



# CHAD

December 2015

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

In the context of the Chad's Second Review under the Extended Credit Facility Arrangement, and Requests for Waivers of Nonobservance of Performance Criteria and for Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 14, 2015, following discussions that ended on September 24, 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 December 1, 2015.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Chad.

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

Letter of Intent sent to the IMF by the authorities of Chad\*

Memorandum of Economic and Financial Policies by the authorities of Chad\*

Technical Memorandum of Understanding\*

\*Also included in Staff Report

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

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December 14, 2015

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### **IMF Executive Board Completes Second Review under the Extended Credit Facility Arrangement for Chad and Approves US\$28.7 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Chad's economic performance under the program supported by an Extended Credit Facility (ECF)<sup>1</sup> arrangement. Completion of the review enables the immediate disbursement of the equivalent of SDR 20.65 million (about US\$28.7 million). This brings total disbursements under the arrangement to the equivalent of SDR 53.93 million (about US\$75.1 million).

The Board also approved the authorities' request for waivers for the non-observance of the performance criterion on the non-accumulation of non-concessional external debt, on the basis of the minor nature of the non-observance, and for the non-observance of the performance criterion on the non-accumulation of domestic payment arrears on the basis of corrective actions taken.

Chad's three-year ECF arrangement was approved by the Executive Board on August 1, 2014 (see [Press Release No. 14/381](#)) for an amount equivalent to SDR 79.92 million (about US\$111.3 million). An augmentation of access of 40 percent of quota was approved in April 2015 by the Executive Board, bring total access to SDR 106.56 million (about US\$148.4 million).

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

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<sup>1</sup> An ECF arrangement is a lending arrangement that provides sustained program engagement over the medium to long-term in case of a protracted balance of payments need.

“Macroeconomic outcomes in Chad have been significantly impacted by two external shocks, namely, the collapse in oil prices and the deterioration of regional security. As a result, growth has slowed sharply, while fiscal spending has been cut in response to the large shortfall in oil receipts. Performance under the Fund-supported economic program has been broadly satisfactory, as most performance criteria have been met, in particular the non-oil primary deficit target—the main fiscal anchor of the program—and the structural reform agenda has progressed in line with program objectives.

“With oil receipts expected to be permanently lower, Chad has adjusted its medium-term fiscal strategy. The draft 2016 budget targets an additional tightening of the underlying fiscal policy stance (i.e., excluding one-off election-related and security spending that will be financed by extraordinary receipts). This strategy is underpinned by an emergency action plan with measures aimed at rationalizing transfers and subsidies and supporting non-oil tax revenue collections. Social spending will continue to be protected, remaining one of the program’s quantitative targets.

“Since projected exceptional receipts from asset sales are an important financing source for the 2016 budget, it is critical that expenditures be phased prudently and the contingency plan in the event of shortfalls or delays in those receipts be implemented. Despite the positive impact of having reached the HIPC completion point, Chad remains at high risk of debt distress and prudent fiscal and borrowing policies remain essential.

“Continued progress in improving transparency of oil revenue is crucial, especially given the recent significant 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.”



# CHAD

December 1, 2015

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

### EXECUTIVE SUMMARY

**Context:** The economy is being severely affected by the sustained decline in the oil price, together with the deterioration in the security situation related to Chad's support for the regional operation against Boko Haram. As a result, growth has slowed sharply, fiscal revenues have underperformed, and despite sharp cuts in expenditure, additional financing needs have arisen. Following the achievement of the Heavily Indebted Poor Countries (HIPC) completion point in late April, Chad has been able to secure close to US\$756 million in debt relief, but remains at high risk of debt distress.

**Program:** On April 27, 2015, the Executive Board completed the first review under the Extended Credit Facility (ECF) arrangement approved on August 1, 2014, with access of 120 percent of quota (SDR 79.92 million). The Executive Board also approved the authorities' request for an augmentation of access by SDR 26.64 million (40 percent of quota). Despite the weaker economy, performance under the ECF-supported program was broadly satisfactory in the first half of 2015, with four of the six Performance Criteria (PC) met, and progress on the structural reform agenda in line with the program objectives. The PC on the accumulation of domestic payments arrears by the government was missed despite expenditure commitments being held below budget, as revenues significantly underperformed in the face of the two large external shocks and some delays in planned bond issuance on the regional markets. In addition, the continuous PC on contracting or guaranteeing new non-concessional loans was missed as the restructuring operation with Glencore technically constitutes new borrowing under program definitions.

**Staff views:** Staff supports the completion of the second review under the ECF arrangement, the waivers of non-observance for the performance criteria on contracting of non-concessional external debt and non-accumulation of domestic payment arrears—on the basis of a minor deviation and corrective actions taken, respectively—and the modification of performance criteria. The Fund arrangement remains instrumental to catalyze donor support required to address Chad's protracted balance of payments needs. Completion of the second review will result in the disbursement of an amount equivalent to SDR 20.65 million.

Approved By  
**David Robinson and  
 Mark Flanagan**

Discussions took place in N'Djamena (September 16–24). The staff team comprised Messrs. Villafuerte (Head), Kwalingana, Léost (all AFR), Nachega (Resident Representative), and Mr. Topeur (local Economist). Mr. Raghani (Alternate Executive Director) and Mr. Nguema Affane (Advisor to the Executive Director) participated in these discussions. The mission met with the Prime Minister, Mr. Kalzeubé Pahimi Deubet, the Minister of Finance and Budget, Mr. Ngarlenan Docdjengar, the Minister for Infrastructure and Transport, Mr. Adoum Younousmi, the Minister of Planning and International Cooperation, Ms. Mariam Mahamat Nour, the Minister of Urbanism and Housing, Mr. Gata Ngoulou, the Minister of Petroleum and Energy, Mr. Djerassem Le Bémadjiel, the Secretary General of the Presidency, Mr. Bedoumra Kordjé, the National Director of the BEAC, Mr. Mahamat Allamine Bourma Treye, officials from Consortium Esso, SHT, Glencore, CNPC and Ecobank, technical and financial partners of Chad, as well as other senior government officials.

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## BACKGROUND

1. **The security situation has deteriorated in recent months, further disrupting economic activity and adding to fiscal pressures.** The terrorism threat has steadily increased since Chad's security forces assumed a key role in the regional fight against Boko Haram in early 2015. In June and July, suicide bomb attacks in N'Djamena (the first ever in Chad's capital) killed close to 50 people. Since then, several suicide bombings have occurred outside the capital, notably in the Lake Chad region, resulting in dozens of deaths among the civilian population. Chad is also facing the cost of inflows of refugees and displaced populations (Box 1). The security concerns are disrupting transportation systems and cross-border flows with Cameroon and Nigeria, with a consequent negative impact on Chad's economic activity and non-oil fiscal revenues.

### Box 1. Impact of Inflows of Refugees, "retournés", and Internally Displaced Populations

**Origins and length of conflicts:** Chad is a destination country for refugees as a result of longstanding and recent conflicts in several neighboring countries, notably South Sudan, Central African Republic, and Nigeria. The Office of the United Nations High Commissioner for Refugees (UNHCR), estimates that the refugee population in Chad increased for the 13<sup>th</sup> consecutive year in 2014, exceeding 500,000 people. When adding internally displaced persons and "retournés" (Chadian nationals who have fled from neighboring countries where they were established), the country is presently hosting a total of around 750,000 displaced persons.

**Economic impact:** the direct economic impact of hosting refugees is difficult to assess, in particular its fiscal costs. Most expenses are extra-budgetary and financed by international partners and NGOs. That said, the government is supporting efforts to seek alternatives to camps, granting some refugees access to arable land, and allowing them to settle in host communities and access basic community services, which entails fiscal costs. In addition, the security situation leading to the inflow of refugees has an adverse impact on economic activity and domestic prices' volatility.

**Donor assistance:** the UNHCR budget for Chad is between US\$150–200 million per year. Humanitarian aid from the European Commission is between € 40–50 million per year, with a significant part of this to meet the urgent needs arising from the protracted refugee crisis and the recent influx of refugees and returnees from Nigeria and Central African Republic. Numerous other international and bilateral partners are also present in Chad providing direct financial and logistical assistance.

2. **Chad is entering into a busy political period.** General elections are to take place in 2016, with Presidential elections by next June. Preparations toward the elections have started, including through a commitment to distribute electoral biometric cards before end-February 2016.

3. **On April 27, 2015, the Executive Board completed the first review under the ECF arrangement,** as well as the authorities' request for an augmentation of access by SDR 26.64 million (40 percent of quota). Completion of the review enabled the disbursement of SDR 19.97 million (about US\$27.7 million), including SDR 6.66 million (about US\$9.2 million) from the augmentation, bringing total disbursements under the arrangement so far to SDR 33.28 million (about US\$46.2 million). The Executive Board also determined that Chad had made satisfactory progress in meeting the requirements to reach the completion point under the HIPC Initiative, with the Executive Board of the World Bank reaching the same determination on April 29, 2015.

4. **Following the achievement of the HIPC completion point in late April, Chad has been able to secure close to US\$756 million in debt relief, but new financing flows have been limited.** This amount includes MDRI relief from International Development Association (IDA) and African Development Bank (AfDB), forgiveness from the IMF and a hundred percent cancellation from the Paris Club.<sup>1</sup> Regarding non-Paris Club members, the authorities have signed a new agreement with the Saudi authorities which reschedules their remaining amount on IDA comparable terms. In addition, while the execution of donor-financed investment projects has picked up in the first half of 2015 relative to previous years, most traditional development partners (including the World Bank, the European Union, and the African Development Bank) are constrained by their own medium-term program budgets so that budget support should only gradually pick up.

## RECENT ECONOMIC DEVELOPMENTS

*The sharp and persistent decline in international oil prices and elevated regional security threats are having a severe impact on the economy, leading to weaker macroeconomic outcomes than envisaged.*

5. **GDP growth is significantly weaker than earlier envisaged.** Despite the absence of quarterly national accounts statistics and very limited leading indicators of economic activity, there are signals that GDP growth is slowing significantly, from an estimated 6.9 percent in 2014 to less than 4 percent in 2015. The sharper than anticipated slowdown is largely due to the non-oil sector, forecast to contract by about 1.5 percent (against a 2.1 percent growth envisaged under the program and compared to 7.1 percent growth in 2014). Indeed, while the agricultural sector (in particular cotton and cereals) has evolved as originally expected, both secondary and tertiary sectors are contracting due to the deterioration of security conditions and disruptions to cross-border flows, the sharp adjustment to fiscal spending, and the accumulation of domestic payment arrears earlier this year.

6. **The disruptions to cross-border trade flows with Cameroon and Nigeria have also led to increased volatility and upward pressures on domestic prices.** Prices have been quite volatile since the start of the year, in particular those of food items (46 percent of the CPI). After reaching a three-year high in August (7.2 percent year-on-year), inflation fell to 3.8 percent year-on-year in September. The annual average inflation rate increased to 4.3 percent in September 2015, compared to 1.7 percent in 2014.

7. **Through end-June 2015, expenditure performance was in line with the revised budget but overall fiscal performance was affected by underperformance in fiscal revenues.** Revenues amounted to CFAF 261 billion as of end-June, compared to a projection of CFAF 366 billion, i.e., a 28 percent shortfall (49 percent for oil revenue and 18 percent for non-oil revenue). Preliminary estimates through end-September imply a slight pick-up in non-oil revenue performance, with collections at 75 percent of the annual target. Taking into account seasonality, this outcome

<sup>1</sup> IDA MDRA: US\$509 million; AfDB MDRI: US\$160.9 million; IMF: US\$23.9 million; Paris Club: US\$62.6 million.



suggests that the annual target is achievable and could be exceeded. Execution of domestically-financed spending by end-August represented slightly more than 60 percent of the annual allocation under the 2015 budget approved last April.

8. **Growth in broad money has decelerated sharply this year, but credit to the economy is still growing significantly.** After a strong expansion in 2014 (26.5 percent), broad money grew by only 0.7 percent year-on-year as of end-August. By contrast, and despite the economic downturn, credit to the private sector (which represents only 10 percent of non-oil GDP) was still growing by 20 percent over the same period (37.8 percent in 2014), in part due to the recourse to bank financing from companies awaiting the settlement of their bills by the government. The health of the banking system is impacted by the economic situation and the incurrence of arrears, with non-performing loans rising from 12.7 percent to 14.5 percent of total loans over the 12 months up to July 2015.

9. **Government deposits at the regional central bank (BEAC) have remained at relatively low levels.** At CFAF 93 billion at end-August, they were CFAF 17 billion (around US\$30 million) lower than at the end of 2014. They increased temporarily to CFAF 140 billion as of end-September on account of advances granted by BEAC (see ¶ 21 below). The level of pooled international reserves imputed to Chad<sup>2</sup> fell to a 4 year-low in August, at US\$534 million, down from US\$1.08 billion at end-2014. The external account deficit, which widened to 8.9 percent of GDP in 2014, is projected at 11 percent of GDP this year on account of a further decline in oil prices.

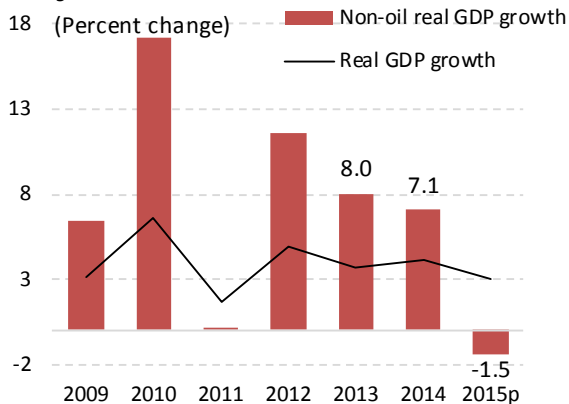
10. **A rescheduling agreement for the repayment of oil sales' advances was signed in late November providing for an extension of maturities broadly in line with program assumptions.** The agreement consolidates the remaining balance of the two loans (oil sales' advances) with Glencore, extends its maturity from 4 years to 5–6 years (depending on oil export volumes and prices). During 2015, prior to the signing of the agreement, an informal understanding was implemented limiting amortizations due to the residual value of oil export cargos (i.e., after deducting transport fees, interests, and the national oil company's cash call contributions to the Esso's consortium), implying a reduction in debt service this year of about CFAF 240 billion, broadly in line with the program's assumptions. The rescheduling agreement implies an increase in the original debt's net present value—and therefore requires a waiver for the zero ceiling on the contracting or guaranteeing of new non-concessional borrowing—but substantially improves Chad's debt service profile over the medium-term by matching debt service to the anticipated path of oil receipts.

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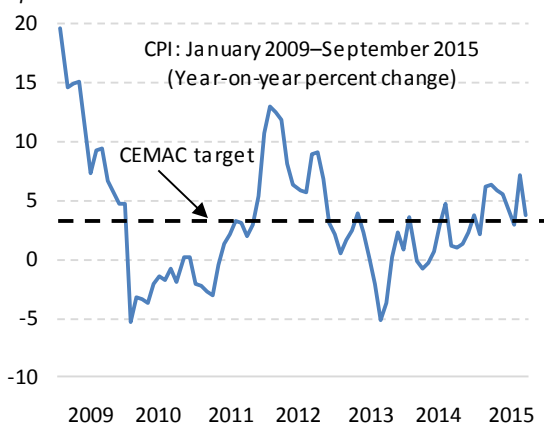
<sup>2</sup> The BEAC centralizes international reserves of the *Communauté économique et monétaire des Etats de l'Afrique centrale* (CEMAC) member States. The individual countries' level of international reserves (imputed reserves) is calculated on the basis of the cumulative amount of international reserves at BEAC.

**Figure 1. Chad: Recent Economic Developments, 2009–15**

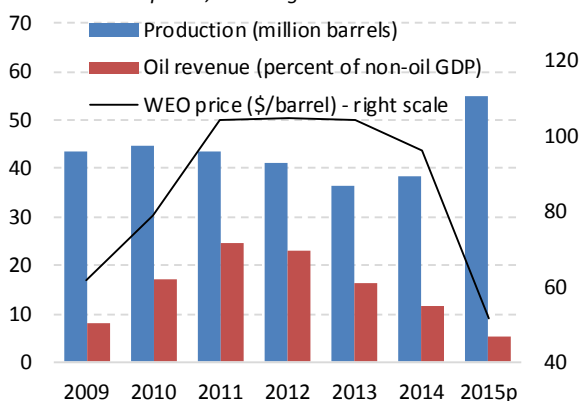
*Despite strong oil GDP, oil price and security shocks have negatively affected non-oil activity, leading to lower overall GDP growth...*



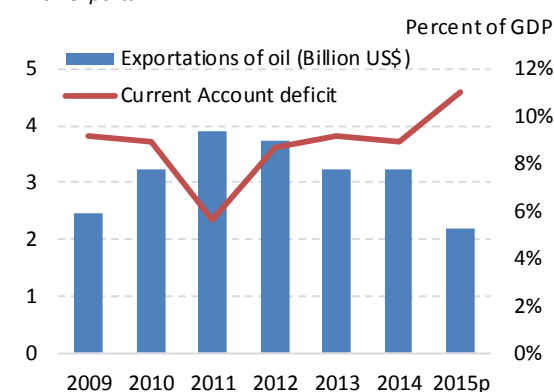
*...and high volatility and upward pressures on domestic prices*



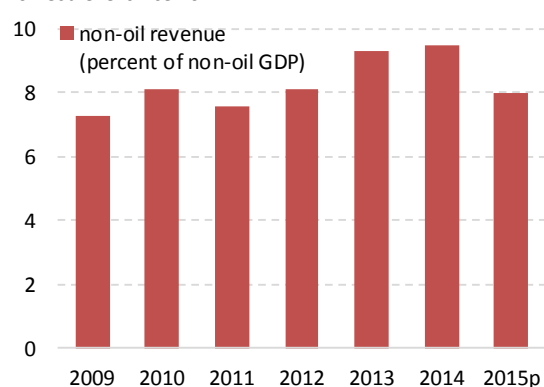
*The increase in oil production is more than offset by the decline in oil prices, resulting in much lower oil revenue*



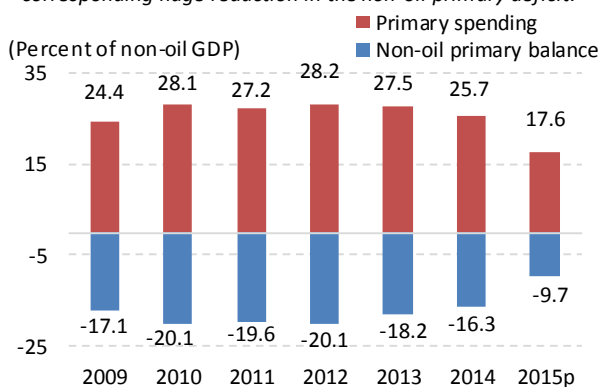
*The external accounts are impacted by the decrease in oil exports*



*Non-oil revenue will fall to 8 percent of non-oil GDP, its lowest level since 2011*



*Primary spending has been sharply adjusted, with a corresponding huge reduction in the non-oil primary deficit.*



Sources: Chadian authorities; and IMF staff estimates.

## PROGRAM PERFORMANCE IN 2015

*Despite the weaker economy, performance under the ECF-supported program was broadly satisfactory in the first half of 2015, with all but two PCs met and progress on the structural agenda in line with the program objectives.*

11. **The non-oil primary deficit (NOPD) target for June was met with a margin.** The NOPD was CFA27 billion lower than the program ceiling and represented about 4.2 percent of annual non-oil GDP, a massive adjustment of around 4.3 percent of non-oil GDP relative to the first half of 2014. The end-June target was achieved despite an underperformance in non-oil revenue of 0.8 percent of non-oil GDP relative to program projections, by holding total primary spending about 1.3 percent of non-oil GDP below targets. While the payment of wages and salaries was in line with its annual provision, outlays on domestically-financed investment and transfers represented only about 40 percent of the annual allocation.
12. **The target for poverty-reducing social spending was met.** Spending on primary and secondary education, health, community-organized development, water and sanitation, agriculture, and rural development exceeded the end-June target of CFAF 135 billion by reaching CFAF 145 billion. This is an important achievement in the context of the strong fiscal adjustment and considering that this target was missed throughout 2014.
13. **The zero ceiling on the accumulation of new external payment arrears was met, but the limit on contracting or guaranteeing of non-concessional loans was missed.** As discussed in ¶ 10 above, the rescheduling of oil sales advances with Glencore leads to a non-observance of the PC on non-concessional borrowing requiring a waiver on account of it being minor.
14. **The ceiling on net domestic government financing was met with a large margin (CFAF 40 billion, or 0.7 percent of non-oil GDP).** This largely emanated from delays in the issuance of domestic debt as the Treasury sought to resolve the technical and operational requirements for accessing the regional financial markets—in the first half of the year, the authorities managed a net issuance of CFA25.6 billion compared to CFA50 billion assumed in the program.
15. **The ceiling on the non-accumulation of domestic arrears was breached by CFAF 185 billion, or 3.5 percent of non-oil GDP.** The increase in the stock of arrears (mostly related to investment in infrastructures and transfers) resulted from the underperformance of budgetary revenue and the delays in issuing debt in the regional market, while expenditure commitments were held below budgeted levels. The authorities are requesting a waiver for the non-observance of this PC considering that corrective actions in terms of additional fiscal adjustment and improved cash management have been taken that are expected to result in the clearance of all arrears accrued during the year by the end of 2015 (MEFP, ¶ 9).

16. **The structural reform agenda remains on track and the end-June structural benchmark on oil revenue transparency was met.** As planned, a decree formally establishing an inter-ministerial structure in charge of consolidating and reporting all the information related to fiscal oil revenues, was signed by the Prime Minister on June 30, 2015 (MEFP, ¶ 10). Furthermore, the use of emergency spending procedures (excluding wages, debt service and security) in the first half of the year was limited to 5.5 percent of domestically financed spending over the same period, compared with the objective to limit them to no more than 9 percent for the full year 2015.

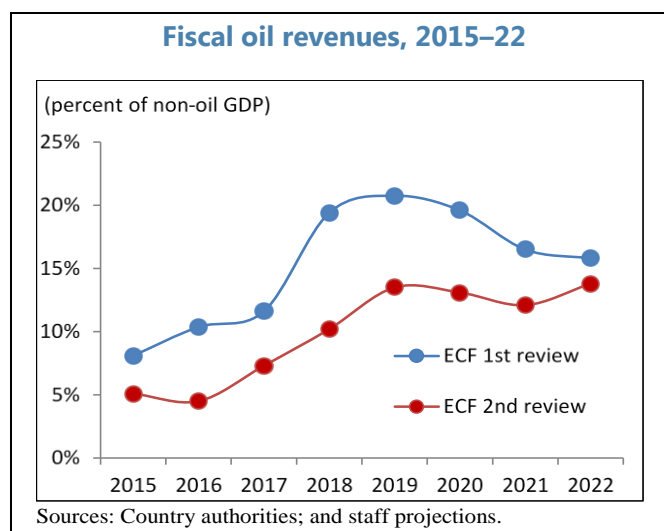
17. **Several reforms have been implemented in line with the budget support operations from the World Bank and other donors** (MEFP, ¶ 23). They include the adoption of a new procurement code and of a revised general code of taxes and tax procedures, validation of the recent census of enterprises held by the National Institute of Statistics (measure linked to the end-December structural benchmark on updating and expanding the taxpayers' database), and adoption of the framework for the issuance of a "citizen's budget" (a nontechnical and short document aimed at the general population to help them better understand the budget's priorities and main spending items) with the 2016 budget.

## POLICY DISCUSSIONS FOR THE REST OF THE PROGRAM

*The macroeconomic outlook for the rest of 2015 and for 2016 has been revised to take into account the impact of more permanent oil revenue and security shocks. The authorities' policy response has been strong, including a substantial fiscal adjustment anchored on the reduction of domestically-financed spending, together with the mobilization of domestic and external financing to smooth the adjustment in anticipation of a recovery in oil revenue by 2018.*

### A. Medium-term Macroeconomic Framework

18. **The further decline in spot and futures' oil prices since the last review has weakened the economic outlook.** Fiscal oil revenues are still expected to jump over the medium-term as the recovery in oil prices is expected to be accompanied by production increases and the start of income tax payments from the newer oil fields. However, the latest WEO assumptions imply a much lower revenue path: an average of 12.5 percent of non-oil GDP over 2018–22, close to 6 percent of nonoil GDP lower than envisaged at the time of the first review of the ECF arrangement (Figure). Preserving fiscal and debt sustainability will thus require



additional adjustment, but given the large expenditure compression already undertaken, access to some additional financing is justified over the next couple of years to help smooth spending and limit potential adverse effects on non-oil economic activity. In this context, a fiscal strategy with the NOPD falling from 16.3 percent of non-oil GDP in 2014 to 7.1 percent of non-oil GDP in 2017 (with underlying fiscal adjustments of about 1.3 percent of non-oil GDP per year over 2016-17) and increasing to 10.1 percent of non-oil GDP by 2019 (with oil revenue increasing by more than 6-percent of non-oil GDP between 2017 and 2019) is projected to ensure a sustained reduction in public debt ratios and the accumulation of some fiscal buffers.

19. **Non-oil GDP growth is projected to decelerate sharply, reflecting the deterioration of security conditions and fiscal expenditure cuts.** Having grown by 7.1 percent in 2014, non-oil GDP is now projected to contract by 1.5 percent in 2015 (versus an original projection of 2.1 percent growth), taking into account the impact of public investment spending cuts on the construction sector, further exacerbated by the accumulation of domestic arrears largely concentrated in this sector, as well as the impact of the worsening security conditions on commerce and transportation sectors. The rebound would be gradual in 2016 and beyond based on prudent forecasts for sectors closely linked to government's expenditures (e.g., construction and commerce) and trend real growth in agriculture of 4 percent per year. Still, there are downside risks in the agriculture sector—which accounts for one third of non-oil GDP—and in the construction and services sector.

<b>Medium-Term Projections</b>								
(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)	2.1	<b>-1.5</b>	4.4	<b>1.9</b>	4.9	<b>3.1</b>	4.9	<b>3.8</b>
Current account balance (percent of GDP)	-10.0	<b>-11.0</b>	-8.7	<b>-7.8</b>	-5.8	<b>-8.0</b>	-3.2	<b>-4.1</b>
Government revenue	21.5	<b>16.7</b>	23.5	<b>17.1</b>	25.2	<b>19.4</b>	33.4	<b>22.8</b>
Overall fiscal balance (cash basis)	-2.7	<b>-7.2</b>	-0.5	<b>-6.3</b>	0.1	<b>-2.8</b>	4.3	<b>-1.7</b>
Non-oil primary fiscal balance (commitment basis)	-8.4	<b>-9.7</b>	-7.4	<b>-10.1</b>	-8.0	<b>-7.1</b>	-12.2	<b>-8.0</b>
Chadian crude oil price (US\$ per barrel)	51.5	<b>44.9</b>	59.9	<b>46.6</b>	64.0	<b>51.9</b>	66.5	<b>56.0</b>

Sources: Country authorities; and Staff projections.

## B. Fiscal Policy for the Remainder of 2015

20. **The worsening external shocks have created additional financing needs of CFAF 313 billion (5.9 percent of non-oil GDP) compared to the 2015 revised budget (LFR)** through revenue weakness and security spending pressures. The revenue shortfall for 2015 is estimated at CFAF 273 billion, with about 60 percent of this amount stemming from lower oil revenue than envisaged in the LFR (chart below) and a significant underperformance of non-oil revenue reflecting the growth slowdown and disruption in trade. In addition, security spending had to be increased by CFAF 40 billion (0.8 percent of non-oil GDP).

**21. The authorities are implementing a financing/adjustment mix strategy, consistent with the clearance of arrears accrued during the first half of the year:**

- BEAC is the main source of additional financing. At end–August, the regional central bank approved the disbursement to Chad of CFAF 92.6 billion in statutory advances. On top of this, its Executive Board approved on September 28 an additional “exceptional advance” of CFAF 140 billion to Chad.<sup>3</sup> These advances are designed to be a one–off source of financing, and provide a “bridge” toward the revised medium–term fiscal path. They have a maturity of 10 years, a grace period of 3 years, and an interest rate equivalent to BEAC’s rediscount rate. Their amortization schedule will therefore coincide with the projected recovery in oil revenue in 2018–22. A portion of these advances will be used to increase the level of government deposits to around 2 months of domestically–financed spending and to cover financing needs in 2016.
- Additional spending cuts of CFAF 90 billion (1.7 percent of non–oil GDP) relative to the revised 2015 budget will be implemented by limiting commitments during the remainder of the year. It should principally affect transfers and subsidies (excluding in the education, health, and security sectors), but there is also some margin of maneuver in public investment given the low level of spending execution in the first half of the year. Cuts in transfers and subsidies to public entities are being implemented on the basis of an audit conducted by the ministry of finance earlier this year.
- Net domestic financing will be increased by CFAF 38 billion, mainly thanks to the placement of government securities in the regional market that will be stepped up by CFAF 30 billion. Though ambitious, this is in line with current trends in the issuance of Treasury bills and Treasury bonds, which have gained traction among institutional investors at the same time as the Treasury has developed institutional expertise (Box 2).

**Chad. Additional financing requirements and sources of funding for 2015**

	CFAF billion	In percent of non-oil GDP
<b>I. Total financing requirements, net</b>	<b>313</b>	<b>5.9</b>
Reduction in non-oil revenue	111	2.1
Reduction in oil revenue	163	3.1
Increase in security expenditure	40	0.8
<b>II. Sources of financing</b>	<b>313</b>	<b>5.9</b>
Expenditure adjustment	90	1.7
Increase in domestic financing	38	0.7
Statutory advances (BEAC)	93	1.7
Extraordinary advances (BEAC)	140	2.6
Increase in government deposits	-47	-0.9
<b>III. Residual financing gap</b>	<b>0</b>	<b>0.0</b>

Sources: Chadian authorities; and staff estimates.

**22. The planned Fund disbursement under the ECF arrangement will close the residual financing gap.** The Fund disbursement remains crucial to complement the authorities’ fiscal

<sup>3</sup> The exceptional nature of the advance was justified by the BEAC on the basis of the security challenges faced by the region and Chad in particular. The BEAC’s Board made it conditional on the presence of a Fund–supported program during 2015–16. BEAC’s (expanded) balance sheet remains sustainable; in particular, although CEMAC reserves have fallen, they are at 4 months of imports as of end-September. The exceptional advance to Chad is equivalent to 2.2 percent of the CEMAC’s pooled reserves.

adjustment efforts, to help maintain government deposits at adequate levels, and to catalyze further budget support from other international partners in 2016 by helping to set a consistent and sustainable macroeconomic framework anchoring their financial operations. While monetary financing of fiscal deficits is undesirable in that it can, if continued, undermine the sustainability of the currency union arrangement, further compression of expenditures—domestically financed primary spending is now targeted to be 30 percent in nominal terms below the level of 2014—could endanger the government’s ability to deliver essential public services.

### Box 2. Chad’s Issuances in the CEMAC Regional Public Securities’ Market

**Although the CEMAC market for public securities was formally established in 2008, Chad first accessed the market only in 2014.** Until then, the authorities used to directly negotiate financing from regional commercial banks, including in two recent large bond issuances (CFAF 107 billion in 2011, and CFAF 85 billion in 2013). Chad placed its first ever Treasury bills in regional markets in the last quarter of 2014, followed by the introduction of Treasury bonds in 2015.

**Building on the success of first issuances in late 2014, the authorities set an ambitious program for 2015 that has been revised upwards.** The 2015 budget envisaged the gross issuance of CFAF 160 billion in Treasury bills and Treasury bonds. This target was then revised upwards, in line with program understandings, with a new objective of CFAF140 billion in net placements:

- Treasury bills have been issued regularly, with a gradual extension of maturities. In the first half of 2015, five 6-month Treasury bills’ issuances totaled CFAF56 billion at an average annualized interest rate of 3.03 percent. On September 2, 2015, Chad started to issue one year–Treasury bills, placing a total of CFAF 56 billion in those securities by end-November.
- Treasury bonds’ issuances started only in the second half of this year. Close to CFAF110 billion in 2– and 5–year bonds were issued between the end of July and the end of October 2015 at an average interest rate of 4.2 percent.
- By end-November, the Chadian authorities have realized more than CFAF 150 billion in net security placements for 2015. With an additional Treasury bond issuance planned for December, reaching a net placement of CFAF 160-170 billion appears feasible, in line with the financing contemplated under this Review.

**To strengthen its presence in this market,** Chad should improve the planning of issuances, taking into account the securities due to mature and integrating it into a cash management plan. This also requires better communication and strengthening the network of primary dealers. This also involves improvements at the regional level, including the development of a secondary market.

## C. Fiscal Policy for 2016

23. **The draft 2016 budget submitted to the National Assembly foresees a slight increase in the non–oil primary deficit, largely due to one–off election–related and security spending.** The draft budget is based on conservative oil price assumptions (a Brent benchmark of US\$42 per barrel) and a recovery in non–oil revenue by 0.6 percent of non–oil GDP relative to 2015 (see ¶ 31). On that basis, domestically–financed spending is projected to slightly increase in 2016, largely reflecting one–off election–related and security-related (i.e., military equipment) spending that will account for about 1.9 percent of non–oil GDP. As a result, the NOPD is projected to increase to 10.1 percent of non–oil GDP, from 9.7 percent in 2015. However, abstracting from these one–off items, the underlying NOPD will decline to 8.3 percent of non–oil GDP. The share of social spending on (underlying) domestically–financed spending will increase slightly in 2016. Consistent with the Constitution, the 2016 budget is expected to be adopted by end-2015; the draft budget was submitted to the National Assembly on October 22, 2015.



24. **The draft 2016 budget is underpinned by an emergency action plan that was discussed with various stakeholders in October** (MEFP, ¶ 14). The main element of the emergency action plan is the rationalization of transfers and subsidies. Continued implementation of the recommendations of the audit on transfers and subsidies to public entities (¶ 21) will lead to full-year savings in 2016. The fall in fuel prices also helps to reduce transfers to the electricity company as it relies on fuel imports. An additional audit, with support from the AfDB, will focus on the effectiveness of government equity stakes in various parastatals, and is expected to lead to their rationalization in the medium term. Also, the government intends to expand the payment of wages through the banking system after further validation of government personnel. On the revenue side, the focus will be on streamlining tax exemptions and incentives, reforming and simplifying real estate taxation, reducing tax and customs administrations' procedures, and expanding the coverage of the informal sector within the tax network. The clearance of the arrears accrued in the early part of 2015 should also help regularize the financial situation of key taxpayers going forward.

25. **Exceptional receipts from the sale of equity participation in oil sector fields are expected to be an important financing source for the 2016 budget.** The government intends to sell its 10 percent equity stake in fields operated by CNPC, part of which was obtained as compensation from last year's environmental fine. The draft 2016 budget envisages about 5.5 percent of non-oil GDP in receipts out of that transaction. Given the size of the transaction and uncertainty about the timing of associated payments, the authorities have scheduled a prudent phasing of expenditures and identified a contingency plan for shortfalls in anticipated receipts reflected in a quarterly cash flow.<sup>4</sup> The contingency plan includes a set of investment projects that would be delayed until exceptional receipts become available. In addition, the baseline scenario envisages limited resort to the issuance of securities in regional markets in 2016, which gives scope for additional financing if required to smooth expenditure adjustment under the contingency plan.

26. **The 2016 financing envelope includes also donor budget support and continued access to the regional financial market.** The government plans a net placement of securities on the regional market in an amount equivalent to about CFAF 93 billion (1.7 percent of non-oil GDP). While precise budget support commitments from other international partners (the World Bank, the AfDB, the EU) will only be finalized in coming months (after disbursement of the 2015 support), initial indications from these institutions are consistent with CFAF 40 billion to be disbursed in the latter part of 2016, compared to total disbursements of CFAF 71 billion in 2015.

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<sup>4</sup> The expenditure envelope in the program assumes that the receipt of total proceeds from exceptional sources during 2016 is spread equally over the first three quarters of the year. Consistent with the program adjuster, any shortfall in exceptional proceeds plus oil revenue and privatization proceeds will be partly offset by a contraction in the NOPD (by one half of the shortfall in the first half of 2016 and by three quarters in the remainder of the year). In the event of a large shortfall, the necessary expenditure compression would be adopted in a revised budget.



## D. Structural Reforms

27. **The structural reform agenda remains focused on improving public financial management in the areas of treasury management and expenditure control.** Institutional capacity is limited however, and the ambitiousness of the agenda is constrained by the reduction in technical assistance missions due to the security situation.

28. **Public financial management (PFM) systems should be further strengthened over the medium term.** The government has made significant progress in transposing the CEMAC PFM directives. In addition, budget reporting has improved recently, including through the publication of quarterly budget execution reports. Next steps include enhancing cash management, which has been passive with liquidity shortages managed in an ad-hoc manner. While the establishment of a Treasury single account is a medium-term objective, the authorities have made progress in identifying all existing public accounts at the banking system with a view to streamlining them. Furthermore, the organization of cash management planning and monitoring will be strengthened with a view to generate Treasury plans (MEFP, ¶ 27). The setup of a permanent structure for cash flow forecasting and management is a structural benchmark under the program for end-June 2016. In terms of budget execution, the authorities intend to continue to rein in the usage of emergency spending procedures (DAOs) and ensure their systematic regularization, and improve the management of public investments. FAD will field a PFM TA mission in December to continue work in these areas.

29. **With tax rates bound by regional CEMAC agreements, strengthening tax and customs administrations will be critical in attaining the government's revenue objectives (MEFP, ¶ 28).** The authorities' strategy focuses on preserving the revenue base and minimizing the impact of the crisis on tax compliance. Efforts in that area will be supported by the recently rolled-out Integrated System for Administration of Taxes (SIGTAS), which intends to be extended to litigation procedures, control, and interface with banks. Based on the census on companies recently carried out by INSEED, the database of business taxpayers is currently being widened. This is a structural benchmark under the program for end-December 2015. More recently, the government made changes to the top management of tax and customs directorates with a view to improve non-oil revenue collections. In addition, a convention with BIVAC-Veritas has been signed for the establishment of a single-window at customs. Those measures are expected to substantially increase customs revenue in the short- and medium-terms.

30. **Continued progress in improving transparency on oil revenue remains essential (MEFP, ¶ 24).** Following the establishment of an inter-ministerial structure in charge of consolidating and reporting fiscal oil revenue, information on oil revenue has been incorporated in the September quarterly budget execution report (end-September structural benchmark). In 2016, the authorities intend to further enhance the dissemination of information on oil revenues in the form of a note published regularly by the inter-ministerial committee, which will include information on production trends, cargoes exported, discount on Chadian barrel compared to the price of Brent, oil revenues and their breakdown, as well as information on deductions to gross oil revenue flows (i.e.,

repayment of oil sales' advances, cash calls payments to the ESSO consortium). This is a structural benchmark for end-June 2016. An upcoming FAD TA mission on oil revenue forecasting should help identify needed improvements in this area.

31. **Stronger debt management, including for the recording and monitoring of public debt, is crucial for maintaining fiscal sustainability.** The continuous and effective functioning of recently revamped inter-ministerial debt coordination units (CONAD and ETAVID) will be key in this regard. An annual debt management report will be produced, with the first report to be completed by end-June 2016 (MEFP, ¶ 26, structural benchmark). In addition, consistent with the new Debt Limits Policy, the government will draft a medium-term external borrowing plan, including the share of financing destined to investment projects, and the sources of and terms of financing. Meanwhile, a summary of the government's external borrowing program is shown in Table 10. The government is planning to review contracted debts that have not yet been disbursed. Furthermore, in line with AFRITAC Central's technical assistance recommendations, institutional responsibilities in the management of spending arrears are more clearly defined to ensure that only authorized unpaid commitments become formalized as domestic debt.

32. **The authorities continue to make progress in implementing their poverty reduction strategy.** The implementation report of the National Development Plan (PND 2013–2015) for 2014 was finalized in July and shared with all stakeholders. Despite the very difficult economic background, 84 percent of the national development indicators were met. A 2030 strategy aimed at attaining emerging market status is under development, supported by a series of 5-year plans (the first one covering 2016–20 is being prepared).

## PROGRAM MODALITIES, SAFEGUARDS, AND RISKS

33. **Chad's capacity to repay the Fund remains adequate,** even accounting for the fact that some of Chad's external borrowing is collateralized, as outstanding obligations to the Fund are expected to peak at just 1.1 percent of GDP, with repayments peaking at 0.2 percent of GDP or 1.5 percent of tax revenue in 2023 (Table 12).

34. **Modifications to the performance criteria for end-December 2015 have been proposed** (MEFP, Table 1), taking into account the significant changes in the macroeconomic framework. Performance criteria and indicatives targets have also been proposed for 2016.

35. **An updated DSA, incorporating relief stemming from the HIPC and the recent restructuring of oil sales advances confirms that the projected medium- and long-term fiscal paths are consistent with fiscal and debt sustainability.** With relief provided following the attainment of the HIPC Completion Point being broadly in line with assumptions made in the full-fledged DSA prepared at the time of the ECF's first review, the main revisions to the DSA are the new debt service profile for oil sales' advances and the revised macroeconomic framework. The risk of debt distress remains high, reflecting the continued weakness in oil prices and the heavy dependence on the oil sector for repayment capacity.

36. **Despite the presence of significant risks, staff considers that sufficient financing assurances are in place and that the program is feasible and credible.** Volatile international oil prices and the regional security situation remain the key external sources of risk for the program. In addition, there are domestic risks associated with the implementation of a large fiscal adjustment in an electoral year. The program is based on a strong commitment and policy response by the authorities, with a fiscal strategy designed to bring expenditures in line with a permanently lower revenue envelope and supported by progress on the structural reform agenda to both enhance the efficiency of spending and support the diversification of the economy. The clearance of domestic arrears accrued in 2015 should facilitate the implementation of the program going forward, including by limiting disruption to economic activity and pressures on the financial system. Commercial banks are highly exposed to the public sector and stress tests suggest solvency and liquidity ratios would be vulnerable to credit risks from a persistent oil shock. Regarding those risks, while relatively small, the authorities will need to enhance its monitoring and prepare contingency plans in coordination with regional banking authorities.<sup>5</sup>

## STAFF APPRAISAL

37. **The massive external shocks faced by Chad since the beginning of the current ECF arrangement have been exacerbated in recent months.** Oil prices resumed a downward trend in the second half of 2015, severely affecting Chad's main source of fiscal revenue and foreign exchange. The security situation also deteriorated, disrupting cross-border trade flows and economic activity, and adding to fiscal pressures.

38. **Despite extremely difficult conditions, performance under the ECF-supported program has been broadly satisfactory.** Economic growth has decelerated sharply, with non-oil GDP now forecast to contract by about 1 percent in 2015 on account of difficult security conditions, the sharp adjustment of fiscal spending, but also the accumulation of domestic payment arrears earlier this year. Inflation has been very volatile, particularly of food products, affected by swings in cross-border trade. Still, most performance criteria have been met and the structural reform agenda has progressed in line with program objectives.

39. **The prioritization of the clearance of domestic payment arrears is appropriate, as they have adversely impacted economic activity, the health of the banking system, and non-oil tax collections.** In response to large, unexpected, but mostly permanent revenue shocks, the authorities have complemented some additional fiscal adjustment with the mobilization of significant domestic financing, particularly from BEAC. Monetary financing from BEAC is not optimal from the perspective of the currency union, and should be a "one-off" operation, helping Chad traverse exceptional shocks.

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<sup>5</sup> The institutional capacity of the regional supervisor (COBAC) has strengthened through the doubling of inspectors and the deployment of a new on-line financial reporting tool. This has improved the quality of supervision of banks and large microfinance institutions.

40. **The authorities have reformulated Chad’s medium-term fiscal policy strategy to adjust to the new reality of permanently lower oil receipts.** The draft 2016 budget targets an additional tightening of the underlying fiscal policy stance, i.e., excluding one-off election-related and security spending to be financed by extraordinary receipts. Public consultations have been held to build broad support for a series of measures to streamline transfers and subsidies and protect and expand the non-oil revenue base. The revised fiscal strategy is consistent with maintaining macroeconomic stability and fiscal sustainability over the medium-term.

41. **The fiscal strategy will need to be supported by continued progress in implementing the structural reform program.** The implementation of a large fiscal adjustment in the context of limited and uncertain revenue flows requires increased focus on improving public financial management in the areas of treasury management, public debt monitoring and recording, expenditure control, and cash management. In addition, continued progress in improving transparency on oil revenue is essential to enhance its monitoring and forecasting. Finally, the national development plan under preparation will need to take into account an environment of lower oil revenues and public expenditure levels in identifying inclusive growth strategies supported by an enhanced targeting of public interventions and the promotion of the business environment and non-oil activities. Strengthening of the banking’s system monitoring and regulation frameworks, in coordination with regional authorities, should be part of those strategies.

42. **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 second review and the proposed modifications to performance criteria.** Staff supports the authorities’ request for waivers of the nonobservance of the end-June performance criterion on the accumulation of domestic payment arrears given the strong corrective actions undertaken by the authorities and the continuous performance criterion on the contracting or guaranteeing of non-concessional external debt on the basis that the increase in the original debt’s net present value is minor and more than offset by the substantial improvement in Chad’s debt service profile over the medium-term. Staff also supports the modification of performance criteria for end-December 2015, and performance criteria have been established up to end-June 2016.

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

	2012	2013	2014	2015		2016		2017	2018	2019
			Prel.	Prog. <sup>1</sup>	Rev. Prog.	Prog. <sup>1</sup>	Rev. Prog.		Proj.	
(Annual percentage change, unless otherwise indicated)										
<b>Real economy</b>										
GDP at constant prices	8.9	5.7	6.9	7.6	3.8	4.9	2.5	5.2	5.8	6.0
Oil GDP	-4.0	-7.1	5.7	43.4	37.6	7.0	5.0	15.1	13.9	12.5
Non-oil GDP	11.6	8.0	7.1	2.1	-1.5	4.4	1.9	3.1	3.8	4.2
Consumer price index (annual average)	7.7	0.2	1.7	3.2	4.6	2.9	3.3	3.0	3.0	3.0
Consumer price index (end of year)	2.1	0.9	3.7	2.0	3.7	3.0	3.0	3.0	3.0	3.0
<b>Oil prices</b>										
WEO (US\$/barrel) <sup>2</sup>	105.0	104.1	96.2	58.1	51.6	65.7	50.4	55.4	59.8	62.2
Chadian price (US\$/barrel) <sup>3</sup>	102.0	103.9	98.0	51.5	44.9	59.9	46.6	51.9	56.0	58.1
Oil production (millions of barrels)	41.2	36.3	38.5	57.3	54.8	61.7	57.8	67.3	77.6	87.9
Exchange rate CFA franc per US\$ (period average)	510.2	493.9	493.6	...	...	...	...	...	...	...
<b>Money and credit<sup>4</sup></b>										
Net foreign assets	14.8	-2.6	-1.8	-4.5	-23.8	8.2	6.3	-3.7	4.0	1.9
Net domestic assets	-1.3	11.2	28.2	8.0	26.6	5.9	-2.1	10.6	1.8	6.2
Of which: net claims on central government	-13.1	10.0	18.0	5.6	16.4	0.4	-4.1	0.6	-2.9	-0.3
Of which: credit to private sector	12.9	2.8	17.3	-4.5	1.7	1.0	3.3	3.2	2.6	5.2
Broad money	13.4	8.6	26.5	3.6	2.8	14.1	4.2	6.9	5.8	8.1
Income velocity (non-oil GDP/broad money)	5.6	5.5	4.8	4.8	4.8	4.5	4.8	4.7	4.7	4.7
<b>External sector (valued in CFA francs)</b>										
Exports of goods and services, f.o.b.	-4.1	-8.6	1.4	-16.8	-29.2	21.6	9.6	24.4	22.4	16.8
Imports of goods and services, f.o.b.	3.8	-7.7	9.9	-13.7	-22.1	10.0	1.6	13.9	6.0	5.1
Export volume	-2.9	-13.7	5.6	39.4	33.0	8.6	11.3	14.6	13.7	4.2
Import volume	3.2	-5.7	9.4	-11.1	-19.3	9.5	1.1	13.0	5.1	4.4
Overall balance of payments (percent of GDP)	1.7	-0.2	-1.5	-0.8	-3.4	-0.4	0.3	-0.7	0.2	-0.2
Current account balance, including official transfers (percent of GDP)	-8.7	-9.2	-8.9	-10.0	-11.0	-8.7	-7.8	-8.0	-4.1	-1.3
Terms of trade	-1.8	8.1	-4.4	-38.5	-44.9	11.4	-2.0	7.6	6.8	11.3
External debt (percent of GDP)	20.1	21.2	30.8	25.5	27.2	22.6	23.8	20.7	18.2	15.2
NPV of external debt (percent of exports of goods and services)	39.1	33.5	67.8	74.5	89.1	58.0	73.6	55.1	42.2	31.6
(Percent of non-oil GDP, unless otherwise indicated)										
<b>Government finance</b>										
Revenue and grants	35.0	27.8	23.3	21.5	16.7	23.5	17.1	19.4	22.8	26.5
Of which: non-oil	8.1	9.3	9.5	9.9	8.0	10.6	8.6	9.2	9.7	10.0
Expenditure	34.4	31.4	29.6	23.0	22.5	24.1	23.4	22.4	24.0	26.3
Current	16.5	17.7	16.7	14.4	13.7	13.5	13.7	13.3	13.2	13.0
Capital	17.9	13.7	12.9	8.6	8.8	10.5	9.7	9.1	10.8	13.3
Non-oil primary balance (commitment basis, excl. grants) <sup>5</sup>	-20.1	-18.2	-16.3	-8.4	-9.7	-7.4	-10.1	-7.1	-8.0	-10.1
Overall fiscal balance (incl. grants, commitments basis)	0.7	-3.6	-6.3	-1.5	-5.7	-0.5	-6.3	-3.0	-1.2	0.1
Overall fiscal balance (incl. grants, cash basis)	2.1	-7.1	-5.9	-2.7	-7.2	-0.5	-6.3	-2.8	-1.7	0.5
Total debt (in percent of GDP) <sup>6</sup>	28.2	30.1	38.2	33.2	40.2	30.4	38.4	34.3	30.7	26.1
Of which: domestic debt	8.1	8.9	7.4	7.8	13.0	7.8	14.6	13.6	12.5	10.9
<b>Memorandum items:</b>										
Nominal GDP (billions of CFA francs)	6,314	6,397	6,883	6,962	6,642	7,794	7,003	7,704	8,438	9,293
Of which: non-oil GDP	4,400	4,661	5,150	5,357	5,264	5,796	5,486	5,800	6,134	6,632
Nominal GDP (billions of US\$)	12.4	13.0	13.9	17.6	11.3	13.3	11.9	13.3	14.7	16.3
Of which: non-oil GDP	8.6	9.4	10.4	12.3	8.9	9.9	9.3	10.0	10.7	11.6

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

<sup>1</sup>IMF, Chad-First Review under the ECF Arrangement (EBS/15/123).<sup>2</sup>WEO 2015 Fall Production.<sup>3</sup>Chadian oil price is Brent price minus quality discount.<sup>4</sup>Changes as a percent of broad money stock at the beginning of period.<sup>5</sup>Defined as the total revenue excluding grants and oil revenue, minus total expenditure excluding net interest payments and foreign-financed investment.<sup>6</sup>Central government, including government-guaranteed debt.

**Table 2. Chad: Real GDP per sector, 2012–19**  
(Annual percentage change, unless otherwise indicated)

		2012	2013	2014	2015		2016		2017	2018	2019
	Weight <sup>1</sup>			Prel.	Prog.	Rev. Prog.	Prog.	Rev. Prog.		Proj.	
Primary sector	44	11.8	-2.1	6.4	17.8	15.1	6.1	3.4	8.6	8.7	8.2
Agriculture	12	46.9	2.2	7.9	5.1	4.9	5.0	4.0	4.0	3.9	3.9
Food crops	11	50.6	0.9	8.0	5.0	4.5	5.0	4.0	4.0	4.0	4.0
Industrial crops	1	-1.2	27.9	7.1	6.0	12.0	5.0	3.6	3.5	2.6	3.0
Livestock, Forestry and Fishing	11	1.2	3.4	3.0	2.5	0.5	5.0	2.0	4.0	5.0	5.0
Mining and Quarrying	3	12.1	4.5	10.3	7.0	5.2	6.0	-6.5	3.0	4.0	4.5
Oil and Gas Extraction	19	-6.5	-11.9	6.0	48.9	42.3	7.7	5.5	16.4	15.3	13.3
Secondary sector	12	8.5	20.9	8.1	1.7	-4.2	4.1	2.8	2.7	3.0	3.6
Manufacturing (non petroleum)	1	12.2	26.7	13.2	5.8	-2.5	8.0	1.0	3.0	6.0	5.0
Handicrafts	5	4.3	24.8	11.5	4.0	2.0	5.0	2.5	3.5	4.0	4.5
Utilities	0	14.3	16.1	4.6	4.5	3.5	4.5	3.5	4.0	4.5	4.5
Construction	6	7.7	15.0	4.0	-2.0	-12.5	2.0	3.5	1.5	1.3	2.5
Of which: oil related	2	18.9	75.6	4.4	0.5	1.0	-4.6	-4.8	-3.2	-8.1	-0.7
Refinery	...	79.1	31.2	3.0	4.0	4.0	4.0	4.0	4.0	0.0	0.0
Tertiary sector	41	6.5	9.1	7.1	0.4	-3.3	3.9	1.4	2.6	3.6	4.2
Commerce, transport	22	6.2	8.0	4.9	3.1	-3.8	4.1	1.1	2.6	3.6	4.5
Commerce	20	7.1	7.1	4.5	3.0	-4.5	4.0	1.0	2.5	3.5	4.5
Transport	3	-0.8	15.0	8.0	4.0	1.0	4.5	2.0	3.5	4.0	4.5
General government	7	4.2	6.8	4.2	-12.0	-12.5	2.5	1.0	2.5	3.8	3.8
Other	12	8.1	12.0	12.0	1.0	1.0	4.0	2.0	2.5	3.5	4.0
Duties and taxes on imports	2	3.5	4.7	4.7	4.7	-5.7	4.7	1.0	2.0	3.0	4.0
Total GDP (market prices)	100	8.9	5.7	6.9	7.6	3.8	4.9	2.5	5.2	5.8	6.0
Oil GDP (including investment)	20	-4.0	-7.1	5.7	43.4	37.6	7.0	5.0	15.1	13.9	12.5
Non-oil GDP	80	11.6	8.0	7.1	2.1	-1.5	4.4	1.9	3.1	3.8	4.2

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

<sup>1</sup> Average share of 2005–10 GDP.

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

(In billions of CFAF, unless otherwise indicated)

	2012	2013	2014		2015			2016			2017	2018	2019
			Prel.	Prog. <sup>1</sup>	Jun-15	Rev. Prog.	Prog. <sup>1</sup>	PLF <sup>7</sup>	Rev. Prog.	Proj.			
Total revenue and grants	1,542	1,294	1,202	1,152	321	881	1,364	955	938	1,124	1,400	1,755	
Revenue	1,375	1,182	1,094	962	261	691	1,216	736	720	953	1,218	1,559	
Oil	1,020	749	607	432	52	270	601	266	250	421	626	893	
Non-oil	355	433	487	530	209	420	615	470	470	532	593	666	
Tax	339	420	464	506	195	400	583	435	435	491	543	609	
Non-tax	16	13	23	24	14	20	32	35	35	41	50	57	
Grants	167	113	107	190	60	190	148	219	219	172	182	196	
Budget support	0	5	0	53	0	53	0	40	40	0	0	0	
Project grants	167	108	107	137	60	137	148	179	179	172	182	196	
Expenditure	1,512	1,464	1,525	1,232	516	1,182	1,395	1,283	1,283	1,300	1,475	1,747	
Current	726	823	861	770	343	720	784	689	749	770	811	864	
Wages and salaries	283	333	341	370	181	370	371	376	376	383	386	411	
Goods and services	123	136	147	67	37	67	99	70	70	89	92	99	
Transfers and subsidies	291	320	327	289	121	239	258	204	264	220	270	292	
Interest	28	34	46	44	4	44	57	39	39	78	63	62	
Domestic	16	10	24	21	1	21	28	20	20	41	41	40	
External	12	24	22	23	4	23	29	19	19	37	22	22	
Investment	787	641	664	462	173	462	611	593	533	530	663	883	
Domestically financed	543	491	510	255	91	255	319	373	313	249	337	531	
Foreign financed	243	149	154	207	81	207	293	220	220	281	326	352	
Overall balance (incl. grants, commitment)	30	-169	-323	-80	-195	-302	-31	-328	-344	-176	-75	8	
Non-oil primary balance (excl. grants, commitment) <sup>2</sup>	-886	-848	-838	-451	-221	-511	-431	-553	-553	-410	-493	-667	
Change in balances payable <sup>3</sup>	-109	-231	-135	-181	184	-181	-115	-105	-105	-105	-119	-87	
Float <sup>4</sup>	117	91	181	115	-76	105	116	105	105	119	87	115	
Overall balance (incl. grants, cash)	94	-330	-306	-146	-87	-378	-30	-328	-344	-162	-106	36	
Financing	-94	330	306	147	87	378	30	328	344	105	86	-36	
Domestic financing	-137	101	430	119	69	399	40	354	357	47	-6	-54	
Bank financing	-115	55	185	93	67	279	30	26	42	28	-16	-62	
Central Bank (BEAC)	-91	59	109	33	44	219	-17	26	26	18	-16	-62	
Deposits	-68	60	104	0	27	-47	-22	0	0	0	-16	-20	
Advances (net)	-21	0	-4	0	0	233	0	0	0	0	0	-42	
IMF (disbursement)	-2	-1	9	33	17	34	26	26	26	18	0	0	
Commercial banks	-24	-3	76	60	23	60	47	0	16	10	0	0	
Non-bank financing (net)	-25	45	-32	-35	-10	80	10	-2	15	19	9	7	
Privatization and other exceptional receipts <sup>5</sup>	3	0	277	60	12	40	0	330	300	0	0	0	
Foreign financing	43	230	-124	27	18	-21	-10	-26	-13	58	93	19	
Loans (net)	43	198	-124	8	18	-41	-40		-43	28	65	-8	
Disbursements <sup>6</sup>	76	338	55	70	24	78	184		41	109	144	156	
Financing gap	...	...	0	0	0	0	0	...	0	57	20	0	
<i>Memorandum items:</i>													
Non-oil GDP	4,400	4,661	5,150	5,357		5,264	5,796	5,543	5,486	5,800	6,134	6,632	
Poverty-reducing social spending	...	335	309	300	145	243		246	246				
Bank deposits (mostly BEAC)	274	214	110	110		157	132		157	157	173	193	
(In months of domestically-financed spending)	2.6	2.0	1.0	1.3		1.9	1.4		1.8	1.8	1.8	1.7	
BEAC statutory advances <sup>8</sup>	188	188	184	163		416	142		416	416	416	374	

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

<sup>1</sup>IMF, Chad-First Review under the ECF Arrangement (EBS/15/123).<sup>2</sup>Total revenue, less grants and oil revenue, minus total expenditures, less net interest payments and foreign financed investment.<sup>3</sup>Prior to 2014, amounts in excess of float, represent clearance of arrears, accrued in prior fiscal years.<sup>4</sup>Difference between committed and cash expenditure.<sup>5</sup>Extraordinary receipts linked to a settlement of a dispute with an oil company are included in 2014.<sup>6</sup>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.<sup>7</sup>Projet de Loi de Finances Initiale, i.e. government draft budget for 2016<sup>8</sup>Include exceptional advance in 2015

**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	
			Prel.	Prog. <sup>1</sup>	Jun-15	Rev. prog.	Prog. <sup>1</sup>	PLFI <sup>7</sup>				Rev. prog.
Total revenue and grants	35.0	27.8	23.3	21.5	6.1	16.7	23.5	17.2	17.1	19.4	22.8	26.5
Revenue	31.2	25.4	21.2	18.0	5.0	13.1	21.0	13.3	13.1	16.4	19.9	23.5
Oil	23.2	16.1	11.8	8.1	1.0	5.1	10.4	4.8	4.5	7.3	10.2	13.5
Non-oil	8.1	9.3	9.5	9.9	4.0	8.0	10.6	8.5	8.6	9.2	9.7	10.0
Tax	7.7	9.0	9.0	9.4	3.7	7.6	10.1	7.9	7.9	8.5	8.9	9.2
Non-tax	0.4	0.3	0.5	0.5	0.3	0.4	0.6	0.6	0.6	0.7	0.8	0.9
Grants	3.8	2.4	2.1	3.5	1.1	3.6	2.6	4.0	4.0	3.0	3.0	3.0
Budget support	0.0	0.1	0.0	0.5	0.0	1.0	0.0	0.7	0.7	0.0	0.0	0.0
Project grants	3.8	2.3	2.1	3.1	1.1	2.6	2.6	3.3	3.3	3.0	3.0	3.0
Expenditure	34.4	31.4	29.6	23.0	9.8	22.5	24.1	23.1	23.4	22.4	24.0	26.3
Current	16.5	17.7	16.7	14.4	6.5	13.7	13.5	12.4	13.7	13.3	13.2	13.0
Wages and salaries	6.4	7.1	6.6	6.9	3.4	7.0	6.4	6.8	6.9	6.6	6.3	6.2
Goods and services	2.8	2.9	2.8	1.2	0.7	1.3	1.7	1.3	1.3	1.5	1.5	1.5
Transfers and subsidies	6.6	6.9	6.4	5.4	2.3	4.5	4.5	3.7	4.8	3.8	4.4	4.4
Interest	0.6	0.7	0.9	0.8	0.1	0.8	1.0	0.7	0.7	1.3	1.0	0.9
Domestic	0.4	0.2	0.5	0.4	0.0	0.4	0.5	0.4	0.4	0.7	0.7	0.6
External	0.3	0.5	0.4	0.4	0.1	0.4	0.5	0.3	0.3	0.6	0.4	0.3
Investment	17.9	13.7	12.9	8.6	3.3	8.8	10.5	10.7	9.7	9.1	10.8	13.3
Domestically financed	12.3	10.5	9.9	4.8	1.7	4.9	5.5	6.7	5.7	4.3	5.5	8.0
Foreign financed	5.5	3.2	3.0	3.9	1.5	3.9	5.0	4.0	4.0	4.8	5.3	5.3
Overall balance (incl. grants, commitment)	0.7	-3.6	-6.3	-1.5	-3.7	-5.7	-0.5	-5.9	-6.3	-3.0	-1.2	0.1
Non-oil primary balance (excl. grants, commitment) <sup>2</sup>	-20.1	-18.2	-16.3	-8.4	-4.2	-9.7	-7.4	-10.0	-10.1	-7.1	-8.0	-10.1
Change in balances payable <sup>3</sup>	-2.5	-5.0	-2.6	-3.4	3.5	-3.4	-2.0	-1.9	-1.9	-1.8	-1.9	-1.3
Float <sup>4</sup>	2.7	2.0	3.5	2.1	-1.4	2.0	2.0	1.9	1.9	2.1	1.4	1.7
Errors and omissions	1.3	...	...	...	...	...	...	...	...	...	...	...
Overall balance (incl. grants, cash)	2.1	-7.1	-5.9	-2.7	-1.7	-7.2	-0.5	-5.9	-6.3	-2.8	-1.7	0.5
Financing	-2.1	7.1	5.9	2.7	1.7	7.2	0.5	6.3	1.8	1.4	0.5	-0.5
Domestic financing	-3.1	2.2	8.3	2.2	1.3	7.6	0.7	6.5	0.8	-0.1	-0.8	-0.8
Bank financing	-2.6	1.2	3.6	1.7	1.3	5.3	0.5	0.8	0.5	-0.3	-0.9	-0.9
Central Bank (BEAC)	-2.1	1.3	2.1	0.6	0.8	4.2	-0.3	0.5	0.3	-0.3	-0.9	-0.9
Deposits	-1.6	1.3	2.0	0.0	0.5	-0.9	-0.4	0.0	0.0	-0.3	-0.3	-0.3
Advances (net)	-0.5	0.0	-0.1	0.0	0.0	4.4	-0.4	0.0	0.0	0.0	0.0	-0.6
IMF (disbursement)	0.0	0.0	0.2	0.6	0.3	0.6	0.4	0.5	0.3	0.0	0.0	0.0
Commercial banks	-0.5	-0.1	1.5	1.1	0.4	1.1	0.8	0.3	0.2	0.0	0.0	0.0
Non-bank financing (net)	-0.6	1.0	-0.6	-0.6	-0.2	1.5	0.2	0.3	0.3	0.2	0.1	0.1
Privatization and other exceptional receipts	0.1	0.0	5.4	1.1	0.0	0.8	0.0	5.5	0.0	0.0	0.0	0.0
Foreign financing	1.0	4.9	-2.4	0.5	0.2	-0.4	-0.2	-0.2	1.0	1.5	0.3	0.3
Loans (net)	1.0	4.2	-2.4	0.1	1.3	-0.8	-0.7	-0.8	0.5	1.1	-0.1	-0.1
Disbursements <sup>5</sup>	1.7	7.3	1.1	1.3	0.3	1.5	3.2	0.8	1.9	2.4	2.4	2.4
Financing gap	...	...	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.3	0.0	0.0
<i>Memorandum items:</i>												
Non-oil GDP	4,400	4,661	5,150	5,357	5,264	5,796	5,543	5,486	5,800	6,134	6,632	6,632
Poverty-reducing social spending	...	7.2 <sup>6</sup>	6.0	5.6	4.6	4.4	4.5	...	...	...	...	...
Bank deposits (mostly BEAC)	6.2	4.6	2.1	2.1	3.0	2.3	2.9	2.7	2.8	2.8	2.9	2.9
(In months of domestically-financed spending)	2.6	2.0	1.0	1.3	1.9	1.4	1.8	1.8	1.8	1.8	1.7	1.7
BEAC statutory advances <sup>8</sup>	4.3	4.0	3.6	3.0	7.9	2.5	7.6	7.2	6.8	5.6	5.6	5.6

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

<sup>1</sup>IMF, Chad-First Review under the ECF Arrangement (EBS/15/123).<sup>2</sup>Total revenue, less grants and oil revenue, minus total expenditures, less net interest payments and foreign financed investment.<sup>3</sup>Prior to 2014, amounts in excess of float, represent clearance of arrears, accrued in prior fiscal years.<sup>4</sup>Difference between committed and cash expenditure.<sup>5</sup>Extraordinary receipts linked to a settlement of a dispute with an oil company are included in 2014.<sup>6</sup>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.<sup>7</sup>Projet de Loi de Finances Initiale, i.e. government draft budget for 2016<sup>8</sup>Include exceptional advance in 2015



**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.	Proj.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Proj.		
Current account, incl. official transfers	-549	-589	-613	-699	-732	-677	-546	-618	-349	-122
Trade balance	486	420	194	116	53	357	181	411	828	1,233
Exports, f.o.b.	2,209	1,919	1,940	1,912	1,651	2,343	1,807	2,266	2,770	3,225
Of which: oil	1,905	1,593	1,592	1,548	1,291	1,949	1,429	1,862	2,321	2,730
Imports, f.o.b.	-1,723	-1,499	-1,746	-1,796	-1,598	-1,986	-1,626	-1,855	-1,942	-1,993
Services (net)	-1,160	-1,043	-1,060	-1,060	-1,043	-1,148	-1,036	-1,167	-1,220	-1,296
Income (net)	-153	-292	-291	-144	-163	-271	-120	-262	-373	-485
Transfers (net)	277	326	544	388	420	384	430	399	417	426
Official (net) <sup>1</sup>	57	98	303	133	161	122	157	117	125	125
Private (net)	220	228	240	256	260	263	272	282	291	301
Financial and capital account	689	583	560	646	508	644	566	562	362	108
Capital transfers	136	104	104	162	133	145	175	168	178	193
Foreign direct investment <sup>2</sup>	296	257	-334	403	355	420	611	327	290	216
Other medium and long term investment	49	187	556	18	-30	3	1	63	79	4
Public sector	59	198	567	30	-19	15	10	76	93	19
Private sector	-10	-10	-11	-11	-11	-12	-12	-13	-14	-15
Short-term capital	208	35	234	63	50	75	-218	5	-185	-305
Errors and omissions	0	0	0	0	0	0	0	0	0	0
Overall balance	141	-6	-53	-53	-224	-33	20	-56	13	-15
Financing	-141	5	53	0	171	-22	-133	-12	-41	-13
Change in official reserves (decrease +)	-141	5	53	0	171	-22	-133	-12	-41	-13
IMF (net)	0	0	9							
Financing gap	0	0	0	-53	-53	-55	-113	-68	-28	-27
Financing gap (percent of GDP)	0	0	0	-0.8	-0.8	-0.7	-1.6	-0.9	-0.3	-0.3
Exceptional Financing				53	53	55	56	48	28	27
IMF ECF				34	34	26	26	18	0	0
Debt relief (HIPC)				19	20	29	30	30	28	27
Remaining gap				0	0	0	-57	-20	0	0
<i>Memorandum items:</i>										
Current account (percent of GDP)	-8.7	-9.2	-8.9	-10.0	-11.0	-8.7	-7.8	-8.0	-4.1	-1.3
Exports (percent of GDP)	35	30	28	27	25	30	26	29	33	35
Of which: oil	30	25	23	22	19	25	20	24	28	29
Imports (percent of GDP)	-27	-23	-25	-26	-24	-25	-23	-24	-23	-21
FDI (percent of GDP)	4.7	4.0	-4.9	5.8	5.3	5.4	8.7	4.2	3.4	2.3
Gross official reserves (billions of USD)	1.2	1.2	1.1	1.0	0.6	1.1	0.8	0.9	0.9	1.0
(In months of imports of goods and services)	2.5	2.5	2.1	2.2	1.5	2.3	1.8	1.9	1.9	1.9
(Idem, excluding oil sector imports)	2.9	3.0	2.5	2.7	1.8	2.8	2.4	2.3	2.3	2.2

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

<sup>1</sup>A payment linked to a settlement of a dispute with an oil company has been transferred to the government in 2014<sup>2</sup> FDI are negative in 2014 due to the disinvestment by Chevron in Chad's biggest oil consortium. In 2016, they include the planned sale of an oil asset by the Government.

**Table 6. Chad: Monetary Survey, 2012–19**  
(Billions of CFA francs)

	2012	2013	2014	2015		2016		2017	2018	2019
		Prel.	Prel.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Proj.		
Net foreign assets	558.1	537.7	522.7	474.5	266.1	566.3	336.3	293.4	342.2	367.0
Central bank	538.6	527.9	534.5	464.5	308.1	556.3	376.3	343.4	384.2	397.0
Commercial banks	19.4	9.8	-11.9	10.0	-42.0	10.0	-40.0	-50.0	-42.0	-30.0
Net domestic assets	226.2	314.4	555.0	641.5	842.0	707.5	818.5	940.7	962.8	1044.1
Domestic credit	347.6	465.4	760.4	796.5	980.0	837.5	997.5	1058.7	1054.8	1119.1
Claims on the government (net)	-28.4	50.4	204.2	264.2	380.9	268.6	335.8	342.4	306.5	302.6
Treasury (net)	-40.9	35.7	165.6	225.6	342.3	230.0	297.2	303.7	267.9	264.0
Banking sector	-40.9	35.7	165.6	225.6	342.3	230.0	297.2	303.7	267.9	264.0
Central bank	28.6	96.9	228.7	228.7	351.3	186.1	281.2	287.7	261.9	275.0
Claims on general government	279.8	260.3	268.2	268.2	440.8	247.3	405.8	395.8	370.8	363.8
Liabilities to general government	-251.2	-163.5	-39.5	-39.5	-89.5	-61.2	-124.6	-108.1	-108.9	-88.7
Commercial banks	-69.5	-61.2	-63.2	-3.1	-9.0	43.9	16.0	16.0	6.0	-11.0
Claims on general government	50.1	66.6	86.2	146.2	112.0	193.2	124.0	112.0	90.0	75.0
Liabilities to general government	-119.7	-127.7	-149.3	-149.3	-121.0	-149.3	-108.0	-96.0	-84.0	-86.0
Fund position	2.5	0.9	10.6	41.2	41.2	65.1	65.1	81.2	81.2	81.2
Other non-treasury	12.5	14.7	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6
Credit to the economy	367.3	389.6	537.0	488.9	555.4	499.9	592.2	629.2	661.2	729.4
Capital Accounts	-104.7	-113.9	-102.8	-130.0	-100.0	-120.0	-127.0	-96.0	-94.0	-75.0
Other items (net)	-7.3	-27.5	-23.4	-25.0	-38.0	-10.0	-52.0	-22.0	2.0	0.0
Money and quasi money	784.3	852.1	1077.7	1116.1	1108.1	1273.8	1154.9	1234.0	1305.0	1411.1
Currency outside banks	400.7	448.3	539.2	558.4	554.4	637.3	577.8	617.4	653.0	706.1
Demand deposits	326.0	336.3	460.5	476.9	473.5	544.2	493.4	527.3	557.6	602.9
Time and savings deposits	57.5	67.5	78.0	80.8	80.2	92.2	83.6	89.3	94.5	102.1
<i>Memorandum items:</i>										
Broad money (annual percentage change)	13.4	8.6	26.5	3.6	2.8	14.1	4.2	6.9	5.8	8.1
Credit to the economy (annual percentage change)	32.1	6.1	37.8	-9.0	3.4	2.2	6.6	6.2	5.1	10.3
Credit to the economy (percent of GDP)	5.8	6.1	7.8	7.0	8.4	6.4	8.5	8.2	7.8	7.8
Credit to the economy (percent of non-oil GDP)	8.3	8.4	10.4	9.1	10.6	8.6	10.8	10.8	10.8	11.0
Velocity (non-oil GDP)	5.6	5.5	4.8	4.8	4.8	4.5	4.8	4.7	4.7	4.7
Velocity (total GDP)	8.1	7.5	6.4	6.2	6.0	6.1	6.1	6.2	6.5	6.6

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

**Table 7. Chad: Financial Soundness Indicators, 2007–14**

	2007	2008	2009	2010	2011	2012	2013	2014
<b>Capital Adequacy</b>								
Regulatory capital / Risk-weighted assets	11.1	13.3	12.1	6.7	19.7	18.1	20.0	12.0
<b>Asset Quality</b>								
Gross nonperforming loans/Gross banking loans	11.2	8.0	10.4	12.1	9.8	7.4	9.8	11.7
Provisions / Nonperforming loans	84.4	70.2	64.6	73.5	75.6	57.4	59.2	60.0
Net nonperforming loans/Gross banking loans	1.7	2.4	3.7	3.2	2.4	3.7		
<b>Profitability</b>								
Return on assets	2.7	3.9	1.3	3.7	2.4	3.0	2.3	1.8
Return on equity	26.3	36.4	11.4	39.4	11.7	24.4	21.1	19.4
<b>Liquidity</b>								
Liquid assets / Total assets	28.3	19.6	17.9	18.2	29.9	28.1	24.0	25.7
Liquid assets / Demand deposits	66.3	82.4	85.2	73.8	75.2	79.7	...	...
<b>Banks' ratings (number of banks rated)</b>								
Solid or Good	6	4	4	3	5	...	...	...
Fragile	0	1	1	1	2	...	...	...
Critical	0	1	1	2	0	...	...	...
Not rated	1	1	2	2	1	...	...	...
Total	7	7	8	8	8	...	...	...

Sources: BEAC/COBAC.

**Table 8. Chad: Quantitative Performance Criteria (QPC) and Indicative Target (IT) under the ECF arrangement until September 2015**(Billions of CFA francs, cumulative from the beginning of the year, except where otherwise indicated)<sup>1</sup>

	End-Dec. 2014 QPC			End-March 2015		End-June 2015 (QPC)			End-Sept. 2015 (IT)
	Adj.	Result	Status	IT	Prel.	Adj.	Prel.	Status	Adj.
Floor on non-oil primary budget balance	(846)	(836)	Met	(113)	(110)	(248)	(221)	Met	(316)
Ceiling on net domestic government financing	154	430	Not met	30	12	108	66	Met	
Ceiling on the accumulation of domestic payment arrears by the government <sup>2</sup>	0	0	Met	0	76	0	148	Not met	0
Ceiling on the accumulation of new external payment arrears by the government or non-financial public enterprises <sup>3</sup>	0	0	Met	0	0	0	0	Met	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) <sup>2,3</sup>	0	0	Met	0	0	0	0	Not met <sup>4</sup>	0
Floor for poverty-reducing social spending	394	309	Not met			135	145	Met	210
<b>Memo items:</b>									
Oil revenue		635			12		65	52	
Oil revenue, extraordinary oil-related revenue and receipts of privatization or renewal of telecommunication licenses		913			12		65	64	

Sources: Chadian authorities; and IMF staff forecasts.

<sup>1</sup>Quantitative Performance Criteria and Indicative Targets are clearly defined in the TMU.<sup>2</sup>For end-December 2014, since end-June 2014.<sup>3</sup>To be respected continuously.<sup>4</sup>PC not met because of reshuffling of existing debt that led to an increase in its net present value. The actual date of non-observance is end-November 2015.

**Table 9. Chad: Structural Conditionality under the ECF for 2015**

Measures	Due Dates	Observation
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	<i>Met</i>
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	<i>Met</i>
Update and expand the taxpayer database	End-Dec 2015	<i>census of enterprises was recently completed</i>
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	<i>end-June results in line with annual objective</i>

Sources: Chadian authorities; and IMF staff.

**Table 10. Chad: Borrowing Plan for 2015 and 2016**

PPG external debt	2015		2016	
	USD million <sup>1</sup>	Percent	USD million <sup>1</sup>	Percent
<b>By sources of debt financing</b>	<b>143.7</b>	<b>100</b>	<b>70.4</b>	<b>100</b>
<b>Concessional debt, of which</b>	<b>143.7</b>	<b>100</b>	<b>70.4</b>	<b>100</b>
Multilateral debt	100.6	70	54.9	78
Bilateral debt	43.1	30	15.5	22
Other	0	0	0	0
<b>Non-concessional debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Uses of debt financing</b>	<b>143.7</b>	<b>100</b>	<b>70.4</b>	<b>100</b>
Infrastructure	122.1	85	61.2	87
Social Spending	21.6	15	9.1	13
Budget Financing	0	0	0	0
Other	0	0	0	0

Sources: Chadian authorities; and IMF staff.

<sup>1</sup>Nominal value of new debt disbursed. Excludes financing from the IMF.

**Table 11. Chad: Schedule of Disbursement under the ECF Arrangement**

<b>Amount</b> (Million SDR)	<b>Available Date</b>	<b>Conditions for Disbursement</b>
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

Source: IMF Staff estimates and projections.

Table 12: Chad: Indicators of Capacity to Repay the Fund, 2015–29

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Fund obligations based on existing credit</b>															
Principal	0.0	0.0	0.0	0.0	0.0	2.0	4.0	4.0	6.2	6.7	2.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Fund obligations based on existing and prospective credit</b>															
Principal	0.0	0.0	0.0	0.0	0.0	2.0	9.9	15.5	20.8	21.3	16.7	8.8	3.2	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
<b>Total obligations based on existing and prospective credit</b>															
SDR millions	0.0	0.0	0.0	0.0	0.3	2.2	10.1	15.7	21.0	21.4	16.7	8.8	3.2	0.0	0.0
CFAF billions	0.0	0.0	0.0	0.0	0.2	1.8	8.3	12.8	17.2	17.6	13.7	7.2	2.6	0.0	0.0
Percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.4	0.5	0.5	0.4	0.2	0.1	0.0	0.0
Percent of debt service <sup>1</sup>	0.0	0.0	0.0	0.0	0.1	1.0	3.9	15.3	20.3	18.6	13.4	7.0	2.5	0.0	0.0
Percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Percent of tax revenue	0.0	0.0	0.0	0.0	0.0	0.2	0.8	1.2	1.5	1.4	1.0	0.5	0.2	0.0	0.0
Percent of quota	0.0	0.0	0.0	0.0	0.4	3.4	15.2	23.5	31.5	32.1	25.1	13.2	4.8	0.0	0.0
<b>Outstanding IMF credit based on existing and prospective drawings</b>															
SDR millions	45.4	76.8	98.1	98.1	98.1	96.1	86.2	70.8	50.0	28.7	12.0	3.2	0.0	0.0	0.0
CFAF billions	37.5	63.4	80.8	80.5	80.3	78.2	70.7	58.1	41.0	23.5	9.8	2.6	0.0	0.0	0.0
Percent of exports of goods and services	2.0	3.2	3.3	2.7	2.3	2.2	2.0	1.6	1.2	0.7	0.3	0.1	0.0	0.0	0.0
Percent of debt service <sup>1</sup>	57.6	34.1	43.7	43.4	29.8	42.5	33.7	69.4	48.4	24.9	9.6	2.5	0.0	0.0	0.0
Percent of GDP	0.6	0.9	1.0	1.0	0.9	0.8	0.7	0.5	0.4	0.2	0.1	0.0	0.0	0.0	0.0
Percent of tax revenue	8.2	11.3	12.2	11.1	9.6	8.7	7.3	5.4	3.5	1.9	0.7	0.2	0.0	0.0	0.0
Percent of quota	68.2	115.2	147.3	147.3	147.3	144.2	129.4	106.2	75.0	43.0	18.0	4.8	0.0	0.0	0.0
<b>Net use of IMF credit (SDR millions)</b>															
Disbursements	57.3	41.3	21.3	0.0	0.0	-2.0	-9.9	-15.5	-20.8	-21.3	-16.7	-8.8	-3.2	0.0	1.0
Repayments and repurchases	0.0	0.0	0.0	0.0	0.0	2.0	9.9	15.5	20.8	21.3	16.7	8.8	3.2	0.0	0.0
<i>Memorandum items:</i>															
Exports of goods and services (CFAF billions)	1,835	2,002	2,464	2,985	3,459	3,532	3,567	3,551	3,478	3,481	3,497	3,527	3,578	3,642	3,678
External Debt service (CFAF billions) <sup>1</sup>	65	186	185	185	269	184	210	84	85	95	102	103	107	110	119
Nominal GDP (CFAF billions)	6,642	7,003	7,704	8,438	9,293	9,837	10,337	10,820	11,343	11,914	12,538	13,244	13,974	14,766	15,614
Tax revenue (CFAF billions)	459	561	663	727	836	900	976	1,070	1,161	1,267	1,382	1,515	1,659	1,819	1,989
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	66.6	66.6	66.6	66.6

Source: IMF staff estimates and projections.

<sup>1</sup>Total external debt service includes IMF repurchases and repayments.

## Appendix I. Letter of Intent

N'Djamena, November 30, 2015

Madame Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, D.C., 20431  
U.S.A.

Madame Managing Director,

1. At the request of the Government, on August 1, 2014, the Executive Board of the IMF approved a financial program under the Extended Credit Facility (ECF) covering the period July 1, 2014 until June 30, 2017. The first review under this program in April 2015 made it possible for Chad to reach the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative enabling the country to benefit from US\$1.1 billion in debt relief. This Letter and the attached Memorandum of Economic and Financial Policies (MEFP) present the country's recent economic trends and performance under the ECF since that time, as well as the policies we intend to implement for the balance of 2015 and in the medium term.
2. Program execution was made difficult by the aggravation of two major exogenous shocks, i.e., the protracted decline in oil prices on the international markets and the deterioration of the security situation deriving from the fight against Boko Haram. In fact, shortly after the conclusion of the first program review, oil prices declined cumulatively by approximately 30 percent between end-April and end-November 2015, requiring a substantial downward revision in the average price forecasts for 2015, 2016, and for the medium term, as compared with the estimates prepared in April 2015. Under normal circumstances, oil contributes more than 60 percent of the country's budget revenue, 90 percent of its exports, and approximately 30 percent of its GDP.
3. In addition to the oil shock, Chad has been actively engaged in the fight against Boko Haram since January 2015 in order to preserve security in the region. The cost of Chad's military operations in Cameroon, Nigeria, Niger, and in the Lake Chad region has been substantial and continues to be a burden to the public treasury. During June and July, N'Djamena was targeted by suicide attacks perpetrated by Boko Haram, resulting in more than 60 deaths. More recently, on October 11, 2015, five simultaneous suicide attacks in Baga Sola in the Lake region killed approximately 50 persons and left many wounded. The monthly cost of Chad's military operations in Cameroon, Nigeria, Niger, and in the Lake Chad region was estimated at US\$12 million, in addition to the cost of accepting hundreds of thousands of refugees and reinforcing domestic security, including on the border with Libya.
4. Despite these two substantial exogenous shocks which led to balance of payments and budget imbalances for Chad, the government's execution of the ECF program was satisfactory through increased control of public expenditure. Accordingly, at end-June 2015, the quantitative

performance criteria and structural benchmarks were generally observed. More specifically, the primary balance, not including oil, the main pillar of the budget program, is estimated at 4.1 percent of non-oil GDP (in annual terms), equivalent to a decline of approximately five percentage points of non-oil GDP (in annual terms) as compared with the same period during 2014. Where structural benchmarks are concerned, the government continued its substantial reduction in extraordinary expenditure procedures and implemented an interministerial committee responsible for monitoring, coordination, and effective transmission and communication flows, within the administrations involved, of comprehensive information on oil operations and the revenue they generate for the state.

5. By contrast, the performance criterion on non-accumulation of domestic payment arrears was largely exceeded owing to a drastic decline in oil and non-oil budget revenue. The performance criterion in connection with not arranging any new external debt on non-concessional terms was also not observed. In connection with the rescheduling arrangement for the Glencore borrowings finalized in late November 2015, the present value of the debt with Glencore increased as a result of a rise in the country risk premium owing to the decline in oil prices. Accordingly, the government has requested a waiver from the Executive Board for failing to meet these two performance criteria as a result of the exogenous shock in connection with deterioration in the terms of trade. The government has also undertaken to make every effort to clear all domestic payment arrears accrued at the first half of the year by December 31, 2015.

6. The government is resolutely determined to stop the adverse effects of these two exogenous shocks on the country's economic and financial situation. As a result of the catalytic effects of the ECF program, the Bank of Central African States (BEAC) granted Chad approximately CFAF 140 billion in exceptional advances at end-September 2015 (in addition to the CFAF 92.6 billion granted in statutory advances at the beginning of the same month). The government made additional budget adjustments, and particularly, rationalization of transfer expenditure and more effective domestic resource mobilization, in accordance with the roadmap deriving from the government seminar held on October 7 and 8, 2015. Further budget adjustment efforts will be required to balance the budget for 2016. For the purpose, the government on October 23, 2015 submitted a draft budget law to the National Assembly which, although it directly reflected the cost for the National Electoral and Independent Commission to organize presidential and legislative elections (approximately one percent of non-oil GDP), it made only moderate changes to the 2015 level of the primary non-oil deficit (as a share of non-oil GDP). The budget adjustment therefore continues to be applied in the form of rationalized transfer payments while preserving priority social expenditure.

7. At the same time, the government will continue to conduct a coherent program of structural reforms, primarily to strengthen public financial management. Accordingly, it will pursue reductions in extraordinary expenditure procedures and will further strengthen transparency in the oil sector by publishing more comprehensive statistics on oil sector operations. It will produce an annual report on debt management and will implement treasury cash management reform. Moreover, efforts will continue to be made to mobilize non-oil revenue, primarily through an expanded tax assessment



base (validation and use of the survey of enterprises, computerized management of the tax administration, introduction of property tax, etc.) and implementation of scanners at various customs frontiers. Last, the government will continue to improve the business climate (specifically through the application of the new government contracting code recently adopted by the Council of Ministers and the effective restructuring of the institutions responsible for these functions) in order to promote Chad's economic diversification.

8. For the period July 1, 2015 until June 30, 2017, the government undertakes to implement the policies and measures included in the Memorandum of Economic and Financial Policies to reach the program objectives. The government will take any further steps that may prove necessary for proper implementation of the program. The government will consult with IMF staff on adoption of these additional measures in accordance with the Fund's relevant consultation policies.

9. The Government authorizes the IMF to make this Letter of Intent, the attached MEFP, and Technical Memorandum of Understanding, as well as the IMF staff report on the second review under the ECF-supported program, available to the public. We hereby authorize publication and posting at the IMF's website on conclusion of the program review by the IMF Executive Board.

Sincerely yours,

/s/

Ngarlenan Docdjengar  
Minister of Finance and Budget

Attachments:

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

## Attachment I. Memorandum of Economic and Financial Policies

### INTRODUCTION

1. **This Memorandum of economic and financial policies (MEFP) is an update of and a supplement to those of July 2014 – for the approval of the program supported by the Extended Credit Facility (ECF)—and April 2015 (for the first review of the program).** It describes recent economic trends, the implementation of the program, macroeconomic prospects, as well as the policies and reforms to be implemented in the coming months.
2. **The Government’s economic program continues to be implemented within a context rendered extremely difficult with the occurrence of two major external shocks, which have been aggravated in recent months:**
  - The shock of the fall in oil prices on international markets. While prices had stabilized between April and late June 2015 at a level that was in line with the government’s budgetary assumptions, their new sharp fall since the beginning of July seriously undermines the prospects for oil budget revenues.
  - The security shock caused by the fight against the terrorist group Boko Haram in the Lake Chad Basin, with far-reaching economic, financial, human and humanitarian consequences. While Chadian troops have since January 2015 been engaged in operations in Cameroon, Nigeria, Niger and the Lake Chad region, the cost of which weighs heavily on the country’s public finances, the capital city N'Djamena suffered from bloody terrorist attacks in June and July, which led to a total of 68 deaths among the civilian population. Chad also hosts a growing number of refugees and displaced persons, estimated at 750,000 by the most recent United Nations report.

### RECENT ECONOMIC TRENDS AND IMPLEMENTATION OF THE ECF-SUPPORTED PROGRAM IN THE FIRST HALF OF 2015

#### I. Recent economic trends

3. **The growth of the non-oil sector has been revised downwards.** Although the primary sector (agriculture and livestock in particular) grew as expected, other sectors have been hit by various factors, such as a reduction of public procurement (due to severe budget cuts) or the disruption of trade with Nigeria or Cameroon because of insecurity. In all, non-oil GDP could contract by about 1.5 percent in 2015 (as against 7.1 percent in 2014). For its part, the oil sector was supported by the recent coming on stream of new fields, thus helping to secure an overall positive GDP growth of about 4 percent in 2015, compared to 6.9 percent in 2014.
4. **Another consequence of the disruption, especially at the borders, due to insecurity, is that inflation became more volatile.** As of end-September 2015, the increase in the consumer

price index increase stood at an annual average of 4.3 percent, compared to 1.7 percent at the end of 2014.

5. **Budget revenues (oil and non-oil) are declining.** Total budget revenue amounted to CFAF 261 billion as of end-June, that is, 28 percent less than the CFAF 366 billion expected. The decrease is mainly due to the fall in oil revenues (–49 percent compared to forecasts for the first half of 2015), but also reflects a mixed performance of non-oil revenues (–18 percent of the forecasted amount).

6. **Growth of money supply is slowing down.** After strong growth in 2014 (26.5 percent), money supply was almost stagnant on a year-on-year basis at end-August (+0.7 percent). Credit to the private sector increased however by almost 20 percent over the same period, mainly driven by loans to the cotton, transport, and construction sectors.

7. **The banking sector is grappling with the consequences of the economic downturn.** At the end of July 2015, total assets of banks amounted to CFAF 824 billion, up by 6.8 percent year-on-year. Over the same period, deposits also increased by 6 percent. However, the credit portfolio suffered from the consequences of the economic downturn, with an increase in nonperforming loans, which accounted for 14.2 percent of gross loans at the end-July 2015, against 12.7 percent a year earlier.

8. **At end-August 2015, international reserves stood at US\$534 million,** against US\$1.08 billion at end-2014, in line with the decline in foreign currency earnings from oil exports which affects the current account deficit of the balance of payments. Government deposits with the Bank of Central African States (BEAC) stood at CFAF 93 billion at end-June, that is, CFAF 17 billion (about US\$30 million) less than what they were at end-2014, before increasing to CFAF 140 billion as of end-September on account of advances received from BEAC.

## II. Program implementation in the first half of 2015

9. **Despite the major challenges posed by external shocks, the government has made every effort to meet the objectives of the ECF-supported economic program, as it satisfactorily completed all but two of the quantitative performance criteria:**

- **The criterion on non-oil primary balance for the end of June has been met,** as this indicator amounted to CFAF –221 billion. To be able to achieve this result, the government has met or even outperformed the commitments to carry out drastic budget cuts announced in the Revised Finance Law (LFR) adopted in May 2015 by the National Assembly. In the first half of 2015, spending on wages and salaries were well in line with their target for the whole year, while spending on transfers and domestically financed investments amounted to only 35 percent of their budget allocation for the whole year.
- **The floor for poverty-reducing social spending has been achieved with a margin.** Spending on elementary and secondary education, health, community development, water

and sanitation, agriculture and rural development amounted to CFAF 149.9 billion at the end of June 2015, against a targeted CFAF 135 billion. The Government stressed its continuous effort regarding the commitment of such expenses which improved month after month despite the fall in oil revenues on which the planned expenditure envelope was based and despite a very difficult security environment (repeated attacks by Boko Haram).

- **The zero ceiling on the accumulation of new external payment arrears was met, while the one on the contracting of new non-concessional external debt was not as the result of rescheduling of oil sales' advances with Glencore.** The latter achieved a critical lengthening of maturities in line with the future profile of oil revenue, but at some increased financial costs. A waiver is requested given that those costs are minimal relative to the benefits from the maturity lengthening.
  - **The performance criterion on the ceiling on net domestic government financing has been largely observed,** at CFAF 109.9 billion at end-June 2015 for a target of CFAF 213 billion.
  - **The ceiling for non-accumulation of new domestic arrears was also not met.** The stock of arrears (mainly related to investment in infrastructure and transfers) is thus estimated at CFAF 235 billion at end-June 2015 compared to a ceiling of CFAF 51.78 billion at end-December 2014. This reflects the underperformance of budget revenues and delays in the issuance of government securities on the regional market. The Government is requesting a waiver on this quantitative performance criterion, considering the exceptional circumstances (two major external shocks) which made it difficult to meet the criterion. In addition, the Government plans an almost complete clearance of these arrears, subject to the expected materialization of a number of financing options by the end of the year (see paragraph 14). The Government's objective is to reduce the stock of arrears to about CFAF 51.78 billion at end-2015.
10. **At end-June 2015, progress on the structural reform agenda was in line with program objectives:**
- As expected, a decree to establish an inter-ministerial body responsible for consolidating and disseminating information on oil revenues was issued by the Prime Minister on June 30, 2015. The inter-ministerial committee, which may operate through a technical committee that has been set up, has already met several times.
  - Furthermore, the share of domestically financed expenditures (excluding salaries, debt and security spending) financed through extraordinary budgetary procedures (DAOs, emergency spending procedures) was limited to CFAF 12.3 billion for the first six months of 2015, that is, 5.4 percent of annual domestically financed expenditures. The target for the whole year, set at 9 percent, is ambitious, but the Government is pursuing its efforts to meet it.

## **ECONOMIC AND FINANCIAL POLICIES FOR THE REMAINDER OF THE PROGRAM**

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

#### A. Closing the financing gap in the 2015 budget

12. **The worsening external shocks have created an additional financing gap of around CFAF 313 billion compared to the assumptions of the 2015 revised budget (LFR).** The Government stresses that the financing gap does not result from expenditure slippages against the allocations in the LFR; it rather results from the underperformance of oil and non-oil revenues due to the aforementioned shocks. In particular, oil revenues, previously projected at CFAF 432 billion in 2015, are expected to finally stand at CFAF 270 billion.

13. **The Government underscores the scale of fiscal adjustments already made.** The current adjustment has already resulted in a 35 percent reduction of primary expenditure in the first half 2015 compared to the same period in 2014. The leverage is thus limited for any further adjustment by the end of the year, especially as social and poverty-reducing spending must be protected.

14. **Against this backdrop, the Government's strategy is based on obtaining additional financing, supplemented by additional expenditure adjustments on the LFR, all backed by an emergency plan that was presented to civil society, trade unions and development partners on October 6 and 7, 2015:**

- **Confirmation of the financing announced during the first review of the program and mobilizing additional financing:**
  - Rescheduling advanced payments on oil sales. As announced during the first review of the ECF-supported program, the government has negotiated a rescheduling of the advanced payments on oil sales it contracted in 2013 and 2014. The negotiations culminated in an agreement signed in late November 2015 which entails a merger of the two advances into one loan, whose maturity has been extended by one/two years and will be repaid through variable levels of deduction from the oil sales, depending on oil price developments.
  - Advances from BEAC. Considering the external shocks that have affected CEMAC countries, BEAC decided to change the base year for determining the ceiling of statutory advances from 2008 to 2014, thus allowing Chad to immediately receive CFAF 92 billion. Considering the security challenges, the BEAC Board of Directors meeting of September 28, 2015 authorized the grant of an exceptional advance to Chad given that the country is under an IMF program, thus giving Chad additional drawing rights of about CFAF 140 billion.

- Financing from the CEMAC regional market. The Government wants to build on the success of the issuances of government securities since the end of 2014 and strengthen its issuance program. On the first three quarters of 2015, the provisional calendar communicated to the primary dealers (Spécialistes en Valeurs du Trésor–SVT) was respected. The Treasury mobilized a net amount of CFAF 144.2 billion including:
  - i) 15 billion in Treasury bills with a maturity of 26 weeks; ii) 35 billion in Treasury bills with a maturity of 52 weeks, and iii) 94.2 billion in Treasury bonds through auctions on the primary market for government securities organized by the BEAC. The Treasury also repaid CFAF 30 billion of securities that matured. In the 4th quarter, Chad is considering raising CFAF 57 billion in the regional market for government securities, CFAF 35 billion in Treasury bonds and CFAF 22 billion in Treasury Bills.
  
- Budgetary support from international partners. The Government stresses that it has fulfilled the prerequisites for budgetary support from the World Bank, the European Union and the African Development Bank, as contained in their roadmap (see section IV on structural reforms). The authorities therefore expect the development partners to honor the pledges they made to provide budgetary support when Chad reached the completion point of the HIPC initiative and the disbursement of a total of CFAF 71 billion by the end of 2015.
  
- **Additional fiscal adjustment.** In addition to the above–mentioned resources, the Government has decided to make additional expenditure adjustment to LFR allocations, by limiting all new spending commitments except in priority sectors such as education, health, and security. The total projected budget cuts would amount to approximately CFAF 91 billion, or 33 percent in total cuts in domestically financed expenditures in 2015 compared to 2014. The Government emphasizes the sacrifice this additional adjustment entails, at a time when options are limited at this late point in the year, and the population is already suffering from sluggish economic growth, compounded by the fact that the country is just a few months to a presidential election. In the choice of expenditure items to be frozen, the Government takes into account the fragility of certain sectors of the economy that have already been severely affected by the current budget adjustment. The payment of domestic arrears will also give priority to economic sectors and players that have the greatest impact on growth and non–oil tax revenues, while avoiding a disruption of public finance management.
  
- **Additional measures announced in the emergency plan.** Following the government seminar, the following measures for resource mobilization and rationalization of public expenditure were adopted:
  - Tax revenue mobilization: (i) the establishment of revenue recovery units coordinated by the General Inspectorate of Finance to enhance the recovery of tax arrears; (ii) review of all exceptional customs and tax exemptions, (iii) timely processing of ongoing litigation cases by tax litigation services; (iv) the redeployment of officials of the Ministry of Finance to public entities and NGOs to identify potential tax contributors; (v) the

creation of a secure one-stop shop at the Customs in accordance with CEMAC Directive to limit fraud and speed up the clearance process; (vi) the reform of personal income tax to update the progressive tax schedule; (vii) the collection of VAT through targeted controls; (viii) the maximization of property tax revenue by lowering the price of the land title to a flat rate and reducing the related formalities and, (ix) the creation of a single window for the taxation of procurements with external financing.

- Non-tax revenue mobilization: (i) verification of all management contracts between the State and economic operators; (ii) strengthening the monitoring of revenues from livestock exports to better control the actual number of animals slaughtered and exported informally; (iii) the development of PPP financing instruments to finance productive infrastructure; (iv) supporting the creation of companies with a certain profitability and potentially constituting a source of growth; (v) conducting a general survey of informal sector taxpayers throughout the country by the General Directorate of Taxes (DGI), and (vi) the review and the granting of new licenses for gold mining and other resources exploited anarchically, including through the creation of specialized offices .
- Rationalization of wages and salaries: (i) enhance the physical checks and verify the administrative status of all government employees, including those in diplomatic missions, in line with the recommendations of the Inter-ministerial Commission in charge of controlling the headcount of State employees (CIMAPE) ; (ii) full operationalization of banking services for all state employees for better management of the wage bill; (iii) remove all holding of more than one remunerated posts
- Rationalization of spending on goods and services: suspend the financial support, without legal basis, of civil servants in terms of water, electricity and telephone.
- Rationalization of capital expenditures: (i) suspend the acquisition of vehicles with the exception of justified derogation and limit the purchase of equipment and office furniture to critical needs of the Administration; (ii) limit to the minimum necessary and better supervise repairs and renovations of buildings; and (iii) limit investment spending by focusing on ongoing investments.

15. **If all the resources were to be mobilized, the 2015 budget would witness a financing surplus of about CFAF 47 billion**, which would help to rebuild reserves from the low levels of one month of domestically, financed spending at end-2014.

**B. The 2016 draft budget (PLFI) and medium-term objectives are in line with the medium-term target of fiscal and debt sustainability.**

16. **The Government is aware that it cannot afford to relent on its budgetary effort in 2016.** Oil revenues are expected to increase significantly around 2018–2019, thanks to an expected sharp increase in production and a marked rise in revenue from corporate income tax. However, in

the short run, based on the assumption that oil prices will remain low, non-oil primary deficit will stand at a level that is consistent with the medium-term target of public finance sustainability.

17. **The 2016 Initial Budget** (LFI) is consistent with this medium-term objective, but contemplates a slight increase in the non-oil primary deficit compared to 2015, due to an exceptional receipt that will principally finance one-off expenditures. The 2016 budget is based on a very conservative assumption for the Chadian oil prices (based on a Brent price of US\$42 per barrel). The Government has decided a slight increase in domestically-financed expenditures compared to 2015, largely due to the need to allocate the resources necessary for the optimal organization of the elections, as well as expenses considered essential in terms of security. The Government stresses that while the non-oil primary deficit should be slightly above 10 percent of non-oil GDP in 2016 (a slight increase compared to 2015), it would be in fact at only 8.3 percent of non-oil GDP excluding the non-recurring expenses mentioned above. More specifically, the 2016 LFI is expected to be hinged on the following revenue and expenditure assumptions:

- Non-oil revenue: CFAF 470 billion. The realization of this amount relies in particular on the implementation of resource mobilization measures announced in the emergency plan, as well as on the rebound of the economic activity.
- Oil revenue: CFAF 266 billion. Given the uncertainties in international oil prices, the Government is deliberately very prudent on this point, forecasting revenue virtually unchanged from the level of 2015.
- Wages: CFAF 376 billion. In order to control the wage bill, the Government relies notably on savings generated by the computerized payroll management.
- Expenditure on goods and services: CFAF 69.8 billion.
- Investment: CFAF 383 billion, equivalent to about 7 percent of non-oil GDP. As announced in the emergency plan, apart from projects that are already in progress, only investments of utmost importance will be launched.
- Transfers and subsidies: CFAF 204 billion. Based on the audit commissioned in 2015, transfers and subsidies to public and semi-public enterprises will be streamlined.

18. **A crucial element of the 2016 budget is the inclusion of an exceptional receipt linked to the sale of a Government's asset in the oil sector:**

- The Government has initiated negotiations with several oil companies for the sale of its stake in the operations in Chad by the oil company CNPC. The Government is confident with a positive conclusion of these negotiations, and has included an exceptional receipt of CFAF 300 billion in the budget 2016, which would be a portion of the result of that sale.



- However, the Government intends to exercise caution on the timing of the sale, its amount and the associated payment terms. Therefore, the programming of expenditures and the quantitative performance criteria of the program with the IMF are based on taking into account this exceptional receipt in a progressive manner (CFAF 100 billion by quarter over the first three quarters of 2016). To ensure the feasibility and credibility of this programming of expenditures, the authorities have prepared the quarterly table of financial operations of the State (TOFE) for 2016, consistent with these hypotheses.
- In case of non-materialization of this exceptional receipt or a delay on its payment, the Government is committed, in line with the existing adjustor in the program with the IMF, to reduce quarterly spending based on the cumulative missing amount relative to the total of oil revenues, exceptional resources and privatization receipts planned in the program. This spending reduction will be equivalent to 50 percent of the missing amount in the first half of 2016, then 75 percent of the missing amount in the second half of 2016.

19. **Apart from this exceptional receipt, the Government intends to mobilize the following financing:** the securities issuance agenda on the CEMAC regional market will continue. With regard to external financing, the Government will continue to actively seek project financing under concessional terms. Lastly, the Government expects the signal sent by the IMF disbursements under the ECF-supported program to spur multilateral partners to commit to delivering new budgetary support after that of 2015. The Government thus expects to receive some CFAF 30–40 billion in budgetary support in 2016.

20. **The Government reaffirms its commitment 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 IMF-supported programs (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.

21. **In 2016, new external borrowings could be contracted to finance investment projects for a total of approximately CFAF 40 billion.** These loans will come mainly from traditional multilateral and bilateral creditors and will be contracted on concessional terms.

## STRUCTURAL REFORMS

22. **Achieving the objectives of the Program depends on sound and transparent management which was underscored to all officials working for the Chadian population in the various Government services.** Reforms started in the last few years, particularly under the Staff Monitored Program in 2013 as well as the ECF arrangement in 2014 and 2015 will continue. Thus, the reform process initiated by the Action Plan for the Modernization of Public Finance (PAMFIP) since 2005 is continuing. The Government emphasized the progress made since the beginning of the ECF arrangement, particularly in terms of collection of non-oil taxes, debt management, budget

execution and communication of budget information, monitoring of public procurement procedures and related reports.

**23. In recent months, the Government has given priority to actions that had to be realized by 15 October 2015 under the joint World Bank, African Development Bank and European Union roadmap comprising:**

- adoption by the Council of Ministers of the draft General Tax Code and Tax Procedures, which was tabled during the Extraordinary Council of Ministers meeting of 11 September 2015.
- validation of the census on companies conducted by the competent authority. The general census report on companies was approved during a workshop organized on 14 July 2015 by the Directorate General of INSEED that brought together the Ministries of Planning, Finance, Employers' Union, Civil Society, European Union and the World Bank.
- adoption by the Council of Ministers of the new Public Procurement Code, which was tabled during the Extraordinary Council of Ministers meeting of 11 September 2015.
- validation of the final census report on the Public Service and incorporation of its conclusions in the computerized payroll management by the competent authority. The report of the Inter-ministerial Commission in charge of controlling the headcount of State employees (CIMAPE) was submitted to the Prime Minister and validated.
- validation by the Ministry of Finance and the Budget of the citizen budget framework adopted for the 2016 Budget. A workshop on the citizen budget took place on 30 July 2015 and the citizen budget format was validated after this workshop.
- adoption by the Council of Ministers of CEMAC directives on public finance relating to (i) State budget nomenclature (ii) Table of State Financial operations, and (iii) State accounting plan. These three matters that have received the approval of CEMAC experts have been transmitted to the Government Secretary General for the Council of Ministers.
- adoption by the Council of Ministers of decrees relating to improving the business climate, including reducing the number of procedures for starting businesses, reducing the minimum capital for the creation of Limited Liability Companies, and the law on competition. These decrees were adopted on August 24, 2015.
- operationalization of the Audit Courts, effective from January 1, 2015.

**24. Enhancing transparency on oil revenue is crucial and, therefore, must continue.**

- The Government is aware that transparency on oil revenue is important not only in terms of good governance but also in terms of improving the reliability of budgetary forecasts. The situation was made further complex by several changes that occurred in the oil sector with

the arrival of many operators, multiple tax regimes (concession or production sharing agreement), entry of the State oil corporation *Société des Hydrocarbures du Tchad* (SHT) into the ESSO oil consortium (25 percent since June 2014), or changes in the terms of repayment of oil sales advances contracted by Chad and their rescheduling concluded in late November 2015]

- The Government underscores the progress already made: Chad is complying with the Extractive Industries Transparency Initiative (EITI) requirements since October 2014. The inter-ministerial committee in charge of consolidation and dissemination of information on oil revenues, officially created by Prime Ministerial decree of 30 June 2015, meets regularly. As agreed (structural benchmark for end-September 2015), the Government has incorporated information on budgetary oil revenues (breakdown by types of revenues) in the budget execution report for the second quarter of 2015 available on the website of the ministry.
- In 2016, dissemination of information on oil revenues will be enhanced in the form of a note published regularly by the inter-ministerial committee which will include information on production trends, cargoes exported, discount on Chadian barrel compared to the price of Brent, oil revenues and their breakdown, as well as information on cash flows relating to SHT, which impacts the final level of revenue, such as repayment of Glencore loan or cash calls by ESSO consortium (structural benchmark for end-June 2016).
- Finally, the Government reiterates its request for a technical assistance mission from the IMF Fiscal Affairs Department devoted to updating the financial model for the projection of oil tax revenues. It respected the mid-2015 requests for statistical information prior to such a mission.

25. **Professionalization of public finance management is continuing**, based on the recommendations of several technical assistance reports, including the one prepared at the end of 2014 by the Fiscal Affairs Department of the IMF. Among the main recommendations adopted, the Government would like to continue its efforts to improve the expenditure management system and the gradual implementation of a cash management forecasting system.

26. **On improving expenditure procedures, the following actions are ongoing: Efforts to gradually reduce the use of emergency spending procedures (DAO) are continuing.** In a context of a strong fiscal adjustment, the Government regards this as an essential tool for budgetary monitoring and control. Apart from security spending, whose character is largely unpredictable, significant progress has already been made. In 2016, the Government undertakes to limit the use of DAOs (excluding salaries, debt servicing, expenditures from the Independent National Electoral Commission and military expenditures) to no more than than 9 percent of domestically financed spending (which is a structural benchmark under the ECF arrangement for 2016). Furthermore, the regularization of DAOs will continue and their time frame shortened. The Government emphasized that the acceleration of this process will be possible thanks to the automation of the DAO via a computerized interface.

- The SIGASPE software used for the payment of civil servant salaries will henceforth be fully used. It ensures control of payroll and the number of State employees in Chad and continues to generate savings, beyond the initial savings with the discovery of ghost workers during its implementation.
- An audit of transfers and subsidies to public corporations and State-owned entities is in progress. This comprises a comprehensive identification of all beneficiary entities and assessment of the justification and results of transfers and subsidies. This will eliminate a number of non-priority or unjustified subsidies. Preliminary results of this audit are expected by the first quarter of 2016 and the implementation of measures linked to this audit is a structural benchmark for end-2016. Finally, the ongoing update on the debt database and the use and maintenance of the system of debt management and analysis (SYGADE) should allow for the production of annual reports on debt management. The first annual report will be produced in the first half 2016 (structural benchmark for end-June 2016)

27. **Concerning the gradual implementation of a cash flow management forecasting system**, the Government intends to base its action on the conclusions of the technical assistance report published at the end of 2014 by the Fiscal Affairs Department of the IMF :

- If the establishment of a single treasury account remains a medium-term objective, efforts to identify all bank accounts of the State and public entities (over 350 by end-2014) and grouping them will continue.
- The capacity to monitor and forecast cash flow management must be strengthened. In this light, a meeting is held each week to make a clear appraisal of revenue and expenditure. This meeting brings together the Minister of Finance and Budget, The Secretary General of the Ministry of Finance and Budget, the Director of Treasury and Public Accounting (DGTCP), the Director General of Budget, the Director General of "Ordonnancement" (payment orders), the Financial Controller. In addition, especially in view of establishing cash flow projection plans, the Government intends to set up a permanent structure for cash flow forecasting and management (structural benchmark for end-June 2016), under the DGTCP and in charge of monitoring the current treasury account at BEAC, the centralization of public accounting operations, cash flow and public debt (structural benchmark for end-June 2016).
- Regarding financing, which is a key element of cash management, significant progress has been made to mobilize different public resources available and the use of various forms of borrowing offered by the markets. This progress is evidenced by the successful emission of Treasury Bills and Obligations on the CEMAC regional market. Several actions are planned for 2016, in particular the strengthening of dialogue with SVT.

28. **Within a very difficult economic context, improving tax revenue is a priority.** This priority is reflected at the highest level of the State, as Ministers and their teams meet each week under the President of the Republic to make specific appraisals on revenue trends. Concrete reforms have been announced, particularly under the emergency plan. For example, all land owners were

asked to regularize their tax situation with the one-stop-shop, otherwise they are liable to penalties that may even result to the confiscation of their land by the State. In 2016, collection of land taxes, which almost did not exist till now, will be systematically implemented through collection by municipalities. More generally, fiscal control operations were strengthened in recent months. Concerning the collection of corporate tax, a tax software SIGTAS has been operational since 15 January 2015 and the file managers at the Directorate General of Taxes are now being trained on its use, which should allow for continued efforts to clean up the tax base and its update. Above all, the data base of business taxpayers is currently being widened based on the census on companies carried out by INSEED (this is a structural benchmark for end-December 2015).

29. **Continuing improvement of public procurement procedures remains a key priority of the Government.** In 2014, efforts to promote the award of public contracts through national and international call for tenders was maintained, translating into more than 90 percent of contracts (348 out of 385 contracts) awarded following this procedure. In terms of amounts, however, codified contract awarded by mutual agreement still accounted only for one third of the total contract amounts, representing about CFAF 168 billion out of a total of CFAF 501 billion. The initial figures of 2015 are not so good but difficult to appreciate given the sharp decline in contracts awarded considering the drastic budget cuts that impacted public procurement and investment (the total amount of public contracts awarded in the first half of 2015 is only CFAF 53 billion). While the new procurement code was adopted by the Council of Ministers of 11 September 2015, the Government reaffirmed its commitment to continue reducing the award of public contracts by mutual agreement. Besides, it is conscious of the difficulties caused once a contract has been awarded, by prolonged delays in the execution of the contract and payment of invoices by the Public Treasury. This is why clearance of domestic arrears is a government priority.

## **MONITORING THE IMPLEMENTATION OF THE PROGRAM**

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

31. The program will continue to undergo bi-annual reviews by the IMF Executive Board on the basis of monitoring indicators and structural benchmarks (Tables 1 and 2 attached). The indicators are outlined in the Technical Memorandum of Understanding (TMU) attached. The third program review will be based on performance criteria at the end of December 2015 and should be completed on or after February 15, 2016. The fourth review will be based on performance criteria as at end-June 2016 and is expected to be completed on or after August 15, 2016.

32. During the program period, the Government undertakes not to introduce or step up restrictions on payments and transfers for current international transactions, nor introduce multiple currency practices, sign bilateral payment agreements that would be inconsistent with Article VIII of the IMF Articles of Agreement, impose or tighten import restrictions in order to ensure balance of

payments equilibrium. In addition, the 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. Quantitative Performance Criteria (QPC) and Indicative Targets (IT)**(Billions of CFA francs; cumulative from the beginning of the year, except where otherwise indicated)<sup>1</sup>

	End-Dec. 2015		End-March 2016	End-June 2016	End-Sept 2016	End-Dec. 2016
	QPC		IT	QPC	IT	IT
	1 <sup>st</sup> Review	Revised				
Floor on non-oil primary budget balance	(451)	(511)	(133)	(314)	(437)	(553)
Ceiling on net domestic government financing	119	399	113	277	345	357
Ceiling on the accumulation of domestic payment arrears by the government <sup>2</sup>	0	0	0	0	0	0
Ceiling on the accumulation of new external payment arrears by the government or non-financial public enterprises <sup>2</sup>	0	0	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) <sup>2</sup>	0	0	0	0	0	0
Floor for poverty-reducing social spending	300	243	55	110	183	245
Memo items:						
Oil revenue	432	270	47	112	175	250
Oil revenue, extraordinary oil-related revenue and receipts of privatization or renewal of telecommunication licenses			147	312	475	550
Concessional borrowing	...	...	40	40	40	40

Sources: Chadian authorities; and IMF staff forecasts.

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

2. To be respected continuously.

**Table 2a. Structural Conditionality for 2015**

Measures	Due Dates	Macro-criticality
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.

**Table 2b. Structural Conditionality for 2016**

Measures	Due Dates	Macro-criticality
Producing an annual debt management report	End-June. 2016	Medium
Establishment of a structure responsible for Treasury planning and monitoring, and preparation of cash management plans	End-June. 2016	High
Rationalization of transfers and subsidies, based on the result of the functional and financial audit launched in 2015	End-Sept 2016	High
Enhanced reporting of gross and net oil revenue flows	End-June 2016	High
Limit emergency procedures to no more than 9 percent of domestically financed spending in 2016 (excluding wages, debt service, expenditures from the Independent National Electoral Commission, and security-related spending)	End-Dec. 2016	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)*, *TOUMAÏ 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, as well as receipts that could come from the sale by the Government of one of its assets in the oil sector; 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 paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014, 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 Direction of "Ordonnancement" (payment orders) 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, including any grace period, specified in the pertinent contract.
12. **Loan concessionality.** Debt is considered concessional if it includes a grant element of at least 35 percent<sup>1</sup>. 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<sup>2</sup>. 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<sup>3</sup>, since the end of the previous year. Net non bank financing to the government includes the issuance of government 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.

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<sup>1</sup> 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>.

<sup>2</sup> 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.

<sup>3</sup> 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.

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 ceiling is calculated as the net domestic financing to government (defined in paragraph 15), to which are added the extraordinary receipts (defined in paragraph 6). This 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 and 2016 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 in response to an excess/shortfall in oil revenue, grants, plus extraordinary and privatization receipts. The magnitude of the adjustment will be proportional to the cumulative excess/shortfall as follows: 50 percent for each of the first two quarters of 2016, and 75 percent for the remainder of the year.
  - the ceiling on net domestic financing of the government can be adjusted downward/upward by the remainder of the excess /shortfall in 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. Structural Benchmarks

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

21. 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. The limit in using DAOs to a maximum of 9 percent of total domestically-financed expenditure in 2016 applies to domestically-financed spending excluding wages, debt service, expenditures of the Independent National Electoral Commission, and military spending. This limit applies to DAOs at the end of the fiscal year, including the complementary period.).

22. Enhanced reporting of gross and oil revenue means the regular publication of a note by the inter-ministerial committee including information on production trends, cargoes exported, discount on Chadian barrel compared to the price of Brent, oil revenues and their breakdown, as well as information on cash flows relating to SHT, which impacts the final level of revenue, such as repayment of Glencore loan or cash calls by ESSO consortium.

<b>Summary of Data to be Reported</b>		
<b>Data</b>	<b>Provider</b>	<b>Periodicity and Target Date</b>
Oil and non-oil revenue, by category  <i>Collection situation</i>  <i>Revenue position of the revenue-collecting agencies</i>	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  <i>Table showing the four phases; payroll table, including benefits</i>	Ministry of Finance and Budget  General Budget Directorate   DGB	Monthly, within 15 days after month-end.
<i>Table of expenditure before payment authorization; TOFE, on a cash basis;</i>     <i>Comparative table on budget execution, consolidated balance tables (changes in debts, claims, etc.); and consolidated Treasury balance</i>	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)**

<b>Data</b>	<b>Provider</b>	<b>Periodicity and Target Date</b>
Details on the servicing of the domestic debt and payment arrears of the government <sup>1</sup>	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 <sup>2</sup>	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 ( <i>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</i> <sup>3</sup> )	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
<sup>1</sup> Including maturities. <sup>2</sup> Including the breakdown by currency and maturity <sup>3</sup> Both market-based and officially determined, including discounts, money market rates, and rates on treasury bills, and bonds and other securities.		



# CHAD

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

December 1, 2015

Approved By  
**David Robinson and Luis  
Cubeddu (IMF) and  
John Panzer (IDA)**

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

*This Debt Sustainability Analysis (DSA) updates the previous one which was conducted at the time of the HIPC completion point in April 2015 (IMF Country Report No. 15/124). It reflects a new macroeconomic and financing outlook that incorporates information on the recent rescheduling of two oil sales' advances, further deterioration in the security and oil price shocks, and changes in the domestic financing landscape. Although the rescheduling operation implies some improvement in the medium-term outlook for external debt obligations, the risk of debt distress remains high as repayment capacity is affected by the low oil prices. The performance of several debt ratios deteriorates over the short term compared to the previous DSA, mainly due to the downward revision of fiscal revenues, but the long-term dynamics remain broadly unchanged. The persistent challenges on debt sustainability underscore the need for continued prudent fiscal management and economic diversification.<sup>1</sup>*

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<sup>1</sup> Chad's average CPIA over 2012-14 is estimated at 2.5. This corresponds to a weak policy performance under the Debt Sustainability Framework for Low-Income Countries (LIC-DSA).

## UNDERLYING ASSUMPTIONS

### 1. This DSA update incorporates three main changes in assumptions relative to the previous DSA.<sup>2</sup>

- First, the persistent decline in oil prices and the deterioration of security conditions have led to further downward adjustments in fiscal revenue and expenditure projections. The oil prices assumed in the DSA have been revised in line with the latest WEO assumptions, which imply a much lower fiscal oil revenue path over the medium term. The resulting primary spending cuts adversely impact overall GDP growth, especially in the short to medium term. The higher regional security threats have also had a negative effect on economic activity, due to the disruption of cross-border flows. In this context, there are substantial changes in the outlook for the medium-term fiscal primary balance, the external current account dynamics, and non-oil growth (Text Table 1). In 2016, the DSA also incorporates the assumption of exceptional receipts from the government's sale of a 10 percent equity stake in oil sector fields, which will generate about 5.5 percent of non-oil GDP.<sup>3</sup>
- Second, a rescheduling agreement with Glencore consolidating the two non-concessional oil sales' advance operations has now been concluded, and the update reflects the new terms. The rescheduling agreement implies an increase in the original debt's net present value, but significantly improves Chad's debt service profile over the medium term by better matching debt service to the anticipated path of oil receipts.
- Finally, revised domestic financing assumptions include: (i) an increase in the placement of domestic debt instruments from 2015 onwards, and (ii) a one-off source of exceptional financing for 2015 in the form of BEAC's statutory and extraordinary advances. The BEAC advances have a maturity of 10 years, a grace period of 3 years, and an interest rate equivalent to BEAC's rediscount rate. Their amortization schedule will therefore coincide with the projected recovery in oil revenue in 2018-22.

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<sup>2</sup> See Appendix II of Chad's IMF Country Report No. 15/124: Joint Bank-Fund Debt Sustainability Analysis Under the Debt Sustainability Framework for Low-Income Countries, IDA and IMF, April 10, 2015, Washington D.C., <https://www.imf.org/external/pubs/ft/scr/2015/cr15124.pdf>.

<sup>3</sup> The receipts from this equity sale are included in the balance of payments in the form of foreign direct investment.

**Text Table 1. Chad: Changes to Macroeconomic Assumptions**

	2015	2016	2017	2015-19	2020-34
<b>Real GDP growth</b>					
Previous DSA	7.6	4.9	8.3	6.2	3.4
Current DSA	3.8	2.5	5.2	4.7	3.0
<b>Non-oil GDP growth</b>					
Previous DSA	2.1	4.4	4.9	4.2	4.7
Current DSA	-1.5	1.9	3.1	2.3	4.3
<b>Total revenue and grants (% of non-oil GDP)</b>					
Previous DSA	21.5	23.5	25.2	27.7	27.1
Current DSA	16.7	17.1	19.4	20.5	24.3
<b>Oil revenue (% of non-oil GDP)</b>					
Previous DSA	8.1	10.4	11.6	14.0	9.1
Current DSA	5.1	4.5	7.3	8.1	8.0
<b>Non-oil primary balance (% of non-oil GDP)</b>					
Previous DSA	-8.4	-7.4	-8.0	-10.1	-7.7
Current DSA	-9.7	-10.1	-8.0	-9.0	-6.3
<b>Exports of goods and services (% of GDP)</b>					
Previous DSA	27.5	30.1	34.6	32.4	23.6
Current DSA	24.9	25.8	29.4	30.0	24.2

Sources: Chadian authorities and IMF Staff estimates.

## EXTERNAL DSA

2. **The results indicate that the risk of external debt distress remains high, with a slight deterioration in the debt service profile over the short to medium term** (Table 1, Figure 1).

Under the baseline scenario, two of the external debt indicators exceed their respective thresholds in the short-run. The small breach of the PV of debt-to-revenue ratio in 2015 is due to the substantial reduction in fiscal oil revenue. The breach for the debt service-to-revenue ratio in 2016, which was also observed in the previous DSA but appears exacerbated in the current DSA, is explained by the continued underperformance of oil revenue and the high debt service payments falling due in 2016 (under the rescheduled oil advances). However, over the long term, the debt ratios stabilize to levels similar to the previous DSA. The stress tests indicate that external debt is especially vulnerable to high exchange rate depreciation and poor export performance, in particular over the short-term.

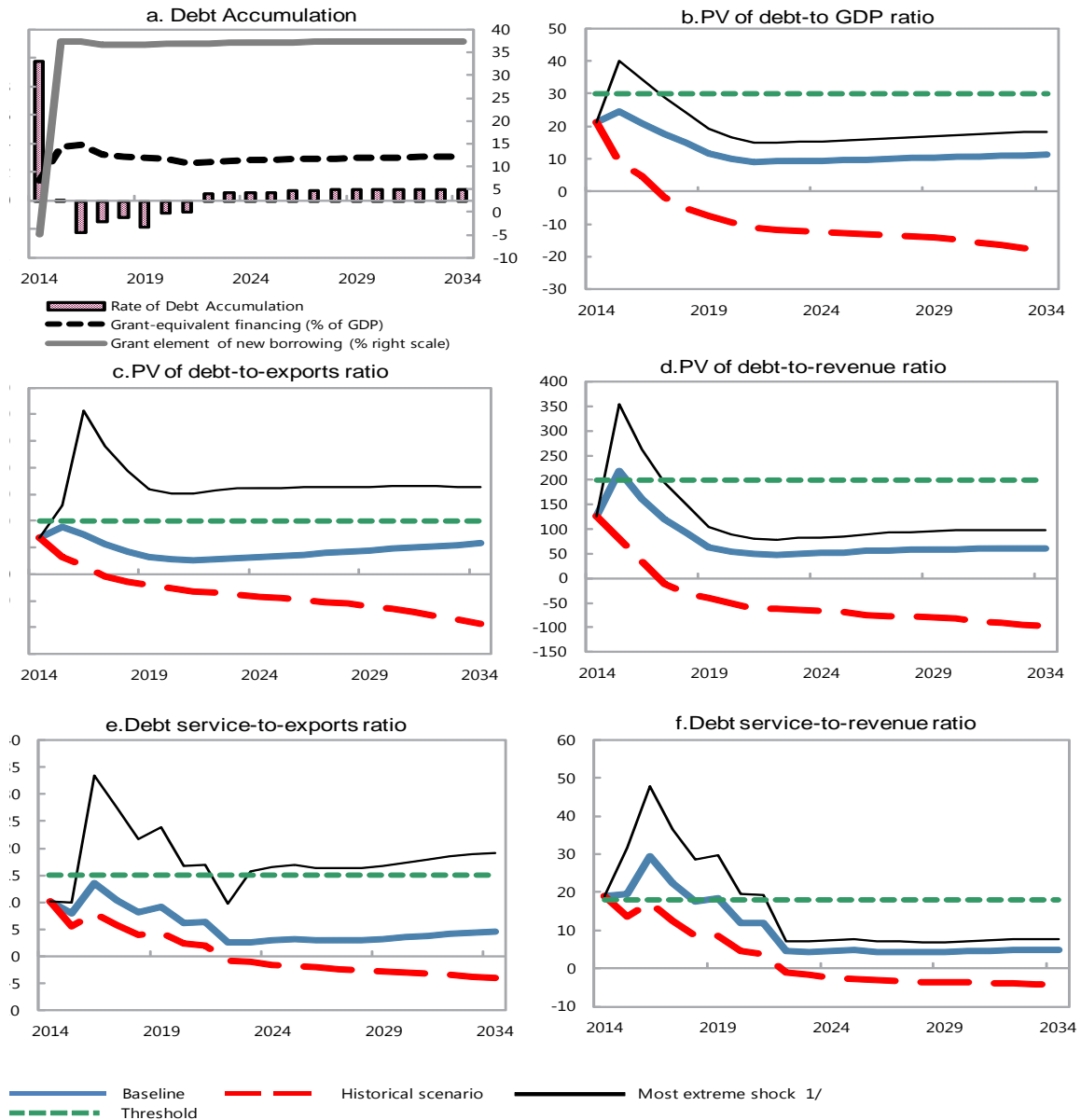
## PUBLIC DSA

3. **The assessment of Chad's overall risk of debt sustainability does not change when domestic debt is included in the analysis** (Tables 2 and 3, Figure 2). Despite the upward revision of domestic debt issuance, the public debt indicators continue to be driven by the external debt component. Under the baseline projection, the PV of debt-to-GDP ratio rises close to the threshold in 2015, reflecting the BEAC advances and the increased issuance of debt securities in the regional market, but then gradually declines. Meanwhile, as stated in the previous DSA, the stress tests underscore the sustainability risks related to exchange rate depreciation and lack of fiscal adjustment. These vulnerabilities emphasize the importance of prudent fiscal management in the face of volatile oil revenues.

## CONCLUSION

4. **While Chad remains at high risk of external debt distress, the persistence of oil and security shocks has worsened some debt ratios in the short term.** Despite the negative impact of the deterioration in the two external shocks, the updated DSA's baseline projections remain consistent with medium- and long-term debt sustainability. However, in the short term (2015-17), Chad's repayment capacity has been negatively affected by lower oil revenues, in spite of the rescheduling of oil sales' advances. The persistence of risks coming from external shocks stresses the need for diversifying the economy to minimize the dependence on the oil sector for repayment capacity. Further improvement in fiscal and debt management is also required. In this respect, the effective functioning of the recently revamped inter-ministerial debt coordination units will be important for strengthening the capacity to record and monitor public debt. In addition, the government will start issuing annual debt management reports since 2016, and will undertake institutional improvements in the management of spending arrears in line with recent Fund TA recommendations.

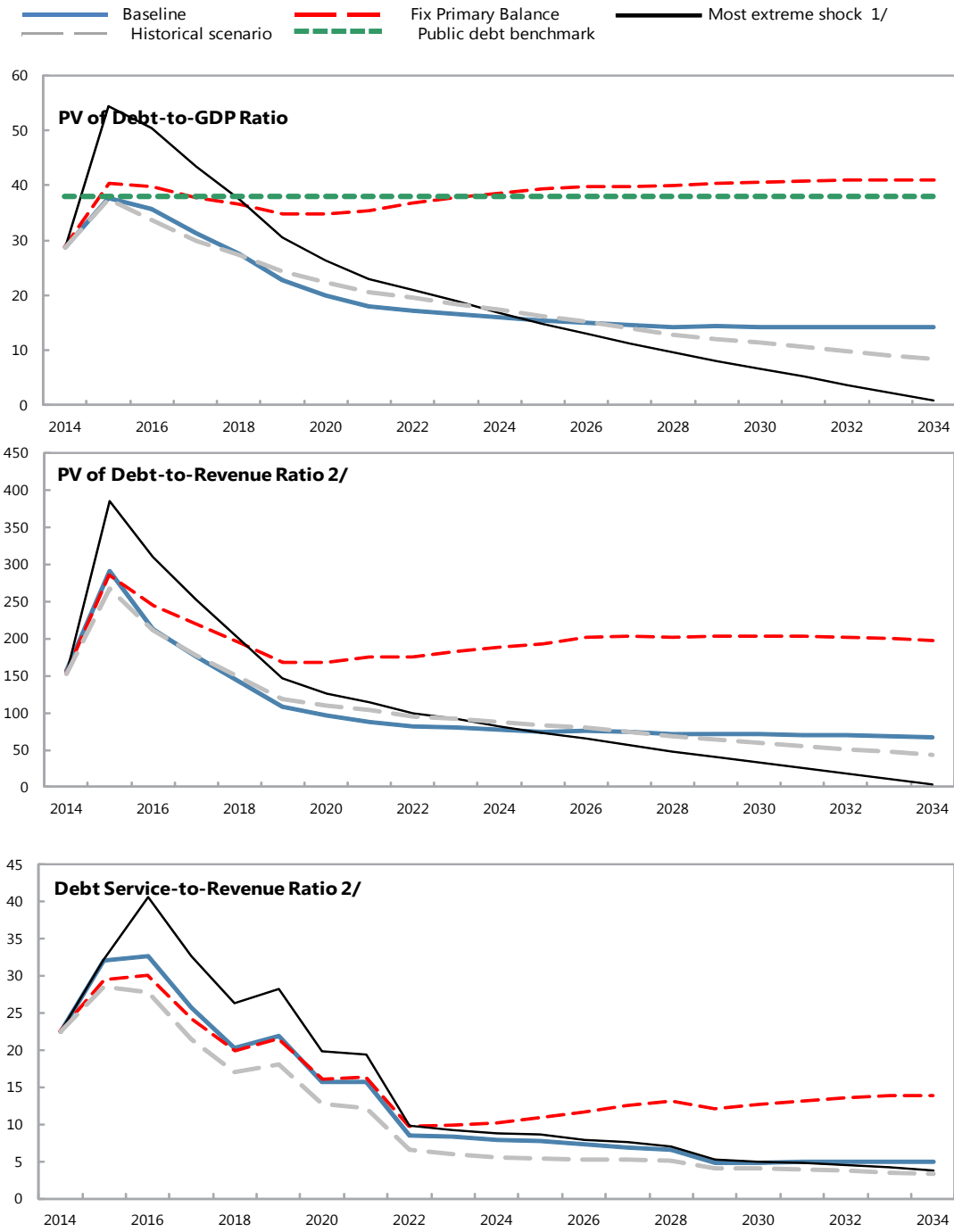
**Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014 – 34<sup>1/</sup>**



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b, it corresponds to a One-time depreciation shock; in c, to a Exports shock; in d, to a One-time depreciation shock; in e, to a Exports shock and in figure f, to a One-time depreciation shock

**Figure 2. Chad: Indicators of Public Debt Under Alternative Scenarios, 2014-34 <sup>1/</sup>**



Sources: Country authorities; and staff estimates and projections.  
 1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.  
 2/ Revenues are defined inclusive of grants.

**Table 1 .Chad: External Debt Sustainability Framework, Baseline Scenario, 2011-34 <sup>1/</sup>**

(In percent of GDP, unless otherwise indicated)

	Actual												Historical Average	6/ Standard Deviation	Projections											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014			2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average			
<b>External debt (nominal) 1/</b>	<b>120.9</b>	<b>77.3</b>	<b>67.3</b>	<b>55.8</b>	<b>48.4</b>	<b>47.3</b>	<b>47.8</b>	<b>44.5</b>	<b>41.9</b>	<b>39.0</b>	<b>37.6</b>			<b>47.7</b>	<b>46.6</b>	<b>42.1</b>	<b>37.1</b>	<b>33.1</b>	<b>28.5</b>			<b>23.9</b>	<b>22.1</b>			
<i>of which: public and publicly guaranteed (PPG)</i>	120.9	77.3	67.3	55.8	48.4	47.3	47.8	44.5	41.9	39.0	37.6			47.7	46.6	42.1	37.1	33.1	28.5			23.9	22.1			
Change in external debt	...	-43.6	-10.0	-11.5	-7.4	-1.2	0.5	-3.2	-2.6	-2.9	-1.4			10.1	-1.0	-4.5	-5.0	-4.0	-4.6			-0.3	-0.2			
Identified net debt-creating flows	...	-43.9	-36.4	-19.2	-16.1	-17.7	8.4	-2.5	-4.3	3.3	3.4			1.3	3.6	-2.0	1.8	-1.3	-2.8			-0.3	1.8			
<b>Non-interest current account deficit</b>	<b>42.5</b>	<b>14.3</b>	<b>-1.7</b>	<b>-5.1</b>	<b>-8.7</b>	<b>-4.1</b>	<b>8.7</b>	<b>8.6</b>	<b>5.3</b>	<b>8.4</b>	<b>8.9</b>	<b>3.5</b>	<b>7.7</b>	<b>8.3</b>	<b>9.7</b>	<b>6.6</b>	<b>7.1</b>	<b>3.4</b>	<b>0.8</b>			<b>1.4</b>	<b>3.0</b>	2.1		
Deficit in balance of goods and services	32.5	7.7	-10.1	1.2	-3.2	-1.8	12.5	11.3	7.3	10.7	9.7			12.6	14.9	12.2	9.8	4.6	0.7			1.8	4.6			
Exports	21.5	45.6	48.0	47.6	44.5	42.7	35.4	37.9	40.7	38.3	33.5			31.5	27.6	28.6	32.0	35.4	37.2			29.2	19.6			
Imports	54.0	53.3	37.9	48.8	41.3	40.8	47.9	49.1	48.0	49.0	43.2			44.1	42.5	40.8	41.8	40.0	37.9			31.0	24.2			
Net current transfers (negative = inflow)	-3.2	-4.4	-5.0	-2.9	-6.8	-4.5	-7.5	-5.6	-4.3	-4.4	-5.1			-5.1	1.3	-7.9	-6.3	-6.1	-5.2	-4.9	-4.6			-4.2	-3.3	-3.9
<i>of which: official</i>	-2.4	-2.8	-1.6	-0.8	-0.8	-0.8	-0.8	-0.4	-0.3	-0.9	-1.5			-4.4	-2.4	-2.2	-1.5	-1.5	-1.3			-1.3	-1.4			
Other current account flows (negative = net inflow)	13.2	11.1	13.5	-3.4	1.4	2.2	3.7	3.0	2.3	2.1	4.2			3.6	1.1	0.6	2.5	3.7	4.7			3.8	1.8			
<b>Net FDI (negative = inflow)</b>	<b>-32.8</b>	<b>-13.1</b>	<b>-16.1</b>	<b>-7.7</b>	<b>0.0</b>	<b>-5.8</b>	<b>-6.6</b>	<b>-3.2</b>	<b>-4.5</b>	<b>-4.7</b>	<b>-4.0</b>	<b>-6.8</b>	<b>4.6</b>	<b>-5.2</b>	<b>-5.3</b>	<b>-8.7</b>	<b>-4.2</b>	<b>-3.4</b>	<b>-2.3</b>			<b>-1.2</b>	<b>-0.7</b>	-1.2		
<b>Endogenous debt dynamics 2/</b>	<b>...</b>	<b>-45.2</b>	<b>-18.7</b>	<b>-6.4</b>	<b>-7.4</b>	<b>-7.8</b>	<b>6.2</b>	<b>-5.9</b>	<b>-5.1</b>	<b>-0.4</b>	<b>-1.4</b>			<b>-1.8</b>	<b>-0.8</b>	<b>0.1</b>	<b>-1.1</b>	<b>-1.3</b>	<b>-1.3</b>			<b>-0.5</b>	<b>-0.5</b>			
Contribution from nominal interest rate	...	0.7	0.6	0.6	0.4	0.4	0.5	0.4	0.3	0.3	0.3			0.6	1.5	1.2	0.9	0.7	0.5			0.2	0.2			
Contribution from real GDP growth	...	-25.2	-4.6	-0.4	-1.6	-1.2	-2.2	-5.6	0.0	-3.7	-2.1			-2.4	-2.2	-1.1	-2.0	-2.0	-1.8			-0.6	-0.7			
Contribution from price and exchange rate changes	...	-20.7	-14.6	-6.6	-6.3	-6.9	8.0	-0.6	-5.4	3.0	0.4			...	...	...	...	...	...			...	...			
<b>Residual (3-4) 3/</b>	<b>...</b>	<b>0.3</b>	<b>26.4</b>	<b>7.7</b>	<b>8.8</b>	<b>16.5</b>	<b>-7.9</b>	<b>-0.7</b>	<b>1.7</b>	<b>-6.2</b>	<b>-4.9</b>			<b>8.8</b>	<b>-4.6</b>	<b>-2.5</b>	<b>-6.8</b>	<b>-2.7</b>	<b>-1.8</b>			<b>-0.1</b>	<b>-2.0</b>			
<i>of which: exceptional financing</i>	...	-0.2	0.0	0.3	-0.5	0.1	0.0	0.0	0.0	0.0	0.0			0.0	-0.8	-0.8	-0.6	-0.3	-0.3			-0.2	-0.1			
PV of external debt 4/	...	...	...	...	...	...	...	...	...	...	...	11.2		21.4	24.6	21.0	17.6	14.9	11.8			9.5	11.2			
In percent of exports	...	...	...	...	...	...	...	...	...	...	...	33.5		67.8	89.1	73.6	55.1	42.2	31.6			32.5	57.4			
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>11.2</b>		<b>21.4</b>	<b>24.6</b>	<b>21.0</b>	<b>17.6</b>	<b>14.9</b>	<b>11.8</b>			<b>9.5</b>	<b>11.2</b>			
In percent of exports	...	...	...	...	...	...	...	...	...	...	...	33.5		67.8	89.1	73.6	55.1	42.2	31.6			32.5	57.4			
In percent of government revenues	...	...	...	...	...	...	...	...	...	...	...	60.4		126.6	217.8	160.8	119.2	90.6	63.5			51.3	60.2			
<b>Debt service-to-exports ratio (in percent)</b>	<b>20.3</b>	<b>6.0</b>	<b>4.3</b>	<b>3.8</b>	<b>3.5</b>	<b>3.1</b>	<b>4.1</b>	<b>3.4</b>	<b>2.7</b>	<b>2.9</b>	<b>3.1</b>			<b>10.2</b>	<b>8.0</b>	<b>13.4</b>	<b>10.4</b>	<b>8.2</b>	<b>9.1</b>			<b>2.9</b>	<b>4.5</b>			
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>20.3</b>	<b>6.0</b>	<b>4.3</b>	<b>3.8</b>	<b>3.5</b>	<b>3.1</b>	<b>4.1</b>	<b>3.4</b>	<b>2.7</b>	<b>2.9</b>	<b>3.1</b>			<b>10.2</b>	<b>8.0</b>	<b>13.4</b>	<b>10.4</b>	<b>8.2</b>	<b>9.1</b>			<b>2.9</b>	<b>4.5</b>			
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>...</b>	<b>36.2</b>	<b>24.7</b>	<b>12.7</b>	<b>8.5</b>	<b>6.1</b>	<b>11.9</b>	<b>6.7</b>	<b>4.8</b>	<b>5.0</b>	<b>5.7</b>			<b>19.1</b>	<b>19.5</b>	<b>29.4</b>	<b>22.4</b>	<b>17.5</b>	<b>18.3</b>			<b>4.6</b>	<b>4.8</b>			
Total gross financing need (Billions of U.S. dollars)	...	...	...	...	-0.6	-0.9	0.3	0.5	0.2	0.6	0.8			0.9	0.7	0.2	0.8	0.4	0.3			0.2	1.2			
Non-interest current account deficit that stabilizes debt ratio	...	57.9	8.3	6.4	-1.3	-3.0	8.2	11.8	7.9	11.3	10.3			-1.8	10.7	11.2	12.1	7.4	5.4			1.7	3.2			
<b>Key macroeconomic assumptions</b>																										
Real GDP growth (in percent)	14.7	33.6	7.9	0.6	3.3	3.1	4.2	13.5	0.1	8.9	5.7	8.1	9.8	6.9	3.8	2.5	5.2	5.8	6.0			5.0	2.7	3.3		
GDP deflator in US dollar terms (change in percent)	19.8	20.7	23.3	10.9	12.8	16.7	-14.4	1.4	13.9	-6.6	-1.0	7.7	12.4	0.7	-22.1	3.4	5.7	4.6	4.7			-0.5	2.3	2.7		
Effective interest rate (percent) 5/	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.1	1.7	2.5	2.7	2.4	2.1	1.7			2.2	0.7	0.9		
Growth of exports of G&S (US dollar terms, in percent)	164.4	241.5	40.0	10.7	8.9	15.3	-26.1	23.3	22.3	-4.1	-8.6	32.3	75.8	1.4	-29.2	9.6	24.4	22.4	16.8			7.6	0.1	2.6		
Growth of imports of G&S (US dollar terms, in percent)	-23.1	59.0	-5.4	43.6	-1.3	18.9	4.5	18.1	11.3	3.8	-7.7	14.5	21.7	9.9	-22.1	1.6	13.9	6.0	5.1			2.4	0.8	4.4		
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...			30.0	37.1	37.5		
Government revenues (excluding grants, in percent of GDP)	...	7.5	8.3	14.4	18.5	21.3	12.3	18.9	23.2	21.8	18.5	...	...	4.8	37.4	37.3	36.7	36.7	36.8			18.5	18.6			
Aid flows (in Billions of US dollars) 7/	...	0.1	0.2	0.1	0.2	0.2	0.4	0.3	0.5	0.4	0.3			0.3	0.4	0.5	0.4	0.5	0.5			0.6	1.2			
<i>of which: Grants</i>	...	0.1	0.2	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.3			0.3	0.4	0.4	0.3	0.4	0.4			0.5	0.9			
<i>of which: Concessional loans</i>	...	...	...	...	0.1	0.0	0.1	0.1	0.1	0.1	0.1			0.1	0.1	0.0	0.1	0.1	0.1			0.1	0.3			
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	...	...	...	...	...	...	...	...			1.5	3.8	3.9	3.2	3.1	3.0			2.8	3.1			
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	...	...	...	...	...	...	...	...			11.3	78.2	86.7	75.6	74.2	74.0			74.6	73.5			
<b>Memorandum items:</b>																										
Nominal GDP (Billions of US dollars)	3.1	5.0	6.7	7.4	8.7	10.4	9.3	10.7	12.2	12.4	13.0			13.9	11.3	11.9	13.3	14.7	16.3			20.7	36.1			
Nominal dollar GDP growth	...	61.2	33.1	11.6	16.5	20.2	-10.8	15.1	14.0	1.7	4.7			7.7	-19.2	5.9	11.2	10.7	11.0			4.5	5.0			
PV of PPG external debt (in Billions of US dollars)	...	...	...	...	...	...	...	...	...	...	...	1.5		2.8	2.8	2.5	2.3	2.2	1.9			2.0	4.1			
(Pvt-Pvt-1)/GDPt-1 (in percent)	...	...	...	...	...	...	...	...	...	...	...			<b>9.8</b>	0.1	-2.2	-1.5	-1.1	-1.8			0.5	0.6			
Gross workers' remittances (Billions of US dollars)	...	...	...	...	...	...	...	...	...	...	...			...	...	...	...	...	...			...	...			
PV of PPG external debt (in percent of GDP + remittances)	...	...	...	...	...	...	...	...	...	...	...	11.2		21.4	24.6	21.0	17.6	14.9	11.8			9.5	11.2			
PV of PPG external debt (in percent of exports + remittances)	...	...	...	...	...	...	...	...	...	...	...	33.5		67.8	89.1	73.6	55.1	42.2	31.6			32.5	57.4			
Debt service of PPG external debt (in percent of exports + remittances)	...	...	...	...	...	...	...	...	...	...	...	3.1		10.2	8.0	13.4	10.4	8.2	9.1			2.9	4.5			

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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



**Table 2. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-34**

(In percent)

	Projections							2034
	2014	2015	2016	2017	2018	2019	2024	
<b>PV of debt-to GDP ratio</b>								
<b>Baseline</b>	21	25	21	18	15	12	<b>9</b>	11
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2014-2034 1/	21	9	5	-2	-5	-7	<b>-12</b>	-18
A2. New public sector loans on less favorable terms in 2014-2034 2	21	25	22	19	17	15	<b>15</b>	20
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	21	26	23	19	16	13	<b>10</b>	12
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	21	28	36	32	28	24	<b>19</b>	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	21	20	19	16	13	10	<b>8</b>	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	21	28	31	27	24	20	<b>16</b>	12
B5. Combination of B1-B4 using one-half standard deviation shocks	21	14	11	9	7	5	<b>4</b>	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	21	40	34	29	24	19	<b>15</b>	18
<b>PV of debt-to-exports ratio</b>								
<b>Baseline</b>	68	89	74	55	42	32	<b>32</b>	57
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2014-2034 1/	68	33	16	-6	-14	-20	<b>-42</b>	-93
A2. New public sector loans on less favorable terms in 2014-2034 2	68	90	78	61	49	39	<b>50</b>	103
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	68	89	74	55	42	32	<b>32</b>	58
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	68	128	307	241	194	158	<b>162</b>	162
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	68	89	74	55	42	32	<b>32</b>	58
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	68	103	108	84	67	54	<b>55</b>	63
B5. Combination of B1-B4 using one-half standard deviation shocks	68	50	44	31	23	15	<b>16</b>	47
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	68	89	74	55	42	32	<b>32</b>	58
<b>PV of debt-to-revenue ratio</b>								
<b>Baseline</b>	127	218	161	119	91	64	<b>51</b>	60
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2014-2034 1/	127	80	35	-12	-31	-40	<b>-67</b>	-97
A2. New public sector loans on less favorable terms in 2014-2034 2	127	221	169	131	105	79	<b>79</b>	109
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	127	229	177	131	100	70	<b>56</b>	67
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	127	250	276	215	171	131	<b>105</b>	70
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	127	177	142	106	80	56	<b>45</b>	53
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	127	252	237	182	143	108	<b>86</b>	67
B5. Combination of B1-B4 using one-half standard deviation shocks	127	126	87	61	43	27	<b>23</b>	45
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	127	353	262	194	147	104	<b>83</b>	98

**Table 2. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-34 (concluded)**

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
<b>Debt service-to-exports ratio</b>								
<b>Baseline</b>	10	8	13	10	8	9	<b>3</b>	5
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2014-2034 1/	10	6	8	6	4	4	<b>-2</b>	-4
A2. New public sector loans on less favorable terms in 2014-2034 2	10	8	4	3	2	4	<b>1</b>	3
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	10	8	13	10	8	9	<b>3</b>	5
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	10	10	33	27	22	24	<b>16</b>	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	10	8	13	10	8	9	<b>3</b>	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	10	8	14	11	9	10	<b>5</b>	7
B5. Combination of B1-B4 using one-half standard deviation shocks	10	6	11	9	7	8	<b>1</b>	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	10	8	13	10	8	9	<b>3</b>	5
<b>Debt service-to-revenue ratio</b>								
<b>Baseline</b>	19	20	29	22	18	18	<b>5</b>	5
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2014-2034 1/	19	14	17	12	9	9	<b>-2</b>	-4
A2. New public sector loans on less favorable terms in 2014-2034 2	19	20	8	6	5	8	<b>2</b>	3
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	19	21	32	25	19	20	<b>5</b>	5
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	19	20	30	25	19	20	<b>11</b>	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	19	16	26	20	15	16	<b>4</b>	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	19	20	30	24	19	19	<b>9</b>	7
B5. Combination of B1-B4 using one-half standard deviation shocks	19	15	22	17	13	14	<b>2</b>	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	19	32	48	36	28	30	<b>8</b>	8
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	33	33	33	33	33	33	<b>33</b>	33

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Chad: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-34

(In percent of GDP, unless otherwise indicated)

	Actual			Average	s/	Standard Deviation	s/	Estimate					Projections				
	2011	2012	2013					2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
<b>Public sector debt 1/</b>	49.6	47.1	46.5					55.1	59.7	56.7	50.7	45.6	39.4	51.2	30.4	25.0	27.6
<i>of which: foreign-currency denominated</i>	41.9	39.0	37.6					47.7	46.6	42.1	37.1	33.1	28.5		23.9	22.1	
Change in public sector debt	-0.3	-2.5	-0.6					8.6	4.6	-3.0	-6.0	-5.1	-6.2		-1.0	-0.3	
Identified debt-creating flows	-3.5	-2.4	-1.7					-1.8	3.7	-6.2	-5.5	-5.7	-6.9		-2.0	-0.7	
Primary deficit 6/	-2.7	-1.1	1.5	0.1		3.9		2.3	1.4	-0.2	-2.1	-2.8	-3.1	-0.8	-0.6	0.5	-0.2
Revenue and grants	24.8	24.4	20.8					18.9	14.5	16.6	17.4	19.0	20.9		20.8	21.1	
<i>of which: grants</i>	1.6	2.7	2.3					2.0	3.2	3.5	2.6	2.5	2.4		2.3	2.4	
Primary (noninterest) expenditure	22.1	23.3	22.3					21.1	15.8	16.4	15.3	16.2	17.8		20.2	21.6	
Automatic debt dynamics	-0.8	-1.3	-2.7					0.4	2.7	-1.2	-3.0	-2.6	-3.5		-1.2	-1.1	
Contribution from interest rate/growth differential	-1.3	-6.5	1.1					-2.5	-5.3	-0.9	-2.9	-2.6	-2.9		-1.0	-1.1	
<i>of which: contribution from average real interest rate</i>	-1.3	-2.4	3.6					0.5	-3.3	0.6	-0.1	0.2	-0.3		-0.2	-0.3	
<i>of which: contribution from real GDP growth</i>	0.0	-4.0	-2.5					-3.0	-2.0	-1.4	-2.8	-2.8	-2.6		-0.8	-0.8	
Contribution from real exchange rate depreciation	0.6	5.2	-3.8					3.0	7.9	-0.4	-0.1	-0.1	-0.5		...	...	
Other identified debt-creating flows	0.0	-0.1	-0.5					-4.4	-0.3	-4.7	-0.4	-0.3	-0.3		-0.2	-0.1	
Privatization receipts (negative)	0.0	-0.1	0.0					-4.0	0.0	-4.3	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	-0.5					-0.4	-0.3	-0.4	-0.4	-0.3	-0.3		-0.2	-0.1	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0					0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	3.2	-0.1	1.1					10.3	0.8	3.2	-0.5	0.6	0.7		1.0	0.4	
<b>Other Sustainability Indicators</b>																	
<b>PV of public sector debt</b>	...	...	20.1					28.8	37.6	35.6	31.3	27.4	22.7		16.0	14.1	
<i>of which: foreign-currency denominated</i>	...	...	11.2					21.4	24.6	21.0	17.6	14.9	11.8		9.5	11.2	
<i>of which: external</i>	...	...	11.2					21.4	24.6	21.0	17.6	14.9	11.8		9.5	11.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...					...	...	...	...	...	...		...	...	
Gross financing need 2/	-1.6	0.7	3.9					6.5	6.0	5.2	2.4	1.1	1.4		1.0	1.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	96.8					152.7	260.3	214.2	179.7	144.7	108.4		76.9	67.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	108.6					170.5	333.0	272.3	211.6	166.4	122.5		86.3	75.8	
<i>of which: external 3/</i>	...	...	60.4					126.6	217.8	160.8	119.2	90.6	63.5		51.3	60.2	
Debt service-to-revenue and grants ratio (in percent) 4/	4.5	7.4	11.6					22.5	32.1	32.6	25.7	20.3	21.9		7.9	4.9	
Debt service-to-revenue ratio (in percent) 4/	4.8	8.3	13.0					25.1	41.1	41.5	30.2	23.4	24.7		8.9	5.6	
Primary deficit that stabilizes the debt-to-GDP ratio	-2.4	1.4	2.1					-6.3	-3.2	2.7	3.9	2.3	3.0		0.4	0.8	
<b>Key macroeconomic and fiscal assumptions</b>																	
Real GDP growth (in percent)	0.1	8.9	5.7	8.1		9.8		6.9	3.8	2.5	5.2	5.8	6.0	5.0	2.7	3.3	3.0
Average nominal interest rate on forex debt (in percent)	0.9	0.8	0.8	0.9		0.1		1.7	2.5	2.7	2.4	2.1	1.7	2.2	0.7	0.9	0.8
Average real interest rate on domestic debt (in percent)	...	8.7	5.6	7.1		2.2		1.1	4.0	3.7	2.3	2.8	0.8	2.5	2.2	2.3	2.2
Real exchange rate depreciation (in percent, + indicates depreciation)	1.3	14.6	-9.4	0.5		14.9		8.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.5	-4.0	-1.9	0.7		4.0		3.2	3.7	2.3	2.6	1.9	3.7	2.9	2.9	2.9	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.7	21.3	-1.3	2.3		7.7		-1.2	-30.2	6.8	0.1	13.7	16.6	1.0	2.1	4.0	3.9
Grant element of new external borrowing (in percent)	...	...	...	...		...		-4.8	37.4	37.3	36.7	36.7	36.8	30.0	37.1	37.5	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

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

6/ The primary deficit in the DSA grosses up oil revenue and debt service on the oil sales advances (in contrast to the fiscal tables in the Staff Report)

Table 4. Chad: Sensitivity Analysis for Key Indicators of Public Debt 2014-34

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	29	38	36	31	27	23	16	14
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	29	37	34	30	27	24	17	8
A2. Primary balance is unchanged from 2014	29	40	40	38	37	35	39	41
A3. Permanently lower GDP growth 1/	29	40	38	34	30	26	26	55
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	29	42	41	36	32	27	20	15
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	29	42	42	36	31	26	14	0
B3. Combination of B1-B2 using one half standard deviation shocks	29	41	40	34	29	23	12	-1
B4. One-time 30 percent real depreciation in 2015	29	55	50	44	37	31	17	1
B5. 10 percent of GDP increase in other debt-creating flows in 2015	29	45	42	37	32	26	14	0
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	157	290	213	176	142	108	77	67
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	153	267	211	177	147	119	87	43
A2. Primary balance is unchanged from 2014	153	286	244	220	195	167	188	197
A3. Permanently lower GDP growth 1/	153	281	231	194	158	123	125	250
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	153	291	246	206	166	127	98	70
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	153	294	259	212	167	124	69	1
B3. Combination of B1-B2 using one half standard deviation shocks	153	286	243	198	154	113	59	-6
B4. One-time 30 percent real depreciation in 2015	153	386	310	253	199	147	82	4
B5. 10 percent of GDP increase in other debt-creating flows in 2015	153	321	259	213	168	124	69	1
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	23	32	33	26	20	22	8	5
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	23	29	28	21	17	18	6	3
A2. Primary balance is unchanged from 2014	23	29	30	24	20	22	10	14
A3. Permanently lower GDP growth 1/	23	30	31	25	20	22	9	12
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	23	31	32	26	21	22	8	5
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	23	29	30	25	20	21	8	2
B3. Combination of B1-B2 using one half standard deviation shocks	23	30	30	24	19	21	7	1
B4. One-time 30 percent real depreciation in 2015	23	32	41	33	26	28	9	4
B5. 10 percent of GDP increase in other debt-creating flows in 2015	23	29	31	25	20	21	9	2

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

**Statement by Mr. Tiraina Ngueto Yambaye, Executive Director for Chad  
December 14, 2015**

On behalf of my Chadian authorities, I would like to thank Management and staff for their continued advice and support to their economic program. My authorities are also grateful to the Board for its approval of the observance by Chad of the completion point requirements under the Enhanced HIPC Initiative last April. They agree that the staff report gives a good account of the discussions held in N'Djamena during the staff mission in September 2015.

As indicated in the staff report and the authorities' letter of intent, the period under review and beyond has been marked by a deterioration in the price of oil and of the security situation notably the fight against the terrorist group Boko Haram. The shock caused by this fight has had far-reaching economic, financial, human and humanitarian consequences. As I already mentioned in my statement at the time of the first review in April 2015, Chadian troops have been increasingly involved in that fight with military operations in neighboring countries. Since the completion of the first review, the capital city N'Djamena suffered from bloody attacks in June and July 2015, which led to a total of 68 deaths among the civilian population. Other deadly attacks occurred in other parts of the country, the most recent attack taking place in the Lake Chad a few days ago and costing more than 15 lives. In addition, Chad is hosting a larger number of refugees fleeing not only the zones occupied by Boko Haram but also instability in neighboring countries.

The impact of persistent low oil prices is felt not only on the public finances but also on the domestic oil sector, as many oil companies revised downward their production and investment plans to maintain profitability. Ultimately, these corporate decisions led to a downward revision of projected oil production and exports for Chad.

The larger security and oil price shocks have complicated the implementation of the authorities' economic program in the period under review. Nevertheless, performance under the ECF arrangement has been satisfactory with most of the criteria and benchmarks set for the second review met, thanks to the authorities' strong commitment to the program. Given the weaker medium-term economic prospects for Chad and the significant risks to this outlook, my authorities call on the international community to provide additional and timely

support to their ongoing efforts to preserve stability in the Lake Chad region, address the humanitarian crisis and pursue a smooth implementation of their economic program.

### **I. Developments in 2015 and Performance Under the ECF**

The deterioration of the security situation and the protracted low oil prices have led to a downward revision of growth for 2015, despite an increase in oil production. The disruption of cross-border trade resulting from the growing insecurity and the lower public demand due to budget cuts have significantly affected the non oil sector which is now projected to contract by about 1.5 percent in 2015, despite a good performance in the agriculture sector. Inflation has become volatile and higher since the beginning of the year, reaching 4.3 percent in September 2015 up from 1.7 percent in 2014.

**On the fiscal front**, budget revenues for the first half of 2015 were 28 percent lower than projected due mainly to the fall in both oil and non oil revenues. Nonetheless, fiscal deficit at end-June 2015 was kept under control following cuts in expenditures, notably capital spending, to adapt to the lower revenues. Priority spending was preserved, in line with the related program objective. However, the low level of fiscal revenues and delays in the issuances of government securities resulted in an accumulation of domestic payment arrears.

My authorities continued to make notable progress in the implementation of fiscal-related reforms, in line with the Fund- and other donors-supported programs. Specifically, regarding transparency in the oil sector, a decree establishing an interministerial commission responsible for consolidating and disseminating information on oil revenues was issued. In addition, the information on budgetary oil revenues has been incorporated in the budget execution report for the second quarter of 2015. As regards public financial management, the use of extraordinary budgetary procedures (*Dépenses avant ordonnancements*, DAOs) to finance expenditures continued to be streamlined, with 5.5 percent of total expenditures at end-June 2015 having been financed through these procedures against an annual objective of 9.0 percent. Moreover, a procurement code and a revised general code of taxes were adopted, the recent census of enterprises has been validated and regulations to improve the business climate have been adopted.

**Monetary and financial sector developments** were driven by the fiscal outcome, as credit to the private sector increased owing to the recourse to bank financing by private companies awaiting government payments. Non-performing loans (NPLs) increased from 12 percent of gross loans in 2014 to 14.2 percent at end-July 2015, as a result of the economic slowdown and government payments arrears.

**The external sector** has been also impacted by recent developments as the current account deficit widened further and international reserves declined to a 4-year low in August 2015. As envisaged at the time of the first review, my authorities secured a rescheduling agreement

with Glencore –a private oil company– on the repayments of two oil sales advances. Specifically, this rescheduling consolidates the balance of these two advances, extends the maturity from 4 to 5-6 years and improves Chad's debt profile over the medium-term. However, the rescheduling has increased the NPV of the consolidated loans and hence lower the concessionality level of the original loan.

**Program performance under the ECF** at end June 2015 was satisfactory, with 4 out of 6 performance criteria met. The two performance criteria not observed are related to the non-concessional external borrowing and the accumulation of domestic arrears, both explained above. Structural benchmarks at end-June 2015 and end-September 2015, all related to oil revenue transparency, were implemented. However, the impact of the external shocks has been such that the original quantitative program objectives of fiscal revenues for end-2015 would be difficult to achieve. Accordingly, the macroeconomic framework has been revised to take into account the new economic conditions. Given the exceptional circumstances that led to the nonobservance of the two performance criteria and in light of the strong adjustment effort to maintain the program on track, my authorities are requesting waivers for the nonobservance of the criteria, waivers for the modification of performance criteria for end-2015, and the completion of the second review under the ECF.

## **II. Gap Financing in 2015**

The revision of the macroeconomic framework resulted in an additional financing gap for 2015. Despite the projected higher oil production, a rebound in oil revenues in the short run is unlikely. Therefore, given the magnitude of the fiscal adjustment already made in the first half of 2015, there is limited scope for additional adjustment by the end of 2015, especially as social, poverty-reducing and security spending must be protected and a good functioning of the administration must be preserved.

Against this backdrop, the authorities' strategy to close the gap in 2015 has been to obtain additional financing, supplemented by additional expenditure adjustments identified in an emergency action plan that was presented to civil society, trade unions and development partners during a seminar held in early October 2015. As a result of their resource mobilization efforts, additional financing has been secured from (i) the central bank (BEAC) in the form of statutory and exceptional advances; (ii) the rescheduling of repayments of oil sales advances; (iii) additional issuances of government securities in the regional capital market; and (iv) assistance from international partners in the form of budget support.

My authorities took supplementary fiscal adjustment measures in the second part of 2015. These included limiting all new spending commitments except in priority sectors such as education, health, and security. To improve cash flow management, a meeting bringing together senior officials of the Presidency and the Ministry of Finance and Budget is held

each week to make a clear appraisal of revenue and expenditures. My authorities intend to set up a permanent structure for cash flow forecasting and management by June 2016.

### **III. Policies for 2016**

My Chadian authorities intend to take effective measures, in order to meet the challenges facing Chad and sustain socio-economic programs implemented to improve the living conditions of the population. Therefore, they will pursue their macroeconomic and fiscal objectives aimed at preserving macroeconomic stability and furthering the diversification of the economy in the context of their national development plan. They will particularly pursue the opening up of Chad, which is landlocked, by rehabilitating the land routes to Niger and Sudan with the support of international financial institutions.

**My authorities remain committed to a prudent fiscal policy.** They submitted a draft budget for 2016 to the National Assembly in late October 2015, which includes elements of the emergency action plan and is in line with the medium-term objective of fiscal and debt sustainability. The 2016 draft budget contemplates a slight increase in the non-oil primary deficit compared to 2015 due to the need to allocate the resources necessary for the optimal organization of the elections in 2016, as well as allow expenses considered as essential for security. One important element of the budget is the inclusion of exceptional revenues linked to the sale of the state participation in oil fields in Chad. This exceptional revenue will mainly finance one-off expenditures upon receipt. Apart from these exceptional proceeds, the government intends to mobilize resources from issuance of securities, project financing and budget support from international partners. My authorities have developed a contingency plan for revenue shortfalls, which includes delaying some investment projects and increasing issuances of government securities if and when needed.

**My authorities will refrain from contracting new nonconcessional debt.** New external borrowings would be contracted on concessional terms to finance investment projects. However, my authorities repeatedly stress the increasing difficulty to secure concessional financing. In this context, they are hopeful that international partners will timely disburse their pledged budgetary support.

**Fiscal reforms started in the last few years will continue,** in line with the recommendations of technical assistance reports and consistent with the measures identified in the emergency action plan. In particular, the improvement of domestic revenue mobilization will be a priority of the fiscal program going forward. In that regard, tax exemptions and incentives will be streamlined, collection of real estate taxes will be systematically implemented, and the formalization of the informal sector will be pursued. On the expenditure side, my authorities will continue, among others, to improve the expenditure management system through continued limited use of DAOs and their automation, and ensure a rationalization of transfers and subsidies to public entities, consistent with the



recommendations of the audit thereon. The cash management forecasting system will be gradually strengthened. My authorities remain committed to improving the public procurement procedures and achieving greater transparency in oil-related fiscal operations. On the latter point, my authorities reiterate their request for Fund technical assistance to update the forecasting model for oil tax revenues.

#### **IV. Conclusion**

The worsening of the security situation and the protracted low oil prices significantly complicated the implementation of the Chadian authorities' program. In response to these major external shocks, my authorities took strong adjustment measures to keep their program on track and preserve macroeconomic stability. Performance under the ECF has been satisfactory. In light of this achievement, my authorities are requesting waivers for the nonobservance of criteria, waivers for the modification of performance criteria for end-2015 and the completion of the second review under the ECF. I would appreciate Directors' favorable consideration of my authorities' requests.