-la-dette

A. Medium-Term Macroeconomic Framework

11. The macroeconomic outlook is markedly impacted by the oil price collapse (Text Table 3). While no short-term impacts on oil production levels are envisaged, non-oil GDP growth is expected to slow sharply in 2015 (to 2.1 percent compared to 4.9 percent under the original program projections) on account of a sizable reduction in government spending. Non-oil GDP is expected to be driven by agriculture, which accounts for almost 30 percent of non-oil GDP and is expected to grow at around 5 percent in 2015, while the fiscal multiplier is relatively low given that the fiscal adjustment is focused on public expenditure cuts on items (e.g., investment spending) with a high import content. Oil production is expected to rise as new fields come on-stream, but oil export values will still decline sharply. While the latter is mitigated by lower public sector related imports, the external current account would deteriorate and the balance of payments would record financing gaps of 0.8 percent of GDP in 2015 and 0.7 percent of GDP in 2016.

Text Table 3: Medium-Term Projections

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

	2015		2016		2017		2018	
	Prog.	***Rev.***	Prog.	***Rev.***	Prog.	***Rev.***	Prog.	***Rev.***
Non-oil GDP growth (percent per year)	4.9	***2.1***	4.9	***4.4***	4.9	***4.9***	4.9	***4.9***
Current account balance (percent of GDP)	-7.1	***-10.0***	-5.9	***-8.7***	-4.2	***-5.8***	-4.7	***-3.2***
Government revenue	26.7	***21.5***	30.2	***23.5***	31.5	***25.2***	29.7	***33.4***
Overall fiscal balance	-2.5	***-2.7***	0.2	***-0.5***	1.6	***0.1***	0.7	***4.3***
Non-oil primary fiscal balance	-14.1	***-8.4***	-14.6	***-7.4***	-14.0	***-8.0***	-12.2	***-12.2***
Chadian crude oil price (US$ per barrel)	97.9	***51.5***	93.0	***59.9***	88.6	***64.0***	86.0	***66.5***

Sources: Country authorities; and staff projections

B. Fiscal Policy for 2015

12. The authorities are undertaking a strong fiscal adjustment in response to significantly lower oil revenue prospects, anchored on a 26 percent reduction in domestic primary spending relative to 2014, while protecting poverty-reducing expenditure. The program's medium-term fiscal framework was originally anchored on a smoothly declining non-oil primary deficit (NOPD) consistent with the profile of oil revenue at the time. However, the recent oil price shock—deemed as largely permanent—combined with limited available financing, calls for a larger-than-programmed fiscal adjustment in the near-term. In this context, the authorities' policy response has been centered on a significant compression of government spending, particularly public investment, while maintaining a strong non-oil tax effort. Thus, fiscal policy in 2015 will be highly contractionary, with a steep decrease in the NOPD from 16.3 percent to 8.4 percent of non-oil GDP. Specifically:

- The 2015 Budget (which is based on a Chadian oil price of US$65 per barrel) that was approved in late December 2014 entails a reduction in primary spending of about CFAF 240 billion (4.5 percent of non-oil GDP) relative to the final 2014 Budget. This includes a 20 percent cut in domestically-financed investment through a prioritization of new projects and delay in the phasing of ongoing projects. Transfers and subsidies are also reduced by 20 percent, partly reflecting efficiency savings identified during last year's audit of public enterprises and reduced subsidies to the electricity company as a result of the fall in oil prices. In addition, spending on goods and services is halved, reflecting the cut in domestically financed investment spending and the rationalization of office supplies (furniture, materials and other supplies) following an inventory count that the authorities took earlier in the year. However, the wage bill has increased in line with the need to recruit more security personnel to support Chad's security operations including in the region.
- In line with the government's commitment to protect social spending, priority social spending is slated to increase as a share of total spending.
- Subsequent to the approval of the 2015 budget the authorities' decided to cancel the hosting of the July 2015 African Union Summit, and as a result additional cuts in domestically-financed investment spending of up to CFAF 180 billion have been identified. The authorities are confident those cuts will not lead to litigation or the accumulation of arrears.
- Orderly implementation of those spending cuts will be supported by strengthened procedures for budget execution and for quality control of investment projects through enhanced coordination between the Ministries of Finance and Infrastructure. The AfDB is also assisting the authorities with a study for the rationalization of transfers and subsidies to be completed by end-May 2015. Assessment of budget execution based on preliminary information as at end-March 2015 shows that expenditure commitments were 14 percent of the 2015 approved budget's envelope (compared to past years' spending seasonality of around 20 percent) reflecting current cash constraints. These figures are in line with the program's revised projections.
- Non-oil revenue is targeted to increase by 0.4 percent of non-oil GDP, building on the strong non-oil revenue performance over the last few years. In particular, the authorities are expecting to broaden the tax base following a taxpayer identification exercise in 2014 and the roll out of an automated tax administration system (the Standard Integrated Government Tax Administration System (SIGTAS)). Further, they expect to operationalize the scanners used for customs clearance at several ports and have initiated the process to construct a single platform for customs activities in N'Djamena's border area with Cameroon. The authorities are aware of the potential negative impact of the sharp fall in government spending on non-oil economic activity and imports, but are confident in achieving their non-oil revenue target.

Indeed, these projections are consistent with projected nominal non-oil GDP growth, given the average tax buoyancy rate observed over the past few years.

13. Within the 2015 fiscal framework outlined above, the government expects to fully cover the net financing requirements from both domestic and external sources (Text Table 4):

- The authorities are firmly committed to completing the rescheduling of part of the amortizations of the two oil sales' advances contracted in 2013 and 2014, on terms consistent with the program's financing envelope. The rescheduling under discussion would cover a total amount of US$400 million (or 57 percent of the total debt service in 2015) and would entail an extension in the amortization period by one year (MEFP, ¶16).[7] Negotiations are in an advanced stage, involving Glencore and a syndicate of foreign banks and are expected to be finalized in coming weeks.
- The authorities have intensified the placement of securities in the domestic and regional financial markets, building on the successful introduction of Treasury bills in late 2014. They plan to have a net issuance of as much as 2.6 percent of non-oil GDP for both short-term and long-term debt instruments. In addition, the authorities are working on a new regional bond issuance following a successful issuance of a five-year bond in 2013. The BEAC has also agreed to postpone Chad's (and other CEMAC members) obligation to reduce its balance of statutory advances by CFAF 21 billion in 2015.
- Several international development partners, namely, the World Bank, the AfDB, the European Union, and a bilateral have pledged to provide budget support for the first time in many years. Part of this budget support is conditional on reaching the completion point of the HIPC Initiative, as well as the implementation of a number of structural reforms in line with the ECF-supported program. Moreover, reaching the HIPC completion point will enable Chad to save about CFAF 20 billion in external debt service in 2015 alone.
- Part of the increase in exceptional security spending is expected to be covered by in-kind support from several governments, including the U.S. and Nigeria, and financial contributions under the Economic Community of Central African States initiative to support Chad and Cameroon to face the oil price and security shocks.

14. The authorities have requested an augmentation of access under the ECF arrangement to help cover financing needs and catalyze external support. The authorities have requested an augmentation of access under the ECF arrangement, for an additional 40 percent of quota

[7] The rescheduling of those obligations is not expected to constitute new debt for purposes of the ECF arrangement as the rescheduling is expected to be effected on no worse terms than the existing oil sales advances and up to the amount of the actually rescheduled debt. A revision to the TMU is proposed, in order to make it explicit that the rescheduling of old debt, which does not result in new debt, will not be part of the ceiling on new non-concessional external debt.

(equivalent to SDR 26.64 million or CFAF 22 billion). This level is justified by larger balance of payment needs arising from (i) an exogenous shock to oil exports, with part of that shock being temporary given the expected increases in production and oil prices over the medium term, and (ii) the costs of hosting the growing influx of refugees brought about by Boko Haram's activities in the region. The permanent component of the oil price shock is been tackled by the forceful fiscal adjustment effort by the government. In fact, the latter is equivalent to slightly more than 60 percent of the estimated oil revenue shortfall in the short-term (Text Table 1) and is consistent with the projected oil revenue path in coming years and fiscal sustainability.

Text Table 4: Financing Requirements and Sources of Funding for 2015

	CFAF Billion	In percent of Non-oil GDP
I. Total financing requirements, net	**617**	**11.5**
Overall deficit[1]	353	6.6
Domestic amortization	115	2.1
External amortization[2]	150	2.8
II. Sources of financing	**584**	**10.9**
Rescheduling of external commercial debt	232	4.3
Regional capital market	200	3.7
Budget support	72	1.3
of which: World Bank	*29*	*0.5*
European Union	*33*	*0.6*
African Development Bank	*10*	*0.2*
Debt relief	19	*0.4*
Exceptional receipts	60	*1.1*
III. Financing Gap (I-II)	**33**	**0.6**
IV. IMF disbursements (ECF plus augmentation	**33**	**0.6**
V. Residual financing gap	**0**	**0.0**

Sources: Chadian authorities; and IMF staff estimates.

[1]Oil revenue net of cash calls andrepayment of 2014 oil sales advance.

[2]Includes amortization linked to the 2013 oil sales advances.

15. A revised budget law for 2015 including the measures described above will be submitted to the National Assembly before end-April 2015. This constitutes a prior action for completion of the program first review. In addition, to ensure the consistency of the level of spending with annual targets, the government provided updated information on spending commitments for the first quarter of 2015 (with the "Tableau Quatre Phases") before the date of the Board meeting. In addition, the end-June performance criteria will be modified in line with the revised fiscal plans.

C. The Medium-Term Fiscal Path

16. The fiscal policy stance is expected to remain tight over the program period, but to loosen later as financing constraints are relieved with a sizable pick up in oil revenue. In particular, the NOPD is projected to average about 8 percent of non-oil GDP over 2015-17, a level consistent with the fiscal adjustment to be undertaken in 2015. However, beyond those years, the projected increases in oil production levels and in fiscal oil revenues should enable the authorities to scale up public investment expenditure and increase the NOPD to 14.5 percent of non-oil GDP by 2019. Under the current scenario, domestically-financed investment expenditure is projected to decline from 10.6 percent of non-oil GDP in 2010–14, to less than 5 percent of non-oil GDP in 2015, before gradually increasing to 11 percent by 2019. Given the volatility of oil prices (and production), the NOPD path will be revisited at subsequent reviews in light of the evolution of oil revenues to ensure its consistency with preserving macroeconomic stability and public debt sustainability. In this context, beyond their technical assistance, increased and durable financial support by international partners—in the form of grants and concessional loans—would relieve financing constraints and facilitate an acceleration of progress in addressing development needs.

D. Structural Reform Agenda

17. Chad has achieved significant progress in the implementation of structural reforms in many areas, including as part of the ECF-supported economic program. Many actions have aimed at improving fiscal management and supporting the steady reduction in the non-oil primary deficit. In particular, progress has been made in terms of enhancing non-oil tax collection procedures, the computerization of the expenditure circuit and of payroll management (combined with a payroll audit), enhanced controls on the use of extraordinary spending procedures (DAOs), increased reliance on competitive bidding for public procurement, enhanced transparency (e.g., quarterly budget execution reports, public procurement bulletins), and an improved regulatory framework for public debt management.

18. The authorities' reform agenda for 2015 builds on those achievements. Given the need to focus on delivering a sizable fiscal adjustment in the context of still limited institutional capacity, PFM reforms are critical to control expenditure commitments and avoid the emergence of arrears. Activities in that area will continue to be aligned to the Action Plan for the Modernization of Public Finances supported by the World Bank,[8] with periodic technical assistance missions from FAD and AFRITAC Central. Other international partners will be providing assistance in a coordinated way (MEFP, ¶21).

19. The authorities will continue to aim at a gradual reduction in the use of emergency spending procedures (MEFP, ¶26). Over the last couple of years, emergency spending procedures fell from more than 20 percent of domestically-financed spending (excluding wages and debt

[8] For more information, consult the PAMFIP website: http://www.pamfip.org.

service) to 14 percent. This will remain one of the structural benchmarks of the program (MEFP, Table 2), but with a slight modification as security spending will be excluded from the definition in the context of the difficult regional security situation. The authorities' commitment in this area is critical to ensure that the planned large expenditure retrenchment is implemented smoothly.

20. Improved transparency in State operations, particularly on fiscal oil revenues, is an important component of the structural reform agenda. Oil revenue transparency is essential to both assess the budgetary situation and help prepare a credible macroeconomic framework for the budget formulation process. Importantly, Chad achieved the status of EITI-compliant country in October 2014. It is critical that the monitoring of oil revenue flows is kept under close review to ensure that it is adequately capturing recent changes in the structure of the oil sector: entry of new producers under diverse fiscal regimes—concessions or production sharing agreements–; acquisition of an equity stake by the State in the ESSO consortium; commercialization of royalty-in-kind payments by the state oil company (SHT); and reliance on oil sales' advances as a financing mechanism. In recognition of this, the authorities have announced the establishment of an inter-ministerial structure in charge of monitoring and reporting of all the information linked to fiscal oil revenue (MEFP, ¶24). The formalization of such an arrangement through a decree signed by the Prime Minister is a structural benchmark under the program. Another structural benchmark is related to the periodic publication of oil revenue figures. These activities will be supported by technical assistance, including from the Fund's Fiscal Affairs Department.

21. Broadening the tax base is another key priority for the government. The recent launch of the Integrated System for Administration of Taxes (SIGTAS) is expected to simplify and enhance the control of the tax collection process. With the help of the taxpayers' census being currently undertaken by the statistical agency (INSEED), the tax base should be updated and expanded. A second stage in the implementation of this system will focus on litigation procedures, control, and interface with banks (MEFP, ¶29-30).

22. Public procurement regulations will continue to improve. The proportion of contracts awarded through competitive bidding experienced a sharp increase in terms of numbers and values between 2012 and 2014. The government is committed to continue that trend. In addition, a draft revised code of procurement that has benefited from inputs from the World Bank and other international partners has been submitted to the Government for its adoption (MEFP, ¶31).

23. The authorities are working on measures to improve private sector development. While Chad's ranking in the 2015 Doing Business Report remains low (185th out of 189), several reforms will be implemented with the aim to improve the business climate. From the taxation angle, tax procedures will continue to be streamlined. Regarding access to financial services, which remains a major issue (banking services are practically non-existent outside of urban areas), the authorities will strengthen its support to the activity of micro-finance targeted to local communities (MEFP, ¶32).

PROGRAM MODALITIES, SAFEGUARDS, AND RISKS

24. The augmentation of access under the ECF, which will complement the projected resumption of budget support by other international partners, will be phased as follows: 10 percent of quota at the time of the first review completion, 15 percent with the second review, and 10 and 5 percent with the third and fourth reviews respectively. It will also play a key role in catalyzing additional support from other partners. Chad's capacity to repay the Fund remains strong, even accounting for the fact that some of Chad's external borrowing is collateralized, as outstanding obligations to the Fund would not surpass 1.0 percent of GDP or 2.7 percent of exports of goods and services (Table 11).

25. Performance criteria for end-June 2015 have been modified (MEFP, Table 1), taking into account the important changes in the macroeconomic framework, in particular the consequences of the strong fiscal adjustment. Performance criteria for end-December 2015 have also been established.

26. Staff considers that sufficient financing assurances are in place with firm commitments to ensure that the 2015 financing gap will be closed, taking into account the conjunction of a strong fiscal adjustment, the mobilization of domestic financing, the rescheduling of oil sales' advances amortization payments, and the budget support committed by international partners and complemented by the augmentation of access under the ECF arrangement. Similarly, staff believes that there are good financing prospects for the remainder of the program period. Progress under the ECF-supported program and achievement of the HIPC completion point is expected to catalyze additional donor support.

27. The outlook is subject to significant risks, for which the program includes a number of mitigation measures. External factors—including the regional security situation, volatile international oil prices and rainfall—are key sources of risk for the program. In addition, there are domestic risks linked to the implementation of large and sustained spending cuts. To help mitigate these risks, the program continues to focus the structural reform agenda on further strengthening PFM systems, including spending controls, the use of emergency spending procedures, and debt management. The program also includes an adjuster so that deviations in the sum of oil revenue, grants, and extraordinary receipts would be partially accommodated going forward. Specifically, if they are lower than the amount programmed, the government intends to adjust its fiscal stance up to 75 percent of that shortfall, provided there are sufficient domestic financing resources available. By the same token, up to 75 percent of additional receipts would be spent, with the difference expected to translate in an increase in Treasury deposits.

HIPC INITIATIVE COMPLETION POINT

28. Chad reached the Decision Point of the HIPC initiative in May 2001. Among the 39 countries thatqualified for this initiative, 35 have already reached the Completion Point, with

Chad the only one remaining in the interim period between the Decision Point and the Completion Point.

29. Following the completion of the first review of the ECF arrangement, Chad is expected to reach the HIPC completion point. With the completion of the first ECF arrangement review, staff considers that the completion point trigger linked to macroeconomic stability is met. Economic management has improved in recent years, with a satisfactory track-record period that includes the Staff-Monitored Program in 2013 and the ongoing ECF-supported program. Most of the other completion point triggers have been implemented. Four waivers for nonobservance of completion point triggers have been requested, two of which because their objectives became clearly outdated given much improved indicators and modernized policy strategies. As detailed in the HIPC completion point document (and its Box 1), staffs of the Fund and the World Bank support the authorities' request for waivers in light of good progress made in those areas and given corrective actions taken.

30. Achievement of the HIPC completion point will provide additional fiscal space for priority spending, while improving debt sustainability and the prospects for strengthened financial and non-financial support from international partners. A DSA based on a reconciled debt stock as of end-2013 and under the assumption of full HIPC, MDRI and beyond debt relief shows that while Chad's debt risk rating would remain high[9]—due to a small (i.e. within the 10 percent band) temporary breach of the debt service-to-revenue ratio in 2014 and 2016 due to the revision of oil revenues amid the oil price shock—beyond 2016 Chad's debt risk indicators decline substantially below their respective thresholds. That said, shock scenarios and stress test point to vulnerabilities arising from external sector shocks, suggesting the need for further progress in diversifying the economy and continued fiscal adjustment to minimize the risk of debt distress. The authorities are committed to seek debt relief on terms comparable to HIPC from all their creditors. They have also started to contact non-Paris Club creditors to seek debt relief on equal terms. In addition to this, the HIPC completion point is projected to expand the support from development partners, for example with the World Bank, based on the Systematic Country Diagnostic (SCD) that is being prepared to eliminate poverty and ensure shared prosperity in Chad.

STAFF APPRAISAL

31. Chad is facing a massive shock in the form of a sudden and sharp collapse in oil prices, impacting oil revenues that have represented more than 60 percent of total budget revenues over the last four years. In addition, the country faces expenditure pressures from serious regional security problems and humanitarian crises.

32. Despite these shocks, performance under the ECF supported program has been broadly satisfactory. Non-oil GDP expanded by 7.1 percent in 2014 and inflation averaged

[9] http://dm-edms.imf.org/cyberdocs/viewdocument.asp?doc=5639475&lib=DMSDR1S

1.7 percent in the context of a tightening of the fiscal policy stance (the non-oil primary deficit fell to 16.3 percent of non-oil GDP (a cumulative adjustment of 3.8 percent of non-oil GDP over the last two years). Progress on the structural agenda has been in line with the program objectives, and four out of six quantitative performance criteria were met.

33. The authorities have taken decisive actions to address large financing gaps in 2015 and over the medium-term. Given that the oil price shock is expected to be largely permanent and the limited availability of financial buffers, the authorities introduced substantial expenditure cuts under the 2015 Budget and have proposed additional cuts in a revised 2015 Budget submitted to the National Assembly in mid-April. The expenditure cuts have focused on public investment, facilitated by a decision not to host the 2015 African Union Summit. In addition, the authorities will step up the mobilization of domestic and regional financing and have negotiated a rescheduling of amortization payments linked to the oil sales' advances received in 2013 and 2014.

34. Maintaining macroeconomic stability and fiscal sustainability over the medium-term will require a prudent fiscal stance. Given limited buffers and the anticipated permanent nature of the oil price shock, the fiscal adjustment effort will need to be maintained during the remainder of the ECF-supported program, implying the need for a careful prioritization of expenditure. However, a projected jump in oil-related income taxes starting in 2018 would allow for a gradual increase in the NOPD thereafter. As oil revenue increases, the authorities should aim to rebuild financial buffers to help the country face potential negative shocks.

35. Staff encourages the authorities to continue their structural reform program, building on the reforms already underway and for which encouraging progress is noted. Further PFM reforms are critical to ensure the smooth implementation of the large expenditure compression. The achievement of full compliance with the EITI was a welcome step in strengthening transparency in the oil sector, which is likely to remain critical for Chad's economic future, and it will be important to maintain transparency in the sector going forward.

36. Based on Chad's performance and the strength of the authorities' response in the face of large external shocks, staff recommends the completion of the first review, the augmentation of access, and the proposed modifications to performance criteria. Staff supports the authorities' request for waivers of the nonobservance of two performance criteria given the strong corrective actions undertaken by the authorities. Staff also supports the modification of performance criteria for end-June 2015, and performance criteria have been established for end-December 2015.

37. Achievement of the HIPC completion point, which is anticipated with the completion of this review, will provide new opportunities for Chad, including through enhancing fiscal space, improving debt sustainability and facilitating a closer engagement with international partners. Staff encourages them to provide increased and durable (financial and technical) support, including to help Chad accelerate progress on addressing its development needs in a difficult external environment.

Table 1. Chad: Selected Economic and Financial Indicators, 2012–19

	2012	2013	2014		2015		2016	2017	2018	2019
			Prog.[1]	Prel.	Prog.[1]	Proj.		Proj.		
	(Annual percentage change, unless otherwise indicated)									
Real economy										
GDP at constant prices	8.9	5.7	9.6	6.9	6.7	7.6	4.9	8.3	5.0	5.1
Oil GDP	-4.0	-7.1	30.3	5.7	15.8	43.4	7.0	23.5	5.5	6.5
Non-oil GDP	11.6	8.0	6.3	7.1	4.9	2.1	4.4	4.9	4.9	4.8
Consumer price index (annual average)	7.7	0.2	2.8	1.7	3.1	3.2	2.9	3.0	3.0	3.0
Consumer price index (end of year)	2.1	0.9	3.7	3.7	3.0	2.0	3.0	3.0	3.0	3.0
Oil prices										
WEO (US$/barrel)[2]	105.0	104.1	104.2	96.2	97.9	58.1	65.7	69.7	71.8	73.1
Chadian price (US$/barrel)[3]	102.0	103.9	103.0	98.0	97.9	51.5	59.9	64.0	66.5	68.6
Oil production (millions of barrels)	41.2	36.3	48.9	38.5	57.4	57.3	61.7	77.5	82.2	87.9
Exchange rate CFAF per US$ (period average)	510.2	493.9	…	…	…	…	…	…	…	…
Money and credit[4]										
Net foreign assets	14.8	-2.6	0.3	-1.8	1.8	-4.5	8.2	8.8	23.6	10.2
Net domestic assets	-1.3	11.2	9.1	28.2	7.1	8.0	5.9	1.2	-20.5	-6.0
Of which : net claims on central government	-13.1	10.0	1.5	18.0	-0.4	5.6	0.4	-3.0	-24.0	-11.0
Of which : credit to private sector	12.9	2.8	8.9	17.3	6.6	-4.5	1.0	1.3	2.7	5.0
Broad money	13.4	8.6	9.5	26.5	9.0	3.6	14.1	10.1	3.0	4.3
Income velocity (non-oil GDP/broad money)	5.6	5.5	5.7	4.8	5.7	4.8	4.5	4.5	4.7	4.8
External sector (valued in CFA francs)										
Exports of goods and services, f.o.b.	-4.1	-8.6	31.5	1.4	12.4	-16.8	21.6	29.9	11.2	8.4
Imports of goods and services, f.o.b.	3.8	-8.1	27.2	10.0	7.3	-13.7	10.0	13.2	4.3	3.9
Export volume	-2.9	-13.7	25.5	5.6	15.8	39.4	8.6	22.3	7.2	0.3
Import volume	3.2	-5.8	26.4	9.5	7.7	-11.1	9.5	12.4	3.6	3.3
Overall balance of payments (percent of GDP)	1.7	-0.2	-0.1	-1.5	-0.3	-0.8	-0.4	-0.2	3.1	1.2
Current account balance, including official transfers (percent of GDP)	-8.7	-9.0	-7.2	-8.7	-7.1	-10.0	-8.7	-5.8	-3.2	-2.5
Terms of trade	-1.9	8.5	4.1	-4.4	-2.6	-38.5	11.4	5.4	3.0	7.4
External debt (percent of GDP)	20.1	21.2	26.4	30.8	22.8	25.5	22.6	19.6	18.1	15.9
NPV of external debt (percent of exports of goods and services)	39.1	33.5	63.1	66.5	53.0	74.5	58.0	42.6	36.9	31.0
	(Percent of non-oil GDP, unless otherwise indicated)									
Government finance										
Revenue and grants	35.0	27.8	28.8	23.3	26.7	21.5	23.5	25.2	33.4	35.1
Of which : non-oil	8.1	9.3	8.9	9.5	9.2	9.9	10.6	11.0	11.4	11.8
Expenditure	34.4	31.4	29.3	29.6	29.0	23.0	24.1	25.1	29.4	32.2
Current	16.5	17.7	15.5	16.7	14.8	14.4	13.5	13.9	15.4	16.1
Capital	17.9	13.7	13.9	12.9	14.2	8.6	10.5	11.2	14.0	16.0
Non-oil primary balance (commitment basis, excl. grants)[5]	-20.1	-18.2	-15.9	-16.3	-14.1	-8.4	-7.4	-8.0	-12.2	-14.6
Overall fiscal balance (incl. grants, commitments basis)	0.7	-3.6	-0.5	-6.3	-2.3	-1.5	-0.5	0.1	4.0	2.9
Overall fiscal balance (incl. grants, cash basis)	2.1	-6.6	-0.5	-5.9	-2.5	-2.7	-0.5	0.1	4.3	3.4
Total debt (in percent of GDP)[6]	28.2	30.1	31.9	38.2	28.0	33.2	30.4	26.5	24.4	21.7
Of which : domestic debt	8.1	8.9	5.5	7.4	5.2	7.8	7.8	6.9	6.3	5.8
Memorandum items:										
Nominal GDP (billions of CFA francs)	6,314	6,397	7,591	6,883	8,267	6,962	7,794	8,875	9,553	10,349
Of which: non-oil GDP	4,400	4,661	5,317	5,150	5,793	5,357	5,796	6,268	6,733	7,291

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

[1] IMF, Chad-Staff Report for the Arrangement under the ECF (EBS/14/96).

[2] WEO 2015 Spring Production.

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

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

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

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

Table 2. Chad: Real GDP per sector, 2012–19

(Annual percentage change, unless otherwise indicated)

	Weight[1]	2012	2013	2014 Prog.	2014 Prel.	2015 Prog.	2015 Proj.	2016	2017	2018	2019
Primary sector	44	11.8	-2.1	14.7	6.4	9.0	17.8	6.1	12.9	5.5	5.7
Agriculture	12	46.9	2.2	7.8	7.9	5.1	5.1	5.0	5.0	4.9	4.9
Food crops	11	50.6	0.9	7.5	8.0	4.7	5.0	5.0	5.0	5.0	5.0
Industrial crops	1	-1.2	27.9	12.0	7.1	10.8	6.0	5.0	5.0	4.0	4.0
Livestock, Forestry and Fishing	11	1.2	3.4	2.8	3.0	2.5	2.5	5.0	5.0	5.0	5.0
Mining and Quarrying	3	12.1	4.5	6.0	10.3	5.1	7.0	6.0	5.0	5.0	4.5
Oil and Gas Extraction	19	-6.5	-11.9	34.1	6.0	17.2	48.9	7.7	25.5	6.1	6.9
Secondary sector	12	8.5	20.9	1.9	8.1	-1.3	1.7	4.1	4.9	4.4	4.7
Manufacturing (non petroleum)	1	12.2	26.7	14.4	13.2	11.9	5.8	8.0	7.0	6.0	5.0
Handicrafts	5	4.3	24.8	4.8	11.5	5.2	4.0	5.0	6.0	6.0	6.0
Utilities	0	14.3	16.1	5.6	4.6	4.5	4.5	4.5	5.0	5.5	6.0
Construction	6	7.7	15.0	-3.3	4.0	-11.2	-2.0	2.0	3.0	2.4	3.4
Of which : oil related	2	18.9	76.2	0.5	4.0	-1.9	0.5	-4.6	-3.2	-7.9	-0.6
Refinery	…	79.1	31.2	4.0	3.0	7.1	4.0	4.0	4.0	0.0	0.0
Tertiary sector	41	6.5	9.1	8.2	7.1	7.3	0.4	3.9	4.7	4.7	4.6
Commerce, transport	22	6.2	8.0	9.6	4.9	8.4	3.1	4.1	4.5	4.5	4.5
Commerce	20	7.1	7.1	9.0	4.5	7.8	3.0	4.0	4.5	4.5	4.5
Transport	3	-0.8	15.0	13.8	8.0	12.7	4.0	4.5	4.5	4.5	4.5
General government	7	4.2	6.8	5.0	4.2	3.5	-12.0	2.5	5.0	5.0	4.0
Other	12	8.1	12.0	7.0	12.0	7.0	1.0	4.0	5.0	5.0	5.0
Duties and taxes on imports	2	3.5	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.8	4.8
Total GDP (market prices)	100	8.9	5.7	9.6	6.9	6.7	7.6	4.9	8.3	5.0	5.1
Oil GDP (including investment)	20	-4.0	-7.1	30.3	5.7	15.8	43.4	7.0	23.5	5.5	6.5
Non-oil GDP	80	11.6	8.0	6.3	7.1	4.9	2.1	4.4	4.9	4.9	4.8

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

[1] Average share of 2005–10 GDP.

Table 3. Chad: Fiscal Operations of the Central Government, 2012–19

(CFAF billion, unless otherwise indicated)

	2012	2013	2014		2015		2016	2017	2018	2019
			Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.			
Total revenue and grants	1,542	1,294	1,534	1,202	1,546	1,152	1,364	1,580	2,249	2,559
Revenue	1,375	1,182	1,391	1,094	1,398	962	1,216	1,419	2,076	2,372
Oil	1,020	749	920	607	863	432	601	728	1,307	1,514
Non-oil	355	433	471	487	535	530	615	692	769	858
Tax	339	420	451	464	514	506	583	651	719	800
Non-tax	16	13	20	23	21	24	32	41	51	59
Grants	167	113	142	107	148	190	148	160	172	187
Budget support	0	5	0	0	0	24	0	0	0	0
Project grants	167	108	142	107	148	166	148	160	172	187
Expenditure	1,512	1,464	1,560	1,525	1,680	1,232	1,395	1,574	1,981	2,345
Current	726	823	822	861	859	770	784	869	1,035	1,175
Wages and salaries	283	333	344	341	377	370	371	401	451	510
Goods and services	123	136	128	147	139	67	99	125	168	219
Transfers and subsidies	291	320	300	327	298	289	258	279	364	394
Interest	28	34	50	46	46	44	57	64	52	52
Domestic	16	10	25	24	24	21	28	27	27	26
External	12	24	25	22	22	23	29	37	25	25
Investment	787	641	737	664	821	462	611	705	946	1,170
Domestically financed	543	491	545	510	529	255	319	389	606	802
Foreign financed	243	149	192	154	292	207	293	316	340	368
Overall balance (incl. grants, commitment)	30	-169	-26	-323	-134	-80	-31	5	267	214
Non-oil primary balance (excl. grants, commitment)[2]	-886	-848	-846	-838	-817	-451	-431	-502	-820	-1,066
Change in balances payable[3]	-109	-231	-120	-135	-120	-181	-115	-116	-119	-142
Float[4]	117	91	120	181	109	115	116	119	142	177
Errors and omissions	57	0	…	-29	…					
Overall balance (incl. grants, cash)	94	-309	-26	-306	-145	-146	-29.9	8.5	290.6	248.7
Financing	-94	309	26	306	145	146	30	-8	-291	-249
Domestic financing	-137	80	134	430	126	119	40	-11	-316	-138
Bank financing	-115	35	22	185	14	93	30	-21	-336	-158
Central Bank (BEAC)	-91	38	-12	109	-16	33	-17	-31	-346	-168
Deposits	-68	60	0	104	-13	0	-22	-28	-325	-148
Advances (net)	-21	-21	-21	-4	-21	0	-21	-21	-21	-21
IMF (disbursement)	-2	-1	9	9	18	33	26	17	0	0
Commercial banks	-24	-3	33	76	30	60	47	10	10	10
Non-bank financing (net)	-25	45	-88	-32	6	-35	10	10	20	20
Privatization and other exceptional receipts[5]	3	0	201	277	107	60	0	0	0	0
Foreign financing	43	230	-108	-124	19	27	-10	3	26	-110
Loans (net)	43	198	-136	-124	-2	8	-40	-27	-2	-137
Disbursements[6]	76	338	79	55	144	70	184	196	218	231
Financing gap	…	…	0	0	0	0	0	0	0	0
Memorandum items:										
Non-oil GDP	4,400	4,661	5,317	5,150	5,793	5,357	5,796	6,268	6,733	7,291
Poverty-reducing social spending	…	335	394	309	…	300				
Bank deposits (mostly BEAC)	274	214	214	110	227	110	132	159	485	632
(In months of domestically-financed spending)	2.6	2.0	1.9	1.0	2.0	1.3	1.4	1.5	3.5	3.8
BEAC statutory advances	188	167	146	163	125	163	142	121	100	79

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

[1] IMF, Chad-Staff Report for the Arrangement under the ECF (EBS/14/96).
[2] Total revenue, less grants and oil revenue, minus total expenditures, less net interest payments and foreign financed investment.
[3] Prior to 2014, amounts in excess of float, represent clearance of arrears, accrued in prior fiscal years.
[4] Difference between committed and cash expenditure.
[5] Extraordinary receipts linked to a settlement of a dispute with an oil company are included in 2014.
[6] The oil sales advance with Glencore Energy in 2013 in an amount of US$600 million (about CFAF 296 billion) was recorded as budget borrowings.

Table 4. Chad: Fiscal Operations of the Central Government, 2012–19

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

	2012	2013	2014		2015		2016	2017	2018	2019
			Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.			
Total revenue and grants	35.0	27.8	28.8	23.3	26.7	21.5	23.5	25.2	33.4	35.1
Revenue	31.2	25.4	26.2	21.2	24.1	18.0	21.0	22.6	30.8	32.5
Oil	23.2	16.1	17.3	11.8	14.9	8.1	10.4	11.6	19.4	20.8
Non-oil	8.1	9.3	8.9	9.5	9.2	9.9	10.6	11.0	11.4	11.8
Tax	7.7	9.0	8.5	9.0	8.9	9.4	10.1	10.4	10.7	11.0
Non-tax	0.4	0.3	0.4	0.5	0.4	0.5	0.6	0.7	0.8	0.8
Grants	3.8	2.4	2.7	2.1	2.8	3.5	2.6	2.6	2.6	2.6
Budget support	0.0	0.1	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Project grants	3.8	2.3	2.7	2.1	2.8	3.1	2.6	2.6	2.6	2.6
Expenditure	34.4	31.4	29.3	29.6	29.0	23.0	24.1	25.1	29.4	32.2
Current	16.5	17.7	15.5	16.7	14.8	14.4	13.5	13.9	15.4	16.1
Wages and salaries	6.4	7.1	6.5	6.6	6.5	6.9	6.4	6.4	6.7	7.0
Goods and services	2.8	2.9	2.4	2.8	2.4	1.2	1.7	2.0	2.5	3.0
Transfers and subsidies	6.6	6.9	5.6	6.4	5.1	5.4	4.5	4.5	5.4	5.4
Interest	0.6	0.7	0.9	0.9	0.8	0.8	1.0	1.0	0.8	0.7
Domestic	0.4	0.2	0.5	0.5	0.4	0.4	0.5	0.4	0.4	0.4
External	0.3	0.5	0.5	0.4	0.4	0.4	0.5	0.6	0.4	0.3
Investment	17.9	13.7	13.9	12.9	14.2	8.6	10.5	11.2	14.0	16.0
Domestically financed	12.3	10.5	10.3	9.9	9.1	4.8	5.5	6.2	9.0	11.0
Foreign financed	5.5	3.2	3.6	3.0	5.0	3.9	5.0	5.0	5.0	5.0
Overall balance (incl. grants, commitment)	0.7	-3.6	-0.5	-6.3	-2.3	-1.5	-0.5	0.1	4.0	2.9
Non-oil primary balance (excl. grants, commitment)[2]	-20.1	-18.2	-15.9	-16.3	-14.1	-8.4	-7.4	-8.0	-12.2	-14.6
Change in balances payable[3]	-2.5	-5.0	-2.3	-2.6	-2.1	-3.4	-2.0	-1.9	-1.8	-2.0
Float[4]	2.7	2.0	2.3	3.5	1.9	2.1	2.0	1.9	2.1	2.4
Errors and omissions	1.3	…	…	…	…	…	…	…	…	…
Overall balance (incl. grants, cash)	2.1	-6.6	-0.5	-5.9	-2.5	-2.7	-0.5	0.1	4.3	3.4
Financing	-2.1	6.6	0.5	5.9	2.5	2.7	0.5	-0.1	-4.3	-3.4
Domestic financing	-3.1	1.7	2.5	8.3	2.2	2.2	0.7	-0.2	-4.7	-1.9
Bank financing	-2.6	0.7	0.4	3.6	0.2	1.7	0.5	-0.3	-5.0	-2.2
Central Bank (BEAC)	-2.1	0.8	-0.2	2.1	-0.3	0.6	-0.3	-0.5	-5.1	-2.3
Deposits	-1.6	1.3	0.0	2.0	-0.2	0.0	-0.4	-0.4	-4.8	-2.0
Advances (net)	-0.5	-0.4	-0.4	-0.1	-0.4	0.0	-0.4	-0.3	-0.3	-0.3
IMF (disbursement)	0.0	0.0	0.2	0.2	0.3	0.6	0.4	0.3	0.0	0.0
Commercial banks	-0.5	-0.1	0.6	1.5	0.5	1.1	0.8	0.2	0.1	0.1
Non-bank financing (net)	-0.6	1.0	-1.7	-0.6	0.1	-0.6	0.2	0.2	0.3	0.3
Privatization and other exceptional receipts	0.1	0.0	3.8	5.4	1.8	1.1	0.0	0.0	0.0	0.0
Foreign financing	1.0	4.9	-2.0	-2.4	0.3	0.5	-0.2	0.0	0.4	-1.5
Loans (net)	1.0	4.2	-2.6	-2.4	0.0	0.1	-0.7	-0.4	0.0	-1.9
Disbursements[6]	1.7	7.3	1.5	1.1	2.5	1.3	3.2	3.1	3.2	3.2
Financing gap	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Non-oil GDP	4,400	4,661	5,317	5,150	5,793	5,357	5,796	6,268	6,733	7,291
Poverty-reducing social spending	…	7.2	7.4	6.0	6.9	5.6	…	…	…	…
Bank deposits (mostly BEAC)	6.2	4.6	4.0	2.1	3.9	2.1	2.3	2.5	7.2	8.7
(In months of domestically-financed spending)	2.6	2.0	1.9	1.0	2.0	1.3	1.4	1.5	3.5	3.8
BEAC statutory advances	4.3	3.6	2.7	3.2	2.2	3.0	2.5	1.9	1.5	1.1

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

[1] IMF, Chad-Staff Report for the Arrangement under the ECF (EBS/14/96).

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

[3] Prior to 2014, amounts in excess of float, represent clearance of arrears, accrued in prior fiscal years.

[4] Difference between committed and cash expenditure.

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

[6] The oil sales advance with Glencore Energy in 2013 in an amount of US$600 million (about CFAF 296 billion) was recorded as budget borrowings.

Table 5. Chad: Balance of Payments, 2012–19

(Billions of CFA francs, unless otherwise indicated)

	2012	2013	2014		2015		2016	2017	2018	2019
	Prel.	Proj.	Prog.	Proj.	Prog.	Proj.	Projections			
Current account, incl. official transfers	-549	-577	-545	-602	-587	-699	-677	-513	-303	-254
Trade balance	486	420	488	194	687	116	357	855	1,059	1,209
Exports, f.o.b.	2,209	1,919	2,496	1,940	2,763	1,912	2,343	3,071	3,363	3,602
Of which : oil	1,905	1,593	2,145	1,592	2,392	1,548	1,949	2,644	2,890	3,079
Imports, f.o.b.	-1,723	-1,499	-2,007	-1,746	-2,076	-1,796	-1,986	-2,216	-2,304	-2,393
Services (net)	-1,160	-1,032	-1,214	-1,049	-1,313	-1,060	-1,148	-1,315	-1,307	-1,303
Income (net)	-153	-292	-362	-291	-410	-144	-271	-444	-467	-582
Transfers (net)	277	326	542	544	450	388	384	391	412	422
Official (net)[1]	57	147	310	303	210	133	122	124	134	134
Private (net)	220	228	232	240	240	256	263	267	278	288
Financial and capital account	395	582	535	421	562	646	644	493	601	375
Capital transfers	136	104	139	104	145	162	145	157	169	183
Foreign direct investment[2]	296	257	-195	-334	503	403	420	352	309	225
Other medium and long term investment	49	187	538	556	-13	18	3	7	12	-125
Public sector	59	198	548	567	-2	30	15	20	26	-110
Private sector	-10	-10	-11	-11	-11	-11	-12	-13	-14	-15
Short-term capital	-87	34	55	94	-73	63	75	-23	111	92
Errors and omissions	243	-15		77	0	0	0	0	0	0
Overall balance	108	-11	-10	-104	-25	-53	-33	-20	298	121
Financing	-108	11	0	104	-13	0	-22	-28	-325	-148
Change in official reserves (decrease +)	-108	11	0	104	-13	0	-22	-28	-325	-148
Financing gap	**0**	**0**	**-10**	**0**	**-38**	**-53**	**-55**	**-47**	**-27**	**-27**
Financing gap (percent of GDP)	0	0		0	-0.5	-0.8	-0.7	-0.5	-0.3	-0.3
Exceptional Financing			10	0	38	53	55	47	27	27
IMF ECF			10		18	20	17	17	0	0
ECF augmentation						14	8	0		
Potential debt relief (HIPC)			0	0	20	19	29	30	27	27
Remaining gap			0	0	0	0	0	0	0	0
Memorandum items:										
Current account (percent of GDP)	-8.7	-9.0	-7.2	-8.7	-7.1	-10.0	-8.7	-5.8	-3.2	-2.5
Exports (percent of GDP)	35	30	33	28	33	27	30	35	35	35
Of which : oil	30	25	28	23	29	22	25	30	30	30
Imports (percent of GDP)	-27	-23	-26	-25	-25	-26	-25	-25	-24	-23
FDI (percent of GDP)	4.7	4.0	-2.6	-4.9	5.7	5.8	5.4	4.0	3.2	2.2
Gross official reserves (billions of USD)	1.2	1.2	1.2	1.1	1.6	1.0	1.1	1.3	1.9	2.1
(In months of imports of goods and services)	2.3	2.5	2.0	2.1	2.2	2.2	2.3	2.4	3.3	3.6
(Idem, excluding oil sector imports)	2.7	3.0	2.5	2.5	2.7	2.7	2.8	2.8	3.8	4.0

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

[1] A payment linked to a settlement of a dispute with an oil company has been transferred to the government in 2014

[2] FDI are negative in 2014 due to the disinvestment by Cheveron in Chad's biggest oil consortium

Table 6. Chad: Monetary Survey, 2012–17

(Billions of CFA francs)

	2012	2013	2014		2015		2016	2017
		Prel.	Prog.	Proj.	Prog.	Proj.	Proj.	
Net foreign assets	558.1	537.7	540.6	522.7	557.5	474.5	566.3	678.8
Central bank	538.6	527.9	527.9	534.5	541.0	464.5	556.3	663.8
Commercial banks	19.4	9.8	12.7	-11.9	16.5	10.0	10.0	15.0
Net domestic assets	226.2	314.4	392.1	555.0	458.7	641.5	707.5	723.4
Domestic credit	347.6	465.4	538.6	760.4	614.1	796.5	837.5	833.4
Claims on the government (net)	-28.4	50.4	63.1	204.2	59.1	264.2	268.6	230.2
Treasury (net)	-40.9	35.7	48.4	165.6	44.4	225.6	230.0	191.6
Banking sector	-40.9	35.7	48.4	165.6	44.4	225.6	230.0	191.6
Central bank	28.6	96.9	76.0	228.7	42.1	228.7	186.1	137.7
Claims on general government	279.8	260.3	239.5	268.2	218.6	268.2	247.3	226.5
Liabilities to general government	-251.2	-163.5	-163.4	-39.5	-176.5	-39.5	-61.2	-88.7
Commercial banks	-69.5	-61.2	-27.7	-63.2	2.3	-3.1	43.9	53.9
Claims on general government	50.1	66.6	100.1	86.2	130.1	146.2	193.2	203.2
Liabilities to general government	-119.7	-127.7	-127.7	-149.3	-127.7	-149.3	-149.3	-149.3
Fund position	2.5	0.9	10.6	10.6	27.2	41.2	65.1	81.2
Other non-treasury	12.5	14.7	14.7	38.6	14.7	38.6	38.6	38.6
Credit to the economy	367.3	389.6	465.4	537.0	527.2	488.9	499.9	516.8
Capital Accounts	-104.7	-113.9	-126.4	-102.8	140.4	-130.0	-120.0	-120.0
Other items (net)	-7.3	-27.5	-20.0	-23.4	-15.0	-25.0	-10.0	10.0
Money and quasi money	784.3	852.1	932.8	1077.7	1016.3	1116.1	1273.8	1402.2
Currency outside banks	400.7	448.3	490.8	539.2	534.7	558.4	637.3	701.6
Demand deposits	326.0	336.3	368.1	460.5	401.0	476.9	544.2	599.1
Time and savings deposits	57.5	67.5	73.9	78.0	80.5	80.8	92.2	101.5
Memorandum items:								
Broad money (annual percentage change)	13.4	8.6	9.5	26.5	9.0	3.6	14.1	10.1
Credit to the economy (annual percentage change)	32.1	6.1	19.5	37.8	13.3	-9.0	2.2	3.4
Credit to the economy (percent of GDP)	5.8	6.1	6.1	7.8	6.4	7.0	6.4	5.8
Credit to the economy (percent of non-oil GDP)	8.3	8.4	8.8	10.4	9.1	9.1	8.6	8.2
Velocity (non-oil GDP)	5.6	5.5	5.7	4.8	5.7	4.8	4.5	4.5
Velocity (total GDP)	8.1	7.5	8.1	6.4	8.1	6.2	6.1	6.3

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

Table 7. Chad: Financial Soundness Indicators, 2008–14*

	2008	2009	2010	2011	2012	2014
Capital Adequacy						
Regulatory capital / Risk-weighted assets	13.3	12.1	6.7	19.7	18.1	12.5
Asset Quality						
Gross nonperforming loans/Gross banking loans	8.0	10.4	12.1	9.8	7.4	10.5
Provisions / Nonperforming loans	70.2	64.6	73.5	75.6	57.4	60
Net nonperforming loans/Gross banking loans	2.4	3.7	3.2	2.4	3.7	…
Profitability						
Return on assets	3.9	1.3	3.7	2.4	3.0	1.6
Return on equity	36.4	11.4	39.4	11.7	24.4	15.8
Liquidity						
Liquid assets / Total assets	19.6	17.9	18.2	29.9	28.1	18.6
Liquid assets / Demand deposits	82.4	85.2	73.8	75.2	79.7	…
Banks' ratings (number of banks rated)						
Solid or Good	4	4	3	5	…	…
Fragile	1	1	1	2	…	…
Critical	1	1	2	0	…	…
Not rated	1	2	2	1	…	…
Total	7	8	8	8	…	…

Sources: BEAC/COBAC.

*: no data available for 2013, and data for 2014 are at end-June

Table 8. Chad: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) Under the ECF for 2014

(Billions of CFA francs; cumulative from the beginning of the year, except where otherwise indicated)[1]

	End-Sept. 2014	End-December 2014			
	IT	QPC			
		ECF approval	Adj.	Actual	Status
Floor on non-oil primary budget balance	(649)	(846)	(846)	(836)	Met
Ceiling on net domestic government financing	179	134	154	430	Not met
Ceiling on the accumulation of domestic payment arrears by the government [2]	0	0	0	0	Met
Ceiling on the accumulation of new external payment arrears by the government or non-financial public enterprises [3]	0	0	0	0	Met
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 (US$ million)[2] [3]	0	0	0	0	Met
Floor for poverty-reducing social spending	263	394	394	309	Not met
Memo items: :					
Oil revenue	445	920		635	
Oil revenue, extraordinary oil-related revenue and receipts of privatization or renewal of telecommunication licenses	455	1,121		913	
Foreign budget support grants	0	0		0	

Sources: Chadian authorities; and IMF staff forecasts.

1. Quantitative Performance Criteria and Indicative Targets are clearly defined in the TMU.
2. Since end-June 2014.
3. To be respected continuously.

Table 9. Chad: Structural Conditionality Under the ECF for 2014

Measures	Due Dates	Status
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	Not met. Measure completed in December
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

Source: Chadian authorities; and IMF staff

Table 10a. Chad: Original Schedule of Disbursements Under the ECF Arrangement, 2014-17

Amount (Million SDR)	Available Date	Conditions for Disbursement
13.31	August 1, 2014	Executive Board approval of the three year ECF arrangement
13.31	February 15, 2015	Observance of the performance criteria for December 31, 2014 and completion of the first review under the arragement
10.66	August 15, 2015	Observance of the performance criteria for June 30, 2015 and completion of the second review under the arragement
10.66	February 15, 2016	Observance of the performance criteria for December 31, 2015 and completion of the third review under the arragement
10.66	August 15, 2016	Observance of the performance criteria for June 30, 2016 and completion of the fourth review under the arragement
10.66	February 15, 2017	Observance of the performance criteria for December 31, 2016 and completion of the fifth review under the arragement
10.66	July 15, 2017	Observance of the performance criteria for May 31, 2017 and completion of the sixth review under the arragement

Sources: IMF Staff estimates and projections

Table 10b. Chad: Proposed new Schedule of Disbursement Under the ECF Arrangement, 2014-17

Amount (Million SDR)	Available Date	Conditions for Disbursement
13.31	August 1, 2014	Executive Board approval of the three year ECF arrangement
19.97	February 15, 2015	Observance of the performance criteria for December 31, 2014 and completion of the first review under the arrangement
20.65	August 15, 2015	Observance of the performance criteria for June 30, 2015 and completion of the second review under the arrangement
17.32	February 15, 2016	Observance of the performance criteria for December 31, 2015 and completion of the third review under the arrangement
13.99	August 15, 2016	Observance of the performance criteria for June 30, 2016 and completion of the fourth review under the arrangement
10.66	February 15, 2017	Observance of the performance criteria for December 31, 2016 and completion of the fifth review under the arrangement
10.66	July 15, 2017	Observance of the performance criteria for May 31, 2017 and completion of the sixth review under the arrangement

Sources: IMF Staff estimates and projections

Table 11. Chad: Indicators of Capacity to Repay the Fund, 2015–25

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Fund obligations based on existing credit											
Principal	0.4	0.0	0.0	0.0	0.0	2.7	2.7	2.7	2.7	2.7	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit											
Principal	0.4	0.0	0.0	0.0	0.0	4.7	12.5	18.1	21.3	21.3	16.7
Charges and interest	0.0	0.0	0.0	0.0	0.3	0.3	0.2	0.2	0.2	0.1	0.0
Total obligations based on existing and prospective credit											
SDR millions	0.4	0.0	0.0	0.0	0.3	4.9	12.8	18.3	21.5	21.4	16.7
CFAF billions	0.3	0.0	0.0	0.0	0.2	3.9	10.4	14.9	17.4	17.4	13.6
Percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.4	0.4	0.4	0.3
Percent of debt service[1]	0.5	0.0	0.0	0.0	0.1	1.9	12.9	15.5	17.1	14.9	10.5
Percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Percent of tax revenue	0.1	0.0	0.0	0.0	0.0	0.4	0.8	1.1	1.2	1.1	0.8
Percent of quota	0.6	0.0	0.0	0.0	0.4	7.4	19.2	27.5	32.2	32.1	25.1
Outstanding IMF credit based on existing and prospective drawings											
SDR millions	53.9	85.2	106.6	106.6	106.6	101.9	89.4	71.3	50.0	28.7	12.0
CFAF billions	44.1	69.8	87.1	86.5	86.2	81.8	72.6	57.9	40.6	23.3	9.7
Percent of exports of goods and services	2.1	2.7	2.6	2.4	2.2	2.1	1.8	1.5	1.0	0.6	0.2
Percent of debt service[1]	68.9	33.0	41.1	40.7	29.2	38.8	90.5	60.5	39.7	19.9	7.5
Percent of GDP	0.6	0.9	1.0	0.9	0.8	0.8	0.6	0.5	0.3	0.2	0.1
Percent of tax revenue	7.0	8.6	9.8	9.1	8.3	7.3	5.9	4.3	2.7	1.4	0.6
Percent of quota	81.0	128.0	160.0	160.0	160.0	153.0	134.2	107.0	75.0	43.0	18.0
Net use of IMF credit (SDR millions)	40.2	31.3	21.3	0.0	0.0	-4.7	-12.5	-18.1	-21.3	-21.3	-16.7
Disbursements	40.6	31.3	21.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.4	0.0	0.0	0.0	0.0	4.7	12.5	18.1	21.3	21.3	16.7
Memorandum items:											
Exports of goods and services (CFAF billions)	2,121.9	2,576.2	3,318.8	3,642.2	3,900.9	3,856.8	3,936.5	3,990.2	3,905.7	3,915.3	3,930.3
External Debt service (CFAF billions)[1]	64.1	211.5	211.9	212.5	294.7	210.7	80.2	95.7	102.2	116.9	129.5
Nominal GDP (CFAF billions)	6,962.5	7,794.0	8,874.6	9,553	10,349	10,851.3	11,486.7	12,141.2	12,790.7	13,499.3	14,262.7
Tax revenue (CFAF billions)	629.3	808.4	886.4	954.3	1,035.7	1,122.5	1,229.5	1,350.5	1,475.8	1,613.7	1,764.5
Quota (SDR millions)	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6

Source: IMF staff estimates and projections.

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

Appendix I. Letter of Intent

N'Djamena, April 9, 2015.

Madam Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
United States

Dear Madam Christine Lagarde:

On August 1, 2014, the IMF Executive Board approved at the request of my Government a financial arrangement under the Extended Credit Facility (ECF) covering the period from July 1, 2014, to June 30, 2017. This letter and the attached Memorandum of Economic and Financial Policies (MEFP), report on recent economic developments and performance under the ECF arrangement since that time, and on the policies we plan to implement in the remainder of the year 2015 and over the medium term.

The implementation of the program takes place in a context characterized by the occurrence of two major exogenous shocks, namely the fall in the price of oil on international markets and the regional security crisis marked by the fight against Boko Haram. Indeed, immediately after the adoption of the program, international oil prices followed a downward trend initiated towards end-June to reach very low levels in the first quarter of 2015, with a cumulative drop of about 50 percent between end-June 2014 and end-March 2015. Under normal circumstances, oil contributes up to two-thirds of our budgetary resources, 90 percent of our export earnings, and about 30 percent of our gross domestic product.

Notwithstanding this significant balance of payments shock, my Government has implemented the ECF-supported Program satisfactorily during 2014 thanks to better non-oil revenue collections as well as increased mobilization of exceptional receipts and other financing. Thus, at end-December 2014 most quantitative performance criteria and structural benchmarks for the program were observed. In particular, the non-oil primary deficit, the mainstay of the program in the fiscal area, is estimated at 16.3 percent of non-oil GDP, down by about two percentage points of non-oil GDP compared to 2013. In the area of structural reforms, the Government has significantly reduced the use of extraordinary spending procedures, strengthened the regulatory framework for debt management, and eliminated ghost workers from the payroll, generating savings of CFAF 17 billion.

Nonetheless, the performance criterion related to the ceiling on net domestic financing of the Government has been exceeded because of the drastic decline in oil revenues, requiring increased domestic financing needs. Also, the floor on poverty spending was not reached, following the decline in oil revenues but also due to an error in programming this objective on the basis of the initial budget rather than on the allocation of the revised budget, which the Government has actually fully met. Therefore, the Government is requesting waivers for the nonobservance of these two performance criteria as a result of the corrective measures explained in the attached MEFP.

In addition to the oil shock, Chad has committed troops in the fight against Boko Haram since January 2015 to preserve internal peace and help more than 30 million people living in the basin of Lake Chad threatened by this terrorist group. The monthly cost of our military operations in Cameroon, Nigeria, Niger and the Lake Chad region is estimated at about US$12 million, to which we must add the cost of the support of hundreds of thousands of refugees.

These two exogenous shocks, which complicate budget management, are being tackled thanks to the mobilization of funding from development partners and the catalytic effect of the ECF-supported program on the one hand, and the budgetary adjustments made by my Government on the other hand. It should be noted here that, in respect of the budget constraint, the Government will submit to the national assembly around mid-April a revised budget with a non-oil primary deficit targeted to fall to 8.6 percent of non-oil GDP in 2015, mainly through the reduction of public spending while preserving priority social spending. Also, the Government will submit to the Fund no later than mid-April preliminary data on budget execution in the form of spending commitments as of end-March as reflected by the "Tableau quatre-phases". These fiscal adjustment efforts are complemented by negotiations to be finalized soon to reschedule part of the amortizations due in 2015 linked to oil sales advances contracted in 2013 and 2014.

At the same time, the Government will continue to carry out a coherent set of structural reforms, notably to strengthen the management of public finances. Within this framework, it will continue the reduction of extraordinary spending procedures and will strengthen transparency in the oil sector by putting in place an inter-ministerial structure tasked with monitoring, accounting, and forecasting of activities and resources in this sector. Furthermore, non-oil revenue mobilization will continue to be fostered, including through the broadening of the tax base (computerized management of the tax administration, reduction of the corporate tax rate) and the operationalization of scanners at various customs borders. Finally, the Government will continue to improve the business climate through the promulgation of a new public procurement code meeting international standards (and the restructuring of the institutions in charge of enforcing it) to facilitate the diversification of the Chadian economy.

My Government is committed, for the period from January 1, 2015, to June 30, 2017, to implement policies and measures listed in the MEFP to achieve the objectives of the program. The Government will take all additional measures which may become appropriate for the proper implementation of the program. The Government will consult with the Fund on the adoption of these additional measures in accordance with the IMF's policies on such consultation.

On the basis of our additional balance of payments needs and the policies described in this letter of intent and its attachments, my Government requests that the Executive Board of the IMF approves completion of the first review under the ECF arrangement and the release of financial support equivalent to SDR 19,97 million, an augmentation of our three-year arrangement under the ECF up to a total amount of SDR 106.56 million for the period from July 1 2014 through June 30, 2017, and the attainment of the HIPC completion point. In this context, we are seeking total financial support from the Fund in 2015 equivalent to 61 percent of our quota, or SDR 40.62 million.

My Government and the Chadian people await the attainment of the completion point under the HIPC initiative and the alleviation of the external debt of Chad as a decisive step in the implementation of the National Development Plan and Vision 2030 "Le Tchad que nous voulons" of the President of the Republic, Head of State, for the generation of a strong and better shared economic growth. Indeed, the resulting debt service savings will enable us to boost priority social spending. Finally, with the aim of ensuring the viability of public debt post-HIPC initiative, the Government is committed in the context of the implementation of its external debt policy to rely on financing in the form of grants and highly concessional loans.

The Government authorizes the IMF to make this letter, the attached MEFP and Technical Memorandum of Understanding, as well as the staff report for the first review under the ECF-supported program, available to the public, including through the IMF internet website.

Yours sincerely,

/s/

BEDOUMRA KORDJE
Minister of Finance and Budget
Republic of Chad

Attachments:

I. Memorandum of Economic and Financial Policies for 2015-17
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies for 2015–17

INTRODUCTION

1. **This Memorandum on economic and financial policies is an update of and a supplement to that of July 2014.** It describes recent economic trends, the implementation of the program, macroeconomic prospects, as well as the policies and reforms to be implemented in 2015. The priorities and objectives of the program supported by the Extended Credit Facility (ECF) are still hinged on the same key principles, namely (i) maintaining macroeconomic stability and budget viability; (ii) strengthening the capacity of institutions and enhancing fiscal governance; (iii) promoting sustained and inclusive growth in the medium term; (iv) improving debt management and reaching the completion point of the HIPC Initiative; (v) enhancing transparency in the oil sector; and (vi) developing the private and financial sectors and ensuring the diversification of the economy. These objectives are in line with the National Development Plan (PND) 2013-2015 which the Government adopted and is based on progress achieved under the National Poverty Reduction Strategy Paper II (SNRP) 2008-2011 and the Head of State's Vision to make Chad an emerging economy by 2030.

2. **The Government's economic program is being implemented within a context rendered extremely difficult with the occurrence of two major external shocks**. The first is the fall in oil prices on international markets, which began in late June 2014. The second is the security shock caused by the fight against the terrorist group Boko Haram in the Lake Chad Basin. Both shocks have far-reaching economic, financial, human, and humanitarian consequences.[1] Being an island of stability within a sub-region in the throes of insecurity, Chad could not remain indifferent to repeated attacks and the quick advancement of the fundamentalist movements threatening the peaceful existence of more than 30 million people. Thus, since mid-January 2015 Chadian troops have launched operations in Cameroon, Nigeria, Niger and the Lake Chad region, the cost of which weighs heavily on the country's public finances in 2015.[2]

[1] Ordinarily, oil accounts for two-thirds of our fiscal resources, 90 percent of our export earnings and about 30 percent of our gross domestic product.

[2] The monthly cost of the operations relating to the intervention of our troops in Cameroon, Nigeria, Niger and the Lake Chad region is at least US$12 million and thus weighs heavily on the budgetary prospects for 2015.

RECENT ECONOMIC TRENDS AND IMPLEMENTATION OF THE ECF-SUPPORTED PROGRAM IN 2014

A. RECENT ECONOMIC TRENDS

3. **In 2014, GDP growth was lower than expected,** at about 7 percent compared to the 9.6 percent projected under the Program. This is mainly due to the weak performance of the primary sector. Despite the encouraging results recorded in the agricultural sector thanks to continuing investment (mechanization, development of water supply, distribution of inputs and pesticides) and to a government program to facilitate bank credits to the cotton sector, the hydrocarbons sector underperformed. Indeed, while the entry into production of new oil fields (Mangara and Badila) was a welcomed development, the dispute between one oil company and the Government (which was settled in November 2014) delayed the production of that company meant for export, which only started in December 2014, i.e. six months behind schedule.

4. **Inflation remained under control**, with an average annual growth rate of only 1.7 percent in 2014, well below CEMAC's norm of 3 percent. This result is all the more commendable given that unfavorable factors, such as disruption of imports from Nigeria due to the security situation, led to the volatility of the prices of some household products—an estimated 27 percent of total household consumer goods are imported.

5. **Public finances also remained under control**, with an overall deficit (cash-based) that dropped by one percentage point to stand at 5.9 percent of non-oil GDP. While the drastic fall in oil prices in the second half of 2014 affected oil revenue negatively, the Government succeeded in mobilizing exceptional revenue, in particular, following the settlement of the dispute in the hydrocarbons sector, and from a higher than expected non-oil fiscal revenue. Furthermore, the non-oil primary deficit (NOPD) dropped by about two percentage points to stand at 16.3 percent.

6. **In 2014 the monetary situation was marked by a significant increase in bank credit.** This was driven by an overall buoyant private sector, in particular suppliers of goods or services for the major investment projects which continued to be executed in 2014, notably those related to preparations for the African Union summit that was supposed to be held in Chad in mid-2015.

7. **In 2014 foreign accounts remained relatively stable compared to 2013**, with a current account balance deficit of about 8.7 percent of GDP. In 2014, international reserves dropped by about USD 100 million to stand at USD1.08 billion, mainly due to the fact that the Government had to draw on its deposits in the Central Bank to ensure that the budget is fully financed.

B. PROGRAM IMPLEMENTATION IN 2014

8. **Despite the exogenous shocks facing the country, the Government made every effort to ensure a generally satisfactory execution of the program at end-December 2014**. Four out of six quantitative performance criteria were met (Table 1): the non-oil primary deficit (NOPD), zero accumulation of domestic payment arrears by the State, non-accumulation of new external arrears (by the State or non-financial State-owned corporations) and no new non-concessional external loans contracted or guaranteed by the State or non-financial State-owned corporations.

9. **The basic non-oil primary balance amounted to CFAF -837.7 billion (16.3 percent of non-oil GDP), slightly better than the program target**, mainly thanks to better collection of non-oil revenue by the General Directorate of Taxation (DGI) and the General Directorate of Customs (DGDDI). Expenditure was streamlined, in keeping with the targets set in the revised budget (LFR). A systematic head-count was also conducted which helped to remove "ghost workers" from the State payroll, thus saving some CFAF 17 billion.

10. Despite a sometimes tight cash situation in the second half of the year, **the ceiling for the accumulation of domestic arrears was respected**: as of December 31, 2014, the stock of domestic arrears is estimated at CFAF 51.8 billion, compared to CFAF 62 billion as of June 30, 2014. Nevertheless, the Government is aware of the significant increase in the stock of float at end-2014 (CFAF 181 billion) and has thus taken steps to limit the risk of arrears in 2015, by providing the budget allocations necessary to cover the floating payments that partly concern the works launched as part of preparations for the AU summit before the decision was finally taken to postpone its hosting. **No external payment arrears were recorded**, and the State has not contracted or guaranteed any new non-concessional external debt.

11. **Two performance criteria relating to the ceiling of the government's net domestic financing and the floor of poverty expenditures have not been met.** The ceiling for government's 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). This led to an increase in the financing gap which was covered by a combination of bank loans, use of State deposits in BEAC, and the mobilization of exceptional revenue and other funding. Therefore, the government requests the Executive Board's waiver for failing to meet this criterion because of exogenous shocks. **With respect to the floor on poverty-related spending, the Government believes that the goal was reached from the viewpoint of the Revised Budget Act (LFR 2014), in which the allocation for these sectors was set at CFAF 309.6 billion**. At end-December 2014, that spending amounted to CFAF 309.3 billion, i.e. an execution rate of almost 100 percent despite the sharp decline in oil revenue. Altogether, poverty reduction expenditures accounted, in terms of execution, for 23 percent of total domestically financed primary expenditures in 2014. Although the quantitative performance target of the program, as erroneously set on the basis of the initial budget, has not been reached, the Government deems it completely justified in its request to the IMF Executive Board for a waiver, given that expenditures in these sectors are partially financed by oil resources.

12. **Progress in structural reform agenda is in line with the objectives of the program:**

- The share of domestically financed expenditures (excluding wages and debt) financed through exceptional procedures (DAOs, emergency spending procedures) was limited to 13.7 percent, well below the structural benchmark set at 17 percent. This result is all the more notable given the very difficult security situation, which imposes expenditures for which the Government had no choice but to resort to the emergency procedures (DAO).

- The regulatory framework for debt management has been strengthened following the technical recommendations that had been made. Firstly, the decree to enhance the organization and reinforce the role of the Inter-ministerial Committee on Debt (CONAD) and the associated technical unit (ETAVID) was signed on June 19, 2014. It was supplemented by the signing of two Orders (*arrêtés*) on December 30, 2014, the one on its functioning and the setting up of a permanent secretariat, and the other on the referral procedure. Secondly, actions for building the human resource capacity of the Department of Debt were undertaken with the assistance of AFRITAC Centre.

- Similarly, the Government prepared and published quarterly budget execution reports for 2014 on the website of the Ministry of Finance and Budget. The first and second reports were available as early as April and July 2014, in line with the deadline specified in the structural benchmark.

- Lastly, the first draft of the 2015 initial budget (LFI) that was tabled before the National Assembly in October 2014 was fully in line with the program target of a non-oil primary deficit of 14 percent of non-oil GDP. The draft LFI was subsequently revised, as explained below.

ECONOMIC AND FINANCIAL POLICIES FOR 2015 AND THE REMAINDER OF THE PROGRAM

13. The Government intends to take effective measures in order to meet its challenges and sustain the beneficial effects of socio-economic programs implemented to improve the living conditions of the population. It therefore undertakes to pursue the macroeconomic and fiscal objectives aimed at enhancing macroeconomic stability and furthering the diversification of the economy.

14. Among the objectives, **the main pillar of the program relating to the budget is a non-oil primary deficit that is consistent with the goal of medium-term sustainability of public finances and public debt.** To this end, and considering the new situation created by the drastic fall in global oil prices, the Government, as directed by the President of the Republic, Head of State, decided to withdraw the first draft budget submitted to the National Assembly in October 2014 and to instead submit the Initial Budget adopted at the end of 2014, based on credible assumptions, in particular the average price of a barrel of oil in 2015 (an average of USD 65 for Chadian oil).

15. **The Government underscores the scale of adjustments made in the initial budget (LFI)**, and hence the sacrifices made by the people of Chad. Compared to the 2014 budget, the LFI provides for primary expenditure cuts of about CFAF 240 billion, or 4.5 percent of non-oil GDP. The increase in the wage bill stems from the recruitment of essential State employees in the education, health and security (armed forces) sectors, but no salary increase is planned outside the technical slides (categorical). Investment projects were carefully reviewed to retain only those of highest priority, and some ongoing investments have been spread over time. On the whole, domestically financed investment was reduced by 20 percent compared to 2014. Transfers and subsidies have also been reduced by 20 percent. Lastly, expenditures on goods and services have been halved.

16. **In this very difficult environment, the internal adjustment through those cuts has been aimed at reducing the size of the State while protecting priority social spending**. Despite this large-scale adjustment, there remained a sizable financing gap, estimated at CFAF 420 billion or 7.8 percent of non-oil GDP. To be able to submit a budget without a financing gap and minimize budget execution risks, the Government has taken the following measures:

- **It has decided not to host the African Union Summit which was going to be held in N'Djamena in June 2015.** This courageous decision was made in view of the economic and financial situation created by the collapse of oil prices. The Government intends to generate CFAF 180 billion of savings in costs that would have been incurred for reception and accommodation of participants combined with the spreading of some investments related to the hosting of the summit over a longer period of time.

- **It will continue to target some positive net issuance of securities in domestic and regional markets**. The treasury bills' issuance program, following the success of the first operations in the last quarter of 2014, when CFAF 27.5 billion were raised in four issuances, will be developed further. The LFI thus earmarked a net amount of about CFAF 30 billion in 2015, but this amount will be increased to a total net amount of CFAF 60 billion through an assortment of issuances of three- and six-month treasury CFAF bills. In addition, a bond issuance has also been planned for CFAF 80 billion. The objective is to achieve a positive flow of total net bank and non-bank domestic financing.

- Pursuant to the directive issued on January 6, 2015 by the Prime Minister, the Government is negotiating a **rescheduling of the repayment of the two advances on oil sales which Chad received in 2013 and 2014**. Indeed, given that the reimbursement of the advances is made by way of a deduction on oil shipments (cargoes) belonging to the State of Chad, it has a very significant impact on the net oil revenues of the State in the context of a fall in international oil prices. The Government points out that based on oil price forecasts for mid-2014, such as those used in the report attached to the request for the Extended Credit Facility, such repayments posed no difficulty. Therefore, the situation was caused by external and unexpected factors. An agreement is at an advanced stage on a total of US$400 million, which should allow the State to save an estimated US$150 million as debt servicing (Glencore I) and receive an estimated additional oil revenue of US$250 million from the Badoit project.

- In order to minimize risks on the execution of the budget, **the Government has adopted a realistic non-oil revenue forecast and increased the budget allocation for security expenditure.** The non-oil revenue is set at CFAF 530 billion against CFAF 670 billion in the Initial Budget given the impact of exogenous shock. Security costs have been increased by about CFAF 50 billion, to take account of military operations related to the fight against Boko Haram.

- **The Government also made a formal appeal to Chad's international development partners**. The partners took part in discussions held between the IMF staff and the authorities in late February and early March 2015 and pledged to provide budgetary support amounting to CFAF 85.6 billion. The Government notes that the actual disbursement of these funds is subject to reaching the completion point of the HIPC Initiative and continuing with the reforms that were jointly identified with development partners.

- **The Government is appealing to the IMF to contribute to the effort by international partners and is, therefore, making a request for an increase in access under the ECF arrangement** of an additional 40 percent contribution (equivalent to SDR 26.64 million, or CFAF 22 billion). Considering the urgency of the situation, the Government wants the bulk of this increase in access to be disbursed in 2015.

17. **A revised budget will be tabled before the National Assembly prior to the holding of the IMF Executive Board meeting**, which will facilitate the implementation of the above measures and allow for the closing of the financial gap. The non-oil primary deficit will be 8.4 percent of non-oil GDP in 2015 (quantitative performance criterion), a significant adjustment imposed by the oil revenue shock. The revised budget will preserve social expenditures, with the objective of maintain their share of domestically financed primary spending to 26 percent.

18. **The Government is aware that it cannot afford to fully relent on the fiscal adjustment efforts after 2015.** However, oil revenues are expected to increase thanks to the expected increase in production from 2015, with an almost twofold increase by 2019. On the other hand, budgetary oil revenues are highly sensitive to oil price hikes, with threshold effects that will significantly increase revenue from the corporate income tax. Under current assumptions, the non-oil primary deficit should be approximately 7-8 percent of non-oil GDP in 2016 and 2017, before increasing to 12-15 percent of non-oil GDP in 2018-2019. However, the authorities suggest that such a path for the non-oil primary deficit, which must be consistent with the objective of macroeconomic stability and public debt sustainability, be refined according to more precise information on the evolution of oil revenues, at the time of the second review of the program.

19. **The Government undertakes to refrain from contracting new non-concessional external borrowing.** It will ensure that all external financing arrangements comply with standard requirements of concessionality and debt sustainability under programs supported by the IMF (including the submission of all debt proposals for analysis and reasoned opinion of the ETAVID --- Technical Team for Debt Sustainability Analysis and CONAD --- National Commission for Debt Analysis) and will inform the IMF and the World Bank staff on these issues.

STRUCTURAL REFORMS

20. **Achieving the objectives of the Program depend on sound and transparent management which was underscored to all officials working in the various Government services in Chad.** Reforms started in the last few years, particularly under the Staff Monitored Program in 2013 as well as the ECF program in 2014, will continue. Thus, the reform process initiated by the Action Plan for the Modernization of Public Finance (PAMFIP) since 2005 is continuing. The Government emphasizes the progress made since the beginning of the ECF program, particularly in terms of collection of non-oil taxes, debt management, budget execution and communication of budget information, monitoring of public contract award procedures and related reports.

21. **Despite a particularly unfavorable economic situation in 2015, the Government has decided to continue to with Public Finance Management reforms by implementing new measures and consolidating existing ones.** It will continue to be supported by periodic technical assistance by missions from the IMF Fiscal Affairs Department and AFRITAC Centre. Other partners also actively support the government in this area: i) the World Bank through the Support Project for Capacity Building in Public Finance (PARCAFIP) ii) the African Development Bank by supporting the achievement of target indicators of the HIPC Initiative, the OCMP for the publication of quarterly bulletins of public procurement, the Directorate General of Taxes for the widening of the tax base and the Directorate of Debt for the acquisition of computer equipment and training; iii) the US Embassy for the Ministry of Finance’s website, and iv) the European Union by supporting INSEED (census of enterprises to improve the file corporate taxpayers and help broaden the tax base), DGTCP (for specific trades training), DGI (training in new sectors of mobile telephony, banking and insurance, and oil tax systems) and the computer center (for the networking of eleven regional delegations -11- and their interconnection with the Ministry of Finance and Budget).

22. **The Government emphasizes the transparency of its structural reform commitments and the evaluation of their implementation.** Thus, a quarterly Trend Chart (progress report) for monitoring performance indicators of the Ministry of Finance and Budget, describing ongoing reforms for each department of the Ministry and their implementation, is available to the public on the website of the Ministry. The major reforms that were implemented recently or to be initiated in 2015, which are described below, will be published regularly. These are among other things: i) streamlining and securing the network of the Ministry of Finance and Budget, ii) the migration of the debt management and analysis system -SYGADE; iii) the migration of the Customs Management System; iv) the operationalization of the information system and procurement management for priority sectors; v) launch the preparation of program budgets in sectorial ministries; vi) transposition of the CEMAC Directive relative to the Transparency Code; vii) the computerization and modernization of DGTCP management tools through the implementation of ICE; viii) installation of mobile scanners and acceleration of the ASYCUDA ++ extension process in regions; ix) promote women and youth's entrepreneurship; x) conducting impact assessment of microcredit in the regions; xi) identify and develop support emergency plans to EMF in difficulty; xii) produce the administrative and management accounts and settlement laws within the regulated limits; xiii) the completion of the PEFA exercise for the second time in Chad.

23. **Enhancing transparency in oil revenue is crucial for the authorities.** In its efforts to improve transparency in State operations, the Government is aware that transparency is not only important in terms of good governance, but also essential for improving reliability of budgetary forecasts in the short- or medium-terms. The Government noted the progress already made, that enabled Chad to attain compliance under the EITI (Extractive Industries Transparency Initiative) requirements in October 2014. However, it is aware that many changes have occurred recently in the structure of the oil sector, with direct or indirect impacts on tax revenues: the number of operators in the sector has increased, tax systems are diverse (concessions or production sharing agreements), the State oil corporation SHT is part of the ESSO oil consortium (25 percent) since June 2014, and the terms of repayment (in kind) of oil sales advances contracted by Chad and their rescheduling which is being concluded, are some of the elements that make monitoring of oil revenue flows increasingly complex.

24. **To remedy this situation, the Government has decided to create an Inter-Ministerial Committee responsible for monitoring in real time, consolidation and communication of all the information related to budget revenues from oil.** This Inter-Ministerial Committee has already been set up but will be formalized through a decree by June. This committee is formed by representatives from the ministries of petrol and finance and budget, from SHT, the Collège and the EITI unit.

25. **A key objective of this Committee will be to ensure the smooth flow in transmission between all relevant Government services of comprehensive information on oil operations and the income they generate for the Government.** It will define the content and the modalities and timelines of their periodic publication (structural benchmark). To help with this essential task, the Government will ask for technical assistance from the Fund.

26. **The Government is committed to continue its efforts to gradually reduce the use of emergency spending procedures (*DAO*).** Within a context of significant budgetary adjustment, the Government regards this objective as an essential tool for budgetary monitoring and control. Apart from security spending, which, it must be admitted, is largely unpredictable within a context of Chad's growing involvement in military operations in the region; very significant efforts have already been made. For 2015, the Government is committed to limiting the use of DAOs (excluding wages, debt servicing and security spending) to not more than 9 percent of domestically financed spending (which is a structural benchmark under the ECF arrangement for 2015). A significant improvement must be highlighted: through the strengthening of the interface between CID and the payment system, the management of DAO is automated today. Any use of DAO is systematically recorded in the computer system, and a new DAO request cannot be executed until the committed expenditure is regularized. This has accelerated the lead time for the regularization of DAOs and the Government intends to further shorten the lead time in 2015.

27. **The Government is continuing to develop tools to improve the assessment, implementation, monitoring, and control of financial flows involving the State:**

- Introduction of the SIGASPE application for the payment of salaries for civil servants, which allows for better control of payroll and headcount of State employees in Chad today.

- The SIGTAS tax application is operational since January 15, 2015. The use of this software should help clean up the tax portfolio by keeping it updated. It would also allow for the addition of new taxpayers in the formal sector and, thus, expand the tax base. A census of taxpayers by the INSEED is underway and the first results, expected by mid-2015, will be exploited by the DGI as part of the identification of taxpayers.

- It needs to be noted that the reduction in corporate income tax rate from 40 to 35 percent is aimed at attracting foreign investors but also to foster local companies to emigrate to the formal sector.

- The implementation of a State Integrated Accounting system remains a major objective of the General Directorate of the Treasury and Public Accounting. The Government will continue its efforts for the acquisition of software.

- Still concerning the quest for transparency and efficiency, an audit of transfers and subsidies is in progress. This intends to conduct a comprehensive identification of all beneficiary entities and to assess the justification and performance of transfers and subsidies. This will help eliminate some non-essential or unjustified subsidies. The initial results of this audit are expected in July 2015.

- Production of annual debt management reports using an updated and audited debt database, staff training and maintenance of the SYGADE system.

28. **Within this context, the transcription of CEMAC directives has recorded significant progress and will continue**:

- The Directive on the LOLF (organic law on finance laws) is already being implemented.

- The Directive on General Regulations of Public Accounting has received the CEMAC Notice of Compliance. Once translation into Arabic is ready, this directive will be signed by the Head of State.

- Three other directives were approved internally and received the CEMAC Notice of Compliance. These are guidelines relating to the State Accounting Plan, the Table of Financial Operations of the State, and the State Budget Nomenclature.

- Finally, a draft directive on the Transparency Code was sent to the High-Committee chaired by the Prime Minister. If approved, it will be forwarded to CEMAC for a Notice of Compliance.

29. **The publication of the General Tax Code (GTC)** will be effective by the end of 2015. To remedy the current situation, caused by an accumulation of Decrees to amend the tax regulations under each Budget Law, a codification and collection of laws was conducted. The new GTC is ready and currently pending approval.

30. **Concerning the General Directorate of Customs, two of the three reform actions assigned to it have been completed.** They included the improvement in the performance of the NGUELI platform, which has translated into improved customs revenue collection while increasing satisfaction among economic operators, and the implementation of the Douala-N'djamena Customs Corridor Facilitation Program (end 2015). However, the use of scanners for customs clearance has been delayed, as construction of the required platform to accommodate the scanner in NGUELI proved to be complicated and expensive. Nevertheless, a bidding process is ongoing for the construction of a platform for the use of those mobile scanners.

31. **Continue to improve the awarding of public contracts remains a key priority of the Government.** In 2014, efforts to preferably award public contracts through international and national bidding procedures were maintained, resulting in more than 90 percent of contracts being awarded using this procedure (348 out of 385 contracts). However, in terms of amounts, mutual agreement contracts still accounted for one-third of all contracts, or about 168 billion CFAF out of a total of CFAF 501 billion. The Government has reaffirmed its commitment to reduce public contracts awarded by mutual agreement, especially when the amounts of the contracts concerned are high. In this perspective, the revised draft code which saw the participation of development partners during a validation workshop held from August 18-19, 2014 has been submitted to the Government for its adoption.

32. **Reforms are also being implemented in the areas of microfinance and entrepreneurship.** Information and awareness campaigns on microfinance were organized in 23 regions and were favorably welcomed by the population. The authorities have identified 20 local partners (7 microfinance institutions and 13 development associations and NGOs) that can act as relays in areas usually not covered by microfinance institutions. To date, 23 agreements worth a total of CFAF 5.36 billion have been signed, of which CFAF 1.5 billion were disbursed in 2014 to allow contractual partners to grant loans to local communities, particularly to women and youth. Furthermore, the law to create the National Support Fund for Entrepreneurship and Microfinance (FNAEM) was adopted by the Cabinet Council and its implementation will continue in 2015.

REACHING THE COMPLETION POINT UNDER THE HIPC INITIATIVE

33. The implementation status of triggers under the completion point was closely monitored in collaboration with the World Bank. The Joint World Bank and International Monetary Fund specific report will provide all the details, but the Government emphasizes that all triggers were met with the exception of four: (i) the "lois de reglements" 2000 and 2001 with regard to governance; ii) the repetition rate that reached 24 percent in 2013 against the target of 22 percent; iii) the increase in treatment of genital ulcers; and iv) increase the percentage of agricultural families equipped with

plows. The Government has already submitted a request for waivers to the Board of Directors of the Bretton Woods institutions.

34. The trigger on macroeconomic performance will be respected with the conclusion by the IMF Executive Board of the current review under the ECF-supported program.

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

MONITORING THE IMPLEMENTATION OF THE PROGRAM

36. To monitor the implementation of measures and attainment of objectives under the program, the Government will continue to rely on the Negotiation Committee based at the Ministry of Finance and Budget. The Committee is in constant communication with the Fund staff. The presence of an IMF Resident Representative in Chad since January 2015 has further facilitated this communication.

37. The program will continue to undergo bi-annual reviews by the IMF Executive Board on the basis of performance indicators and structural benchmarks (Tables 1 and 2 attached). The indicators are outlined in the Technical Memorandum of Understanding (TMU) attached. The second program review will be based on performance criteria at the end of June 2015 and should be completed by November 2015 at the latest. The third review will be based on performance criteria at end-December 2015.

38. 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 payments 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 authorities undertake 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. Chad: Quantitative Performance Criteria and Indicative Targets under the ECF Arrangement for 2015

(Billions of CFA francs; cumulative from the beginning of the year, except where otherwise indicated)[1]

	31-Mar-15 IT	30-Jun-15 QPC	30-Sep-15 IT	31-Dec-15 QPC
Floor on non-oil primary budget balance	(113)	(248)	(316)	(451)
Ceiling on net domestic government financing	30	108	120	119
Ceiling on the accumulation of domestic payment arrears by the government [2]	0	0	0	0
Ceiling on the accumulation of new external payment arrears by the government or non-financial public enterprises [3]	0	0	0	0
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 (US$ million)[2 3]	0	0	0	0
Floor for poverty-reducing social spending	61	135	210	300
Memo items:				
Oil revenue	34	127	259	432
Oil revenue, extraordinary oil-related revenue and receipts of privatization or renewal of telecommunication licenses	51	157	309	492

Sources: Chadian authorities; and IMF staff forecasts.

[1]Quantitative Performance Criteria and Indicative Targets are clearly defined in the TMU.

[2]Since end-June 2014.

[3]To be respected continuously.

Table 2. Prior Action and Structural Conditionality for 2015

Measures	Due Dates	Macro-criticality
Prior action		
Submit a revised budget for 2015 to the National Assembly, in line with understandings reached with staff	Prior to Board meeting	High
Structural benchmarks		
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	High
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	High
Update and expand the taxpayer database	End-Dec 2015	High
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	High

Sources: Chadian authorities; and IMF staff.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Memorandum on Economic and Financial Policies (MEFP) for the period July 1, 2014-June 30, 2017 prepared by the authorities of Chad. It describes more specifically:

a). reporting procedures;

b). definitions and computation methods;

c). quantitative targets;

d). adjusters of the quantitative targets;

e). structural benchmarks

f). the other commitments taken within the framework of the MEFP.

A. Reporting to the IMF

2. Data on all the variables subject to quantitative targets will be transmitted regularly to the IMF in accordance with the schedule shown in Attachment 1 herewith. Revisions will also be forwarded quickly (within a week). In addition, the authorities will consult with IMF staff if they obtain any information or new data not specifically defined in this TMU but pertinent for assessing or monitoring performance against 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 execution bodies, institutions and any structure receiving special public funds and whose competence is included in the definition of Central Administration as defined in the *Government Finance Statistics Manual* of 2001 (GFSM 2001), paragraphs 2.48-50.

4. A **non-financial public enterprise** is a government-owned industrial or commercial unit which is corporate or sells goods and services to the public on a large scale. Concerning Chad, and within the framework of the program, this definition includes the following companies: Société Tchadienne des Eaux (STE), Société Nationale d'Electricité (SNE), Société Tchadienne des Postes et de l'Epargne (STPE), Cotontchad Société Nouvelle (SN), Société des Hydrocarbures du Tchad (SHT), TOUMAÎ Air Tchad, Nouvelle Société Tchadienne des Textiles (NSTT), Cimenterie de Baore (SONACIM).

5. **Oil revenue** is defined as the sum of royalties, statistical fees, income tax, dividends, bonuses, revenues from exploration duties, surface tax, and any other flows of revenue paid by oil

companies, except indirect duty and taxes. The authorities will notify IMF staff if changes in the oil taxation systems lead to changes in revenue flows. Oil revenue is recorded on a cash basis. **Extraordinary oil-related revenue**, whose definition is given below, is excluded from oil revenue.

6. **Extraordinary receipts include extraordinary oil-related receipts,** defined as resources that come from the resolution of disputes between companies operating in the oil sector in Chad and the Government in connection with their tax obligations or potential violations regarding environmental standards or any other legal obligations; and other extraordinary receipts, including transfers from the UN linked to Chad's participation in the fight against terrorism (in Mali and the countries around Lake Chad).

7. **Total government revenue** is tax and non-tax revenue or other revenue (as defined in GFSM 2001, Chapter 5) and is recorded on a cash basis. Proceeds from taxation on contracts, asset sales, receipts from privatization or from the granting or renewal of licenses, and placement proceeds on Government assets and grants are not considered as Government revenue for the purposes of the ECF arrangement. It is appropriate to show separately oil revenue, as defined in paragraph 5 above, in the breakdown of total government revenue.

8. **Total government expenditure** is understood to be the sum of expenditure on wages and salaries of government employees, 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. With the exception of capital expenditure, which is defined as shown in the Manual on Government Finance Statistics of 1986 (GFSM 1986), all other spending items are defined as in GFSM 2001 (paragraphs 6.1 6.88). Total government expenditure also includes expenditure executed before payment authorization (*dépenses avant ordonnancement* - DAO) and not yet regularized.

9. **Wages and salaries** correspond to the compensation of government employees as described in paragraphs 6.8-6.18 of GFSM 2001, namely, all employees (permanent and temporary), 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.

10. For the purposes of this memorandum, the terms **debt** is defined as follows:

- the term "**debt**" is as defined in point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, attached to the Executive Board decision No. 6230-(79/140), as amended, 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 some time 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.

11. For the purposes of this memorandum, the term **arrears** is defined as any debt obligations (as defined in paragraph 10 above) that have not been amortized in conformity with the conditions specified in the pertinent contract establishing them.

- **Domestic payment arrears** are the sum of (i) *payment arrears on expenditure* and (ii) *payment arrears on domestic debt*.

  - ***Payment arrears on expenditures*** are defined as all payment orders to the Treasury created by the entity responsible for authorizing expenditure payments but not yet paid 90 days after authorization to pay given by the treasury. Expenditure payment arrears so defined are part of "balance payable" (or "amounts due"). Balance payable corresponds to government unpaid financial obligations and include the domestic floating debt besides the expenditure arrears. They are defined as expenditure incurred, validated and certified by the financial controller and authorized by the public Treasury but which have not been paid yet. These obligations include bills payable but not paid to public and private companies, but do not include domestic debt financing (principal plus interest). Under the framework of the program target, ***domestic payment arrears*** are "balances payable" whose maturity goes beyond the 90 days regulatory deadline plus payment arrears on domestic debt, while floating debt represents "balances payable" whose maturity does not go beyond the 90 days deadline. As of end December 2014, the expenditure arrears stock stood at

CFAF 51.78 billion, while the floating debt stock stood at CFAF 181 billion at the same date.

- **Payment arrears on domestic debt** 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;

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

12. **Loan concessionality**. Debt is considered concessional if it includes a grant element of at least 35 percent.[1] The grant element is the difference between the nominal value of the loan and its present value, expressed as a percentage of the nominal value. The present value of the debt at the date on which it is contracted is calculated by discounting the debt service payments at the time of the contracting of the debt.[2] The discount rate used for this purpose is 5 percent.

13. The fiscal program is hinged on the **non-oil primary balance.** The non-oil primary **balance** is defined as total government revenue, minus oil revenue and extraordinary oil-related revenue, minus total government expenditure, and excluding interest payments on domestic and external debt and foreign-financed capital expenditure.

14. **Poverty-reducing social spending**, according to the latest general structure of Government, comprises public spending on: National Education (primary and secondary education), health, community-organized development, water and sanitation, micro finance, and agriculture and rural development (support for farmers and cattle breeders).

15. **Domestic government financing** is defined as the issuance of any instrument in CFAF to internal creditors or on the CEMAC financial markets; loans from BEAC (including support from the IMF), BDEAC, and CEMAC Member States, or any other debt contracted from those creditors. **Net domestic financing to the government** is subdivided into net bank financing and non bank net financing. Net bank financing is defined as the change in the net government position towards the banking system (BEAC and commercial banks), including the refund to the IMF,[3] since the end of the previous year. Net non bank financing to the government includes the issuance of government

[1] 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.

[2] 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 Fund.

[3] As a reminder, net claims of the banking system to the State represent the difference between government debts and its credits 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.

bonds and loans within CEMAC (including those contracted with BDEAC and from CEMAC Member States) net of related amortizations since the end of the previous year.

16. **External debt,** for the purposes of the relevant assessment criteria, is defined as debt borrowed or serviced in a currency other than the CFA franc.

17. **Exceptional security spending** comprises the outlays committed by the State to face security crises**.**

C. Quantitative Targets

18. The **quantitative targets** listed below are those specified in Table 1 of the MEFP. **Adjusters** of the quantitative targets are specified in Section D below. Unless stated otherwise, all quantitative targets will be assessed cumulatively from the beginning of the calendar year to which they apply. The quantitative targets 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 13 above.

- A **ceiling on the net domestic financing to the government**. The net domestic financing to government is defined in paragraph 15. The net domestic financing ceiling does not apply to the new agreements on internal debts restructuring and arrears securitization. For any new loans beyond a cumulative amount of CFAF 50 billion, the government commits to issue public securities only by tender through BEAC or by any other form of bidding process on CEMAC internal financial market recorded with COSUMAF, in consultation with IMF staff.

- A **zero ceiling for the accumulation of domestic arrears by the government** from end-June 2014. Domestic arrears are the sum of payment arrears on expenditure and payment arrears on domestic debt as defined in paragraph 10 above. This will be measured as changes in stock.

- A **zero ceiling for the accumulation of any new external payment arrears by the government or non financial public enterprises, regardless of repayment of old arrears**. This ceiling will be assessed continuously.

- A **floor on poverty-reducing social spending**. Poverty-reducing social spending is defined in paragraph 14.

- A **zero ceiling for new non-concessional external debt contracted or guaranteed by the government and non-financial public enterprises, with a maturity of more than one year**: Debt is non-concessional if it includes a grant element of less than 35 percent (as described in paragraph 12). Excluded from the ceiling are: (i) normal short-term credits for imports, because those operations are automatically amortized since the proceeds from the sale of imports is used to repay the debt; and (ii) debt contracted before the ECF arrangement, and rescheduled during this arrangement, to the extent that such rescheduling is effected on more favorable terms than the existing debt and up to the amount of the actually rescheduled debt. This ceiling will be evaluated continuously.

D. ADJUSTERS OF QUANTITATIVE TARGETS

19. To take into account factors or changes beyond the government's control, various quantitative targets for 2015 will be adjusted, as follows:

- Should additional expenditure compressions be needed, priority social spending can be adjusted to the extent that it is reduced proportionately less than other domestically financed primary spending, such that its ratio increases compared to the previous year.

- If external budgetary grants received are temporarily delayed, the ceiling on net domestic financing of the government will be adjusted upward by 100 percent of the grant shortfall. A grant is deemed to be temporarily delayed if the payment of said grant takes place later in the fiscal year or up to two months after the fiscal year during which it is programmed.

- If the total of oil revenue, grants, extraordinary receipts (as defined in paragraph 6) and receipts from privatization is greater (less) than the amount programmed, the following adjustments can be made:

    - the **floor for the non-oil primary balance** can be adjusted downward (upward) by 75 percent of the additional oil revenue, grants, plus extraordinary and privatization receipts.

    - the **ceiling on net domestic financing of the government** can be adjusted downward (upward) by the remainder of the additional oil revenue, grants, plus extraordinary and privatization receipts.

- Specific current expenditure for the support of refugees and/or "retournés" from the Central African Republic (or other neighboring countries) and financed by donations from external technical and financial partners will be excluded from the calculation of the non-oil primary fiscal balance for compliance with program targets.

E. PRIOR ACTIONS AND STRUCTURAL BENCHMARKS

20. A revised budget for 2015 whose submission to the National Assembly will constitute a **Prior Action** for completion of the first program review. This budget needs to protect the share of priority social spending in domestic primary spending and lead to a residual financing gap to be closed by financing flows from international partners, including the Fund. The consistency of the level of spending commitments (*Tableau Quatre Phases*) in the first quarter of 2015 with annual spending targets under the initial 2015 budget (LFI) will be used as a critical indicator of sustained fiscal performance in advance of sending the staff report to the Board.

21. **Structural benchmarks** are specified in Table 2 of the MEFP. Some further details are as follows:

- The limit in using DAOs to a maximum of 9 percent of total domestically-financed expenditure in 2015 applies to domestically-financed spending excluding wages, debt service, and military spending. This limit applies to DAOs at the end of the fiscal year, including the complementary period.). This ratio is estimated at 15.4 percent at end-2012, 11.8 percent at end-2013, and 10.3 percent at end-2014.

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 30 days of month-end
Budget execution data, including on poverty-reducing social spending, showing commitments, payment authorizations, validations, and payments *Table showing the four phases; payroll table, including benefits*	Ministry of Finance and Budget General Budget Directorate DGB	Monthly, within 15 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 30 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 30 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 30 days of the end of the quarter.
Details, by externally financed project; investment budget execution; information organized by Ministry	Ministry of Finance and Budget (DGB) Ministry of Plan and International Cooperation (DGCI)	Quarterly, within 30 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 30 days of month-end

Summary of Data to be Reported (concluded)		
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 30 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 30 days of the end of the quarter.
Details on new loans contracted or guaranteed by the government and non financial public companies	Ministry of Finance and Budget (Debt Directorate) Ministry of Plan and International Cooperation (DGCI)	Within 45 days of transaction completion.
Monetary survey	BEAC	Monthly, within 45 days of month-end
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 30 days of month-end
Gross domestic product and gross national product	Macroeconomic Framework Committee (SG MFB)	Annually, within 120 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.

INTERNATIONAL MONETARY FUND

CHAD

April 24, 2015

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

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 that 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

COM COMMUNICATIONS DEPARTMENT

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 Underthe 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 (heath 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.