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CHAD

November 2016

THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AUGMENTATION OF ACCESS, EXTENSION OF THE CURRENT ARRANGEMENT, AND REPHASING OF DISBURSEMENTS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHAD

In the context of the Chad's Third and Fourth Reviews under the Extended Credit Facility Arrangement, and Requests for Waivers of Nonobservance of Performance Criteria, Augmentation of Access, Extension of the Arrangement, and Rephasing of Disbursements, 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 November 11, 2016, following discussions that ended on October 8, 2016, 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 October 28, 2016.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA.)
- 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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November 11, 2016

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IMF Executive Board Completes Third and Fourth ECF Reviews for Chad, Increases Access, Extends the Arrangement, and Approves US$61 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third and fourth reviews of Chad's economic performance under the program supported by an Extended Credit Facility (ECF)[1] arrangement. Completion of these reviews enables the immediate disbursement of SDR 44.41 million (about US$61 million). This brings total disbursements under the arrangement to SDR 98.34million (about US $135 million).

The Board also approved the authorities' request to waive the non-observance of the continuous performance criterion on the non-accumulation of new external payments arrears and the end-December 2015 and end-June 2016 performance criteria on the non-accumulation of domestic payment arrears. It also approved requests to augment access under the program for SDR 33.64 million or 24 percent of quota (about US$46.2 million) and to extend the arrangement until end-November 2017, as well as a rephrasing of the planned disbursements.

Chad's ECF arrangement was originally approved by the Executive Board on August 1, 2014 (see Press Release No. 14/381) for SDR 79.92 million (about US$109.7 million). Additional access of 40 percent of Chad's quota at the time was approved by the Executive Board in April 2015, bringing Chad's access under the ECF arrangement to SDR 106.56 million (about US$146.3 million) at that time.

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

"Performance under the ECF-supported program has been broadly satisfactory in spite of intensifying pressures from the oil shock and the tense regional security situation. The authorities have taken determined steps to address the fiscal imbalances that emerged earlier this year, by moving to cash-based execution of the budget and implementing large spending cuts. Progress has also been made in implementing the structural reform agenda.

“Moving forward, the second revised 2016 budget that was approved by the National Assembly and the draft 2017 budget that has been submitted to the National Assembly aim to preserve the significant adjustments made. While the budgets are based on conservative revenue assumptions, the authorities are committed to protect social spending, and will continue to seek additional donor support to ease the fiscal constraints. The augmentation of access under the ECF arrangement will help in this regard. For the medium term, the spending envelope should remain in line with available revenues and financing.

“The structural reform agenda remains focused on improving public financial management, including further enhancing oil sector transparency and budget implementation. The authorities are determined to implement a comprehensive strategy for the settlement of domestic expenditure arrears and will soon launch an audit of existing arrears to support this effort. The medium-term fiscal strategy is complemented by measures aimed at increasing non-oil revenue collections.

“A new National Development Plan is at an advanced stage of preparation. A key objective should be to identify measures to diversify the economy and improve the climate for private sector activity. Bold structural reforms are necessary for Chad’s development efforts, especially given oil revenue volatility.”

CHAD

October 28, 2016

THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AUGMENTATION OF ACCESS, EXTENSION OF THE CURRENT ARRANGEMENT, AND REPHASING OF DISBURSEMENTS

EXECUTIVE SUMMARY

Context: The economic and financial difficulties facing Chad worsened in the second half of 2015 and in 2016 due to a further drop in oil revenue and continued pressures resulting from Chad's regional peacekeeping efforts. In response, the authorities have implemented substantial fiscal adjustment to balance the budget and contain the accumulation of arrears. Nonetheless, liquidity conditions remain very tight, and social tensions have risen recently due to the large cuts in current spending. Growth has fallen sharply.

Program: On December 14, 2015, the Executive Board completed the second review under the Extended Credit Facility (ECF) arrangement approved on August 1, 2014, with an original access of 57 percent of quota (SDR 79.92 million). Access was augmented by SDR 26.64 million (19 percent of quota) at the first review, on April 27, 2015. Against a very difficult economic background, four of the six Performance Criteria (PC) related to the completion of the third and fourth reviews were met. Acute liquidity conditions led to nonobservances of the PCs on domestic arrears and external arrears. A strategy for clearing domestic arrears is under preparation, while external arrears have been cleared. Significant progress has been made recently on the structural reform agenda. The authorities are requesting waivers for the PCs not observed, a 4-month extension of the program, an access augmentation of SDR 33.64 million (24 percent of quota) due to the worsening exogenous shock, and a rephasing of access for the remainder of the program.

Staff views: Staff supports the completion of the third and fourth reviews under the ECF arrangement, the waivers of nonobservance of PCs on the non-accumulation of domestic arrears and non-accumulation of external arrears, on the basis of the corrective actions taken for the first, and the minor deviation of the second. Staff also supports the authorities' requests for augmentation of access, extension of the arrangement, and rephasing of disbursements. The Fund arrangement remains instrumental to catalyze donor support to address Chad's protracted balance of payment needs. Completion of the third and fourth reviews will result in the disbursement of an amount equivalent to SDR 44.41 million.

Approved By
David Robinson and Yan Sun

Discussions took place in N'Djamena (March 7-20 and September 26-27) and in Washington DC (April 12-16 and October 4-8). The staff team comprised Messrs. Villafuerte (Head March and April discussions), Bakhache (Head, September and October discussions), Ho, Léost, Nsumbu, and Op de Beke (all AFR), Salas (SPR), Nachega (Resident Representative) and Topeur (Local economist). Staff met with the Prime Minister, Mr. Albert Pahimi Padacké, the President of the National Assembly, Mr. Haroun Kabadi, the current Minister of Finance and Budget, Mr. Mbogo Ngabo Seli, the previous Minister of Finance and Budget, Mr. Alamine Bourma Treye, the Minister of Plan, Ms. Mariam Mahamat Nour, the Minister of Infrastructure, Mr. Adoum Younousmi, the interim National Director of BEAC for Chad, Mr. Balandi Djagba, as well as other ministers, parliamentarians, and senior government officials, representatives of the private sector, and technical and financial partners of Chad. Mr. Yambaye (Executive Director, OED) and Mr. Nguema Affane (Senior Advisor, OED) participated in the discussions in Washington DC.

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BACKGROUND

1. **The Chadian economy is enduring the effects of an intensifying oil shock along with a continued tense security situation in Chad and the region more generally.** From an average of US$100 in 2013 and 2014, the price of a barrel of Chadian crude oil declined to US$43 and US$34 respectively in 2015 and 2016. This, along with a slight decline in the volume of oil production in 2016 contributed to a substantial drop in oil receipts and therefore a significant rise in balance of payments and fiscal needs. The fiscal effect of the oil price shock is magnified by the significant budgetary pressures of Chad's continued heavy involvement in the fight against terrorist groups, including Boko Haram and Islamic State in the region, especially in the Lake Chad Basin to support regional stability. Trade activities at the Nigeria border in the agriculture and livestock sectors have largely halted as a result of the security threats and economic crisis in Nigeria. In spite of all these pressures, the government continues to host and support at least 750,000 refugees, displaced persons, and returnees scattered along its borders (Chad's population is 14 million).

2. **In response to the massive financial pressures emanating from the exogenous shocks, the authorities are implementing an emergency action plan to address the fiscal crisis and have renewed their commitment to diversify the economy away from oil**. The new government formed in August 2016 after the re-election of President Déby for a fifth term in April, put in place an emergency action plan in late August that entails significant spending cuts aimed at ensuring that the level of spending is consistent with the large drop in oil revenue. With these cuts, the expenditure envelope has been reduced to about half the 2014 level (in nominal terms), contributing to an increase in social tensions. Recognizing that the oil price shock is likely to be permanent, efforts to diversify the economy are being intensified. In this regard, a new five-year National Development Plan (NDP) has been prepared and is under discussion with all stakeholders with the intent of finalization by the end of November 2016. This NDP will be considered as the guiding document for poverty-reduction strategy (PRS) in Chad starting in 2017. Box 1 provides the status of the implementation of the current PRS based on the 2013-15 NDP.

3. **On December 14, 2015, the Executive Board completed the second review under the Extended Credit Facility (ECF) arrangement approved on August 1, 2014, but subsequent discussions were protracted due to the emergence of a fiscal financing gap in 2016.**. With the completion of the second review, SDR 20.65 million was disbursed, bringing the total amount disbursed under the ECF arrangement to SDR 53.93 million. Discussions on the third and fourth reviews focused on reaching understandings with the authorities on the approach to close a financing gap that emerged based on the original and revised 2016 budgets, and the strategy to clear domestic arrears and avoid their reoccurrence.

Box 1. Chad: Poverty Reduction Strategy Implementation Review

Chad's 2013-15 National Development Plan (NDP) is the country's current poverty reduction strategy. It focuses on four components: i) the creation of new productive capacities and opportunities for decent jobs, ii) human capital development and the fight against inequality, poverty, and social exclusion, iii) environmental protection and climate change adaptation, and iv) improved governance. The NDP includes a Priority Action Plan (PAP), which identifies actions and indicators for monitoring implementation, and a Results Framework (RF) which has strategic indicators and intermediary indicators to assess progress in the implementation of the NDP.

After endorsing the NDP, in 2014 and 2015, the IMF and WB assessed the progress in its implementation to be satisfactory. Reports published by the World Bank and the IMF,[1] assessed that, by end-2013 around two-thirds of all strategic indicators and one-half of the intermediary indicators included in the RF had recorded satisfactory progress. Satisfactory progress was made in developing capacity, improving governance, and human capital development; however, only limited progress was made in the area of protecting the environment. An assessment by the authorities showed that progress was made in implementing the NDP in 2014 with 84 percent of the national development indicators met that year. Nevertheless, Chad's continued weak CPIA ranking and low public investment efficiency (see IMF Selected Issues Paper on Public Investment Efficiency in Chad (2016)) suggest that more effort is necessary to secure progress to attain the country's medium-term development goals.

Since late 2015, PRS implementation has slowed in the face of significant fiscal pressures resulting from the increased severity of the oil price shock and tense regional security. Poverty-reducing social spending is expected to decline to CFAF 191 billion by end-2016, which represents a 26.5 percent decline relative to 2015 (after a 16 percent decline in 2015 compared to 2014).

[1] For details, see International Development Association and International Monetary Fund (2013), The Republic of Chad: Joint Staff Advisory Note on the National Development Plan 2013-15, Report #78692-TD, and International Development Association (2015), Program Document for a proposed development policy grant to the Republic of Chad for a Fiscal Consolidation Program Support Grant, Report # 96843-TF, D.C and reference cited therein.

RECENT ECONOMIC DEVELOPMENTS

4. **The economic crisis has deepened in 2016, with the economy set to contract by 3.5 percent.** The contraction is driven by the oil shock, which led to a projected -5.9 percent oil-sector growth, and by large cuts in government spending (the engine of the non-oil economy) which contributed to the projected -3 percent growth in non-oil GDP. Oil companies have cut investment by more than 80 percent of the initial plans for 2016 and lowered their production in response to the collapse of oil prices. Activity in the livestock, commerce, communication, and transport sector is severely affected by the tense regional security situation which have also led to severe disruptions in cross-border economic activities with neighboring countries. Reflecting lower domestic demand, the halt in cross-border trade, and a relatively good harvest this year, the consumer price index (half of which is composed of food) is expected to fall by 2 percent in 2016.

5. The fiscal situation continued to deteriorate in 2016, resulting in further sharp spending cuts. Net oil revenue dropped substantially in the first half of the year and is estimated to be CFAF 25 billion for the year, a fall of about 80 percent from 2015. At the same time, non-oil revenues in 2016 are expected to fall to CFAF 415 billion, 3 percent lower than in 2015. In the context of a second revised budget, planned expenditures have been reduced to CFAF 848 billion in 2016, 23 percent below the 2015 level and 44 percent below the 2014 level. The expenditure reduction has been achieved through a move in early 2016 to a cash-based execution of the budget and has preserved wage payments and debt service while reducing all other categories of spending. Still, new domestic arrears continued to accumulate in the first half of 2016 (estimated at around CFAF 50 billion or 1 percent of non-oil GDP).

6. The deteriorating fiscal position has impacted the banking sector. Banks' links to the government are significant because of their exposure to government debt, and the private sector's dependence on government spending.[1] The ongoing crisis, including the accumulation of domestic payment arrears, has therefore led to a drop in credit to the private sector (about 5.4 percent year-on-year as of end-June 2016), and an increase in non-performing loans (NPLs) from 11.7 percent of gross banking loans at end-2014 to more than 17 percent at end-June 2016. The risk of further increases in NPLs or declines in deposits calls for enhanced monitoring of banks.[2]

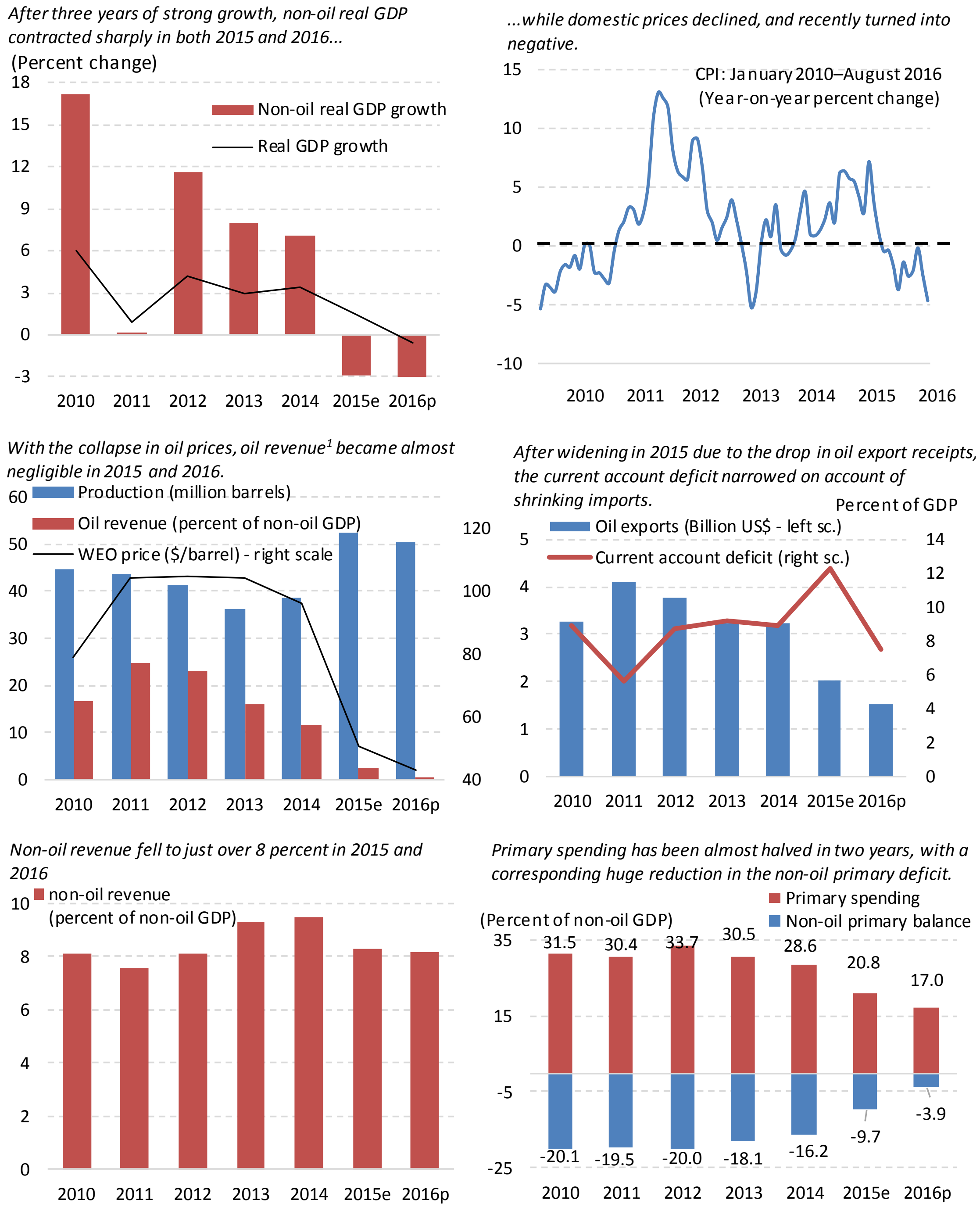
7. The authorities have been active in the regional securities market to finance the deficit. In March and April 2016, the BEAC raised the ceiling for Chadian commercial banks refinancing, and halved the level of required reserves for the CEMAC banking system. This paved the way for increased access to the regional market and the authorities issued more than CFAF 240 billion (net) in securities in the three first quarters of the year. In addition, Cameroon provided a bilateral loan in the amount of CFAF 30 billion.

8. The external position remains weak. Oil and non-oil exports decreased in 2016, but imports also suffered from the weak demand in general and the oil sector in particular. As a result, the current account deficit in 2016 is expected to narrow to 7.5 percent of GDP. Foreign direct investment has fallen sharply, due to the halt in investments in the oil sector and other sectors like construction. As of end-June 2016 the level of international reserves imputed to Chad stood at only US$12 million. Government deposits at the BEAC stood at CFAF 90 billion at end-June.

[1] See the discussion on macro-financial linkages in Chad, Selected Issues, Report No. 16/275.

[2] See Chad 2016 Article IV Consultation Report for more discussion.

Figure 1. Chad: Recent Economic Developments, 2010–16



Source: Chadian authorities, IMF staff calculations.

[1]Oil revenue is net of debt service on oil sales advances, and of cash calls and transportation costs linked to SHT participation in oil companies.

PROGRAM PERFORMANCE

9. Despite the very difficult economic situation, performance under the ECF-supported program has been broadly satisfactory, with only one periodic PC missed for end-December 2015 and end-June 2016, and one unobserved continuous PC (MEFP ¶7, and Table 8). Recently, progress in implementing the structural reform agenda has accelerated.

- The non-oil primary deficit (NOPD) targets for end-2015 and end-June 2016 have been met (the latter by a large margin) through significant expenditure cuts as revenues continued to fall short of projections. In the first half of 2016, the introduction of cash based budgeting restricted expenditure to available resources, with domestically financed expenditures held 25 percent below their annual envelope under the June revised budget. In addition, in spite of the very tight spending envelope, the share of poverty-reducing social spending in total domestically financed primary expenditure increased to 36.2 percent by June 2016 (from 28 percent in 2015), helping meet the related PC (MEFP ¶7 and TMU ¶19).
- Reflecting the acute liquidity problem, significant domestic payments arrears accumulated in the second half of 2015, leading to a large breach of the zero limit on the change in the stock of domestic payment arrears for end-December 2015. The end-June 2016 zero limit was missed again but only marginally (partly because of the move to cash-based spending, and the repayment of a share of existing arrears).
- The continuous zero ceiling on the accumulation of external arrears was not observed when minor arrears to the World Bank and the African Development Bank ($1.1 million) were accumulated in June 2016 but cleared shortly thereafter.
- Good progress has been recently made on the structural reform agenda after earlier delays (MEFP ¶8, and Tables 9a and 9b). Both end-December 2015 benchmarks on limiting the expenditures executed through extraordinary budget procedures (DAO) and on broadening the database of taxpaying enterprises have been met. In addition, a structure at the Treasury for preparing cash management plans was established on time (before June 2016) and is now operational. Since the formation of the new government in August 2016, significant progress has been made in relation to the 2016 benchmarks, including: finalization of an annual debt management report; and the enhancement of monitoring and reporting of gross and net oil revenue flows. With regard to the rationalization of transfers and subsidies, while the benchmark has not been met, the authorities have made significant cuts in 2016 primarily through the emergency action plan.[3]

10. Waivers of nonobservance of Performance Criteria have been requested by the authorities (Letter of Intent, and MEFP ¶7). The request for a waiver on the non-accumulation of new domestic arrears is based on corrective actions taken, including the cash-based budget management procedures to avoid further accumulation in 2016, and the strategy put in place to

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[3] The benchmark was not met because the audit on which the benchmark was based focused on the government participation in state owned enterprises, but did not audit the extent of government support to the enterprises.

clear arrears and avoid their reoccurrence. Toward this end, at the request of the authorities an FAD technical assistance mission visited N'Djamena in September to assist in developing their strategy. The accumulation of external arrears was both minor and temporary.

POLICY DISCUSSION FOR THE REST OF THE PROGRAM

The authorities' economic adjustment and reform plan is anchored on a medium term macro framework that reflects continued low oil prices and the need for a very tight fiscal stance in 2016 and 2017, which will likely lead to a slow pace of economic recovery. The authorities have recently placed renewed emphasis on the need to diversify the economy away from oil which will be anchored on a new five-year National Development Plan whose preparation is advanced.

A. Medium Term Macroeconomic Framework

11. The macro outlook is shaped to a large extent by the continued weak prospects for the oil sector. With oil prices are expected to increase only modestly over the medium-term, the postponement of investment in the sector, and significant deductions from oil receipts until 2020 to service a government oil-collateralized debt, oil revenue to the budget will average about 3.3 percent of non-oil GDP per year during 2017-2020 compared to 11 percent in 2013-2015.[4] Non-oil revenue is also expected to be lower than previously projected, as activity in the formal private sector – heavily dependent on government spending – is only expected to rebound in 2018 in part due to the significant ongoing fiscal adjustment planned (Text table 1).

12. Reflecting the expected developments in the oil sector, the external position is projected to improve starting in 2018. The current account deficit is likely to be around 6-7 percent of GDP in coming years. Foreign direct investment in the oil sector has been revised downwards, but will remain the key source of external financing. Imputed international reserves will remain low, starting to recover in 2018 to return to almost US$1 billion (or two months of imports of goods and services) in 2020.

13. An updated Debt Sustainability Analysis (DSA) shows that with the planned fiscal adjustment and the projected medium term recovery, debt is expected to remain on a sustainable path. The risk of external debt distress remains high with vulnerabilities concentrated in the next few years. On account of the sustained low oil prices and the repayment schedule of the Glencore loan, the baseline scenario shows breaches of some indicators at the beginning of the projection period, while over the medium and long term all indicators are markedly below their thresholds. Increasing domestic debt particularly in the regional market in recent years and the large

[4] Payments on the oil-collateralized loan of US$1.35 billion contracted in 2014 with Glencore Energy are made through deductions in the value of oil shipments by the Chad Hydrocarbons Corporation (SHT), and are expected to absorb almost two-thirds of the value of oil shipments in 2016.

amount of domestic arrears (expected to be gradually reduced starting in 2018) have contributed to these vulnerabilities.

Text Table 1. Chad: Medium-Term Projections
(In percent of non-oil GDP, unless otherwise indicated)

	2013-2015	2016		2017		2018		2019		2020	
	Average	Prog.[1]	*Proj.*	Prog.[1]	*Proj.*	Prog.[1]	*Proj.*	Prog.[1]	*Proj.*	Prog.[1]	*Proj.*
GDP growth (percent per year)	4.8	2.5	***-3.5***	5.2	***-0.3***	5.8	***4.7***	6.0	***6.3***	3.5	***3.9***
Non-oil GDP growth (percent per year)	4.1	1.9	***-3.0***	3.1	***0.6***	3.8	***2.6***	4.2	***3.5***	4.4	***4.0***
Current account balance (percent of GDP)	-10.2	-7.8	***-7.5***	-8.0	***-6.8***	-4.1	***-6.4***	-1.3	***-5.7***	-2.0	***-6.3***
Total Government revenue	22.0	17.1	***13.7***	19.4	***13.4***	22.8	***16.0***	26.5	***17.5***	26.5	***18.7***
Oil revenue	11.0	4.5	***0.5***	7.3	***0.8***	10.2	***2.8***	13.5	***4.4***	12.1	***5.3***
Overall fiscal balance (commitment basis)	-5.5	-6.3	***-3.1***	-2.8	***-3.3***	-1.7	***-1.2***	0.5	***-0.6***	-0.1	***0.1***
Non-oil primary fiscal balance (commitment basis)	-14.8	-10.1	***-3.9***	-7.1	***-3.6***	-8.0	***-3.0***	-10.1	***-3.8***	-10.5	***-3.7***
Chadian crude oil price (US$ per barrel)	81.8	46.6	***33.8***	51.9	***45.2***	56.0	***48.5***	58.1	***50.8***	59.7	***52.7***

Sources: Country authorities; and Staff projections.
[1]IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351).

B. Fiscal Policy for the Remainder of 2016

Discussions with the authorities focused on closing the financing gap that emerged in 2016 because of lower oil revenue and continued delays in the planned sale of a government oil asset. The second revised 2016 budget sent to Parliament in October includes realistic revenue and financing assumptions, as well as significant cuts in current and capital spending.

14. Fiscal outcomes in the first half of 2016 and expectations for the remainder of the year have been shaped by two major developments; the worsening oil price shock and the non-materialization of an oil asset sale. The original and June revised budgets for 2016 relied extensively on the expected proceeds from the sale of a government asset. In addition to continuing delays in the sale of the asset (originally projected to yield about CFAF 300 billion, or 6 percent of non-oil GDP), the unexpected drop in oil revenue led to a large financing gap. The June revised budget accounted only for a partial drop in oil revenues. In the event, oil revenues continued to decline and are now estimated to reach only CFAF 25 billion for the year (compared to a forecast of CFAF 141 billion in the July Article IV report). Non-oil revenues are also expected to underperform relative to earlier projections (a shortfall of CFAF 55 billion, compared to the June revised budget assumptions).

15. To address the resulting acute liquidity situation, on October 12 the authorities submitted a fully financed revised 2016 budget (LFR2) to the National Assembly that includes significant spending cuts:

- It is based on realistic projections of oil and non-oil revenues and does not include the expected proceeds from the oil asset sale; and

- It includes significant spending cuts. Relative to 2015 outcomes, spending is expected to be lower by about 52 percent for transfers and subsidies, and 78 percent for domestically financed investment as no new investment project was launched in 2016. This implies about CFAF 320 billion (or 34 percent) cut in domestically financed spending.

16. While the budget cuts are substantial, the burden is generally balanced across agencies and spending categories. The new revised budget is supported by the emergency action plan enacted in late August that contain 16 measures including: reductions in allowances for parliamentarians and senior government staff, scholarships, and staffing size of some agencies, including the presidency; and the restructuring of a number of public agencies.

17. With financing from the regional market and from BEAC close to regulatory limits, the bulk of financing for the remainder of 2016 is to be filled by Chad's development partners. Commitments so far (over what was disbursed already this year) add up CFAF 67 billion for the fiscal year, leading to a total of CFAF 114 billion in budget support, almost triple the amount envisaged in the initial 2016 budget. As indicated in their Letter of Intent, the authorities are requesting an augmentation of access under the ECF arrangement to help cover a residual financing gap of CFAF 10 billion and to catalyze the donor support in addition to what was committed in the initial 2016 budget (Text Table 2). The remaining part of the requested increase in access would be disbursed in 2017 (section C).

Text Table 2. Chad: Financing Requirements and Sources of Funding for 2016

	CFAF billion	Percent of non-oil GDP
(1) 2016 overall balance (excluding grants)	**-334**	**-6.6**
(2) Total net financing (excluding budget support and IMF)	**184**	**3.7**
(3) Financing gap -(1+2)	**150**	**3.0**
(4) Budget support	**114**	**2.3**
- Disbursed by September 2016	47	0.9
African Development Bank	*22*	*0.4*
*Balance of 2015 Budget support**	*25*	*0.5*
- To be disbursed by end-2016	67	1.3
World Bank	*48*	*1.0*
European Union	*15*	*0.3*
African Development Bank	*4*	*0.1*
(5) ECF planned disbursements (3rd and 4th reviews)	**26**	**0.5**
(6) Residual Financing gap (3)-(4)-(5)	**10**	**0.2**
(7) ECF augmentation	**10**	**0.2**

Source: Chadian authorities, IMF staff calculations.

*part of 2015 budget support operations approved late in the year have been disbursed in Januray 2016.

C. Fiscal Policy for 2017 and the Medium Term

18. The authorities are committed to maintain a tight fiscal stance in 2017, as reflected in the draft 2017 budget that is to be submitted to the National Assembly (prior action for the completion of the third and fourth reviews). Based on conservative assumptions, notably regarding oil revenue, the budget maintains a tight spending envelope to keep the NOPD broadly unchanged compared to 2016 (3.6 percent of non-oil GDP). Measures implemented in 2016 and continuation with a cash-based execution of the budget will support this objective and help prevent the accumulation of new domestic arrears. In addition, the authorities intend to seek a liability management operation with respect to the Glencore loan to better align its debt service with oil price developments and create additional room for spending on priority areas.

19. The 2017 draft budget is fully financed (Text Table 3). Chad's development partners (particularly the AfDB, EU, and WB) are expected to continue their budget support operations in 2017 in the order of CFAF 85 billion. The authorities also expect that augmentation of access under the Fund's arrangement will help fill the financing needs and catalyze additional donor support, beyond the amount already committed. Resort to domestic financing will be limited given that the exceptional advances provided by BEAC in 2015 have been fully drawn and that the recent large increase in issuances on the domestic and regional market has resulted in banks approaching their regulatory limits in terms of exposure to Chad. In case additional sources of funds, for example, exceptional receipts from the sale of the oil asset become available,[5] the authorities will explore options for their use to help support the recovery while staying within the parameters of the Fund-supported program. Options include increasing poverty reducing spending, clearing more verified and validated arrears, and increasing investment spending (MEFP ¶22).

Text Table 3. Chad: Financing Requirements and Sources of Funding for 2017

	CFAF billion	Percent of non-oil GDP
(1) 2017 overall balance (excluding grants)	-220	-4.1
(2) Total net financing (excluding budget support and IMF)	101	1.9
(3) Financing gap -(1+2)	119	2.2
(4) Budget support*	85	1.6
(5) ECF planned disbursements (5th and 6th reviews)	17	0.3
(6) Residual Financing gap (3)-(4)-(5)	17	0.3
(7) ECF augmentation	17	0.3

Source: Chadian authorities, IMF staff calculations.
*based on commitments from the World Bank, the European Union, and the African Development Bank.

[5] The plan to sell the aforementioned oil asset (see paragraph 14) remains in place, albeit with increased uncertainty on the timing and potential value of the sale.

20. Over the medium term, the spending envelope is expected to be loosened only gradually to safeguard sustainability, while allowing for a comprehensive domestic arrears clearance operation. Subject to the materialization of oil companies' plans to increase production starting 2018, oil revenues are expected to start improving. This would help support a gradual increase in spending under a sustainable fiscal trajectory with a non-oil primary deficit in the range of 3-4 percent of non-oil GDP in 2019 and 2020, and 5 percent thereafter. This trajectory will allow an increase in domestically financed investment spending to over 2.7 percent of non-oil GDP and to 4.5 percent by 2022 and to loosen the tight health and education spending envelope. Arrears clearance will need to figure prominently in the medium term fiscal plans. Pending the result of the planned independent audit of (yet unverified) domestic arrears (see ¶24), the authorities will need to develop a plan for their clearance at a pace consistent with available financing.

D. Structural Reforms

21. The structural reform agenda for the remainder of the Fund-supported program and the medium term is articulated around two axes. The first axis is to continue to improve public financial management in the areas of treasury management and expenditure control, with priorities on budget transparency (including in the oil revenue forecast and management), and on the chain of expenditure, in particular to limit the risks of further domestic arrears accumulation. The second axis is to start to elaborate and implement reforms to reduce the dependence of the budget and the economy more generally on oil.

22. Continued progress in improving transparency in the oil sector remains essential. In addition to their efforts to remain compliant with the EITI requirements (Chad was recognized as compliant with EITI transparency standard on October, 15, 2014), the authorities intend to build on recent progress to fully meet the related structural benchmark (set for June 2016). In particular, the Technical Committee in charge of monitoring oil revenue (established by a Ministerial decree on September 14, 2016) plans to regularly produce and publish an oil note to elaborate all relevant information related to oil revenue. This will include oil production and export trends, Chad crude oil price, oil revenue and financial flows related to SHT, and debt service of the Glencore loan (MEFP, ¶8 and 32).

23. Public financial management (PFM) systems should be further strengthened. Priorities include: (i) continued efforts to reduce the use of emergency spending procedures (MEFP, ¶33); (ii) ensuring a better control of the wage bill and the number of civil servants for which the authorities will develop an action plan on the basis of an audit of the civil service payroll supported by the European Union (MEFP, ¶33); and (iii) further strengthening cash management monitoring and planning (MEFP, ¶34). In addition, based on the findings of recent AFRITAC technical assistance missions, the authorities will develop a medium term debt management strategy to strengthen the capacity to record and monitor public debt (MEFP, ¶35).

24. Preventing and clearing domestic arrears is a key objective of the authorities' reform strategy (MEFP ¶25-30). In addition to strengthening PFM systems, the authorities will take stock of recent technical assistance reports (notably on investment planning, budget execution, and cash management) to identify additional specific measures to help prevent the recurrence of arrears. With regard to existing arrears, a first and decisive step will be an independent external audit. The authorities are working on the Terms of Reference for this audit (structural benchmark for December 2016) in line with the recommendations of the recent FAD TA mission and will seek donor support to finance it.

25. Given the continued weakness in oil revenues, the authorities are placing increased emphasis on the need to improve non-oil tax revenue. A priority in this regard is to widen the tax base by reducing tax and customs exemptions. The ongoing audit of exemptions financed by the EU is expected to help identify specific actions to widen the tax base (MEFP, ¶37). Improving tax compliance is also key. The authorities have identified a number of specific measures (including better managing tax obligation of large enterprises and custom exemptions) to strengthen tax and customs administrations, which they plan to implement in the course of next year (MEFP, ¶36).

26. With regard to the diversification of the economy, steps to enhance the role of the private sector, are critical. Chad's ranking improved slightly (by two places) in the 2016 Doing Business Report; however, it remains very low (183rd out of 189). Reforms are needed to facilitate the creation and development of businesses, reduce infrastructure bottlenecks, and improve access to financial services. The authorities intend to strengthen the dialogue with the private sector based on proposals contained in the White Paper published by the National Employers Council of Chad.

27. The new NDP is at an advanced stage of preparation, with a focus on diversifying the economy. The NDP includes four strategic axes: (i) strengthen national unity; (ii) improve governance under the rule of law; (iii) diversify the economy and improve its competitiveness; and (iv) social protection. In January 2017, the authorities will organize a roundtable in Paris with all development partners to mobilize financing for the key priorities in the NDP. A key step ahead of the roundtable will be to share the final version of the NDP with all stakeholders and submit this to the National Assembly (structural benchmark for end November 2016).

PROGRAM MODALITIES, SAFEGUARDS, AND RISKS

28. The authorities have requested an augmentation of access under the current ECF arrangement, an extension of the arrangement, and a rephasing of disbursements (Table 11b). The requested augmentation would be equivalent to 24 percent of quota or SDR 33.64 million, with SDR 13.1 million to be disbursed in 2016 and 20.54 in 2017, increasing total access to 100 percent of quota. The augmentation of access would catalyze additional budget support to help address financing needs. The extension of the program until end-November 2017 would allow more time for the authorities to implement the adjustment and reforms agreed under the program. The rephasing of disbursements would realign the disbursements schedule with the program extension.

29. Chad's capacity to repay the Fund remains adequate after the augmentation of access. Debt is assessed to be sustainable and outstanding obligations to the Fund based on existing and prospective credit would not surpass 1.6 percent of GDP or 6.4 percent of exports of goods and services. Annual repayments will peak at 0.2 percent of GDP and 2.9 percent of tax revenue in 2023 (Table 12). In addition, the authorities remain committed to ensure that new external loans are consistent with debt sustainability, observing the debt conditionality in the context of the ECF arrangement (Tables 10a and 10b).

30. Performance criteria for end-December 2016 and end-June 2017, and Indicative Targets for end-March 2017 are proposed (MEFP, Table 1). They reflect changes in the macroeconomic framework, in particular the consequences of the tight spending envelope embedded in the 2017 budget. Recognizing that the considerable cuts in 2016 targeted categories that are typically executed through ordinary budget procedures (investment, and transfers and subsidies), the use of these procedures declined significantly making it impossible for the authorities to meet the structural benchmark on the use of emergency budget procedures for end-2016. As such, the benchmark would be reset to end-June 2017 at a level consistent with the compressed level of investment, and transfers and subsidies.[6]

31. Risks to the outlook are primarily related to the uncertainty in the oil market, the security situation, and the ability of the authorities to sustain a low level of expenditure while delivering essential public services. The main risk mitigating factors are the strong commitment by the authorities to implement the necessary reforms and adjustments (including a generally balanced approach to spending cuts, and measures to improve PFM), and donors' commitment to provide needed financing. In addition, the program includes adjusters to alleviate the impact of any delays in donor financing, and accommodate variation in government revenues. Upsides to the baseline include higher oil prices, exceptional receipts from the sale of the oil asset, and higher donor support.

32. The BEAC remains subject to close IMF monitoring of safeguards "rolling measures" in the context of new program requests and reviews for the CEMAC countries. Consistent with this approach, the April 2016 safeguards monitoring visit found that the priority recommendations on legal reform to be completed by early 2017 and transition to International Financial Reporting Standards (IFRS) remained outstanding. Staff remains engaged with the BEAC to advance these reforms within the agreed timelines. Satisfactory progress will allow for renewal of the window for continued IMF financial engagement with the CEMAC member countries, which currently expires in July 2017.

STAFF APPRAISAL

33. The exogenous shocks facing Chad have not let up. The continuing drop in oil revenue, in addition to the impact of the tense security situation particularly in the Lake Chad region has had far

[6] Staff will revisit this benchmark at the time of the next review to ensure that it continues to be relevant and sufficiently ambitious to further improve transparency.

reaching effect on the economy. The fiscal position is under pressure, domestic economic activity is contracting, cross border trade has suffered, and social tensions have risen.

34. The authorities have shown a strong commitment to effectively manage the impact of the crisis and to close a financing gap that emerged earlier this year, resulting in a broadly satisfactory performance under the ECF-supported program. After moving to a cash-based execution of the budget early this year, the authorities implemented a number of strong measures to align spending with available revenue and financing. While these measures helped contain the impact of the crisis, and are certainly needed given the permanent nature of the oil price shock, they resulted in abrupt and significant cuts in spending. Unlike the first round of fiscal tightening earlier in 2016 which focused on domestically financed public investment, cuts later in the year also targeted current spending.

35. Moving forward, the fiscal strategy for the remainder of 2016 and 2017 should preserve the adjustments made so far, and ensure that the government remains current on all its obligations. In this regard, the second revised 2016 budget reflects the realities on the ground which ensured that it is fully financed. The 2017 draft is appropriately based on conservative revenue assumptions and aims to maintain the non-oil primary deficit at the level expected to prevail in 2016.

36. Given the large priority spending needs in Chad and the limited room for further discretionary cuts, additional fiscal space is needed if Chad is to achieve its development objectives. The medium term fiscal outlook is dominated by the impact of the continued weakness in oil prices and a rather gradual economic recovery. As such, the medium-term spending envelope should only be loosened to the extent that resources become available, including from stepped up efforts to raise non-oil revenues as well as additional donor support. The authorities' plan to consider a debt liability management operation would help ease the fiscal pressure in the coming years. Clearance of domestic arrears, critical to support the economic recovery and guard against a further increase in non-performing loans, is a key priority.

37. The forthcoming new 5-year NDP is an opportune time for the authorities to map out a coherent strategy to diversify the economy. The authorities should leverage the emerging consensus on the need to reduce reliance on the oil sector by identifying and pushing forward specific measures to help improve the business climate for the private sector. The medium to long term economic prospects in Chad depend on the ability of the private sector to more effectively drive economic activity.

38. Based on Chad's performance under the program and the authorities' recent swift actions to respond to the fiscal pressures, staff recommends the completion of the third and fourth reviews. Staff also supports the authorities request for augmentation of access, extension of the program, and the associated rephasing of disbursements. Staff supports the authorities' request for waivers of the nonobservance of two performance criteria given the strong corrective actions undertaken for one of them, and on the basis of the minor deviation for the second.

Table 1. Chad: Selected Economic and Financial Indicators, 2013–2020

	2013	2014	2015		2016		2017	2018	2019	2020
		Prel.	Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.			
	(Annual percentage change, unless otherwise indicated)									
Real economy										
GDP at constant prices	5.7	6.9	3.8	1.8	2.5	-3.5	-0.3	4.7	6.3	3.9
Oil GDP	-7.2	5.7	37.6	32.1	5.0	-5.9	-4.5	16.0	19.6	3.7
Non-oil GDP	8.0	7.1	-1.5	-2.9	1.9	-3.0	0.6	2.6	3.5	4.0
Consumer price index (annual average)	0.2	1.7	4.6	3.7	3.3	-2.0	0.1	3.0	3.0	3.0
Oil prices										
WEO (US$/barrel)[2]	104.1	96.2	51.6	50.8	50.4	43.0	50.6	53.1	54.4	56.3
Chadian price (US$/barrel)[3]	103.9	98.0	44.9	43.4	46.6	33.8	45.2	48.5	50.8	52.7
Oil production (millions of barrels)	36.3	38.5	54.8	52.5	57.8	50.4	48.1	56.4	68.1	70.7
Exchange rate CFAF per US$ (period average)	493.9	493.6	…	591.2	…	…	…	…	…	…
Money and credit[4]										
Net foreign assets	-2.6	-1.8	-23.8	-40.3	6.3	-12.1	1.0	…	…	…
Net domestic assets	11.2	28.2	26.6	35.6	-2.1	11.0	3.3	…	…	…
Of which : net claims on central government	10.0	18.0	16.4	25.3	-4.1	8.3	1.6	…	…	…
Of which : credit to private sector	2.8	17.3	1.7	0.3	3.3	-2.9	-1.0	…	…	…
Broad money	8.6	26.5	2.8	-4.7	4.2	-1.1	4.2	…	…	…
Income velocity (non-oil GDP/broad money)	5.5	4.8	4.8	5.0	4.8	5.0	5.0	…	…	…
External sector (valued in CFA francs)										
Exports of goods and services, f.o.b.	-8.4	1.4	-29.2	-34.0	9.6	-16.8	19.4	20.6	22.6	5.8
Imports of goods and services, f.o.b.	-7.7	9.9	-22.1	-23.7	1.6	-15.5	8.7	7.6	10.4	5.4
Export volume	-13.3	5.7	33.0	27.5	11.3	-7.3	4.5	16.5	10.4	1.6
Import volume	-5.3	9.9	-19.3	-21.4	1.1	-13.7	7.2	6.4	9.2	4.3
Overall balance of payments (percent of GDP)	-0.2	-1.2	-3.4	-6.4	0.3	-3.9	-1.0	1.2	1.6	1.9
Current account balance, including official transfers (percent of GDP)	-9.1	-8.9	-11.0	-12.3	-7.8	-7.5	-6.8	-6.4	-5.7	-6.3
Terms of trade	8.3	-4.0	-44.9	-46.7	-2.0	-8.3	12.7	2.4	9.8	3.0
External debt (percent of GDP)	21.2	29.1	27.2	25.0	23.8	24.7	21.7	18.8	15.7	13.6
NPV of external debt (percent of exports of goods and services)	33.5	62.9	89.1	87.3	73.6	94.6	73.7	55.2	40.5	34.6
	(Percent of non-oil GDP, unless otherwise indicated)									
Government finance										
Revenue and grants	27.6	23.2	16.7	14.7	17.1	13.7	13.4	16.0	17.5	18.7
Of which : oil revenue	16.0	11.7	5.1	2.6	4.5	0.5	0.8	2.8	4.4	5.3
Of which : non-oil revenue	9.2	9.4	8.0	8.3	8.6	8.2	8.5	9.2	9.3	9.6
Expenditure	31.3	29.4	22.5	21.2	23.4	16.8	16.7	17.2	18.1	18.6
Current	17.6	16.6	13.7	14.0	13.7	11.9	11.1	11.3	11.8	11.5
Capital	13.7	12.8	8.8	7.3	9.7	4.9	5.6	5.8	6.4	7.1
Non-oil primary balance (commitment basis, excl. grants)[5]	-18.1	-16.2	-9.7	-9.7	-10.1	-3.9	-3.6	-3.0	-3.8	-3.7
Overall fiscal balance (incl. grants, commitments basis)	-3.6	-6.2	-5.7	-6.5	-6.3	-3.1	-3.3	-1.2	-0.6	0.1
Overall fiscal balance (incl. grants, cash basis)	-6.6	-4.4	-7.2	-5.2	-6.3	-4.4	-2.5	-1.6	-1.1	-0.6
Total debt (in percent of GDP)[6]	30.3	39.1	40.2	42.4	38.4	47.2	42.7	38.6	33.0	29.3
Of which : domestic debt	9.1	9.9	13.0	17.5	14.6	22.5	21.0	19.8	17.4	15.7
Memorandum items:										
Nominal GDP (billions of CFA francs)	6,418	6,912	6,642	6,474	7,003	6,038	6,563	6,986	7,734	8,274
Of which: non-oil GDP	4,682	5,179	5,264	5,184	5,486	5,039	5,337	5,486	5,884	6,307

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

[1] IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351).

[2] WEO, latest Crude Oil Price Baseline.

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

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

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

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

Table 2. Chad: Real GDP per Sector, 2013–2020
(Annual percentage change, unless otherwise indicated)

		2013	2014	2015		2016		2017	2018	2019	2020
	Weight[1]		Prel.	Prog.[2]	Prel.	Prog.[2]	Proj.	Proj.			
Primary sector	44	-2.1	6.4	15.1	10.1	3.4	-1.0	0.3	8.3	10.2	4.2
Agriculture	12	2.2	7.9	4.9	-3.3	4.0	2.0	3.9	3.9	3.9	3.9
Food crops	11	0.9	8.0	4.5	-4.0	4.0	2.0	4.0	4.0	4.0	4.0
Industrial crops	1	27.9	7.1	12.0	8.0	3.6	2.0	3.0	3.0	3.0	3.0
Livestock, Forestry and Fishing	11	3.4	3.0	0.5	0.5	2.0	1.2	2.0	3.0	4.0	5.0
Mining and Quarrying	3	4.5	10.3	5.2	5.2	-6.5	-7.0	3.0	4.0	4.5	4.5
Oil and Gas Extraction	19	-11.9	6.0	42.3	36.3	5.5	-3.8	-4.7	17.3	20.8	3.9
Secondary sector	12	20.9	8.1	-4.2	-4.4	2.8	-5.9	1.1	2.7	3.4	4.1
Manufacturing (non petroleum)	1	26.7	13.2	-2.5	-2.5	1.0	-3.0	3.0	6.0	5.0	5.0
Handicrafts	5	24.8	11.5	2.0	2.0	2.5	1.0	3.5	4.0	4.5	5.0
Utilities	0	16.1	4.6	3.5	3.5	3.5	-2.0	4.0	4.5	4.5	4.5
Construction	6	15.0	4.0	-12.5	-12.6	3.5	-16.5	-3.1	-0.2	1.3	2.7
Of which : oil related	2	75.5	4.5	1.0	0.4	-4.8	-48.0	-4.0	-2.0	0.0	0.1
Tertiary sector	41	9.1	7.1	-3.3	-3.3	1.4	-5.4	-1.5	1.6	3.1	3.5
Commerce, transport, and communication	22	8.0	4.9	-3.8	-3.8	1.1	-4.2	-1.9	1.8	2.3	2.8
Commerce	20	7.1	4.5	-4.5	-4.5	1.0	-4.2	-2.0	1.5	2.0	2.5
Transport and communication	3	15.0	8.0	1.0	1.0	2.0	-4.0	-1.0	4.0	4.5	4.5
General government	7	6.8	4.2	-12.5	-12.5	1.0	-12.0	-5.0	3.0	3.5	3.3
Other	12	12.0	12.0	1.0	1.0	2.0	-5.0	0.0	1.0	4.0	4.5
Duties and taxes on imports	2	4.8	5.0	-5.7	-4.6	1.0	-2.5	2.1	2.3	2.3	5.1
Total GDP (market prices)	100	5.7	6.9	3.8	1.8	2.5	-3.5	-0.3	4.7	6.3	3.9
Oil GDP (including investment)	20	-7.2	5.7	37.6	32.1	5.0	-5.9	-4.5	16.0	19.6	3.7
Non-oil GDP	80	8.0	7.1	-1.5	-2.9	1.9	-3.0	0.6	2.6	3.5	4.0

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

[1] Average share of 2005–10 GDP.

[2] IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351).

Table 3. Chad: Fiscal Operations of the Central Government, 2013–2020

(In billions of CFAF, unless otherwise indicated)

	2013	2014	2015		2016			2017	2018	2019	2020
			Prog.[1]	Prel.	Prog.[1]	June	Proj.	Proj.			
Total revenue and grants	1,294	1,202	881	763	938	297	691	715	876	1,030	1,176
Revenue	1,182	1,094	691	561	720	198	440	497	654	805	940
Oil[2]	749	607	270	133	250	5	25	42	151	260	333
Non-oil	433	487	420	428	470	193	415	455	502	545	606
Tax	420	464	400	407	435	184	395	425	463	500	555
Non-tax	13	23	20	22	35	9	20	30	39	45	51
Grants	113	107	190	202	219	99	251	218	222	224	237
Budget support	5	0	53	90	40	47	114	85	60	50	50
Project grants	108	107	137	112	179	52	137	133	162	174	187
Expenditure	1,464	1,525	1,182	1,101	1,283	411	848	891	942	1,066	1,171
Current	823	861	720	725	749	293	600	593	622	692	724
Wages and salaries	333	341	370	369	376	208	366	378	387	397	405
Goods and services	136	147	67	93	70	53	80	62	67	81	90
Transfers and subsidies	320	327	239	240	264	18	115	120	124	167	170
Interest	34	46	44	23	39	15	39	33	45	47	60
Domestic	10	24	21	13	20	10	20	14	24	25	27
External	24	22	23	10	19	5	19	19	20	22	32
Investment	641	664	462	377	533	117	247	298	320	374	447
Domestically financed	491	510	255	231	313	2	50	87	90	124	172
Foreign financed	149	154	207	146	220	115	197	211	230	250	275
Overall balance (incl. grants, commitment)	-169	-323	-302	-338	-344	-113	-157	-176	-66	-37	5
Non-oil primary balance (excl. grants, commitment)[3]	-848	-838	-511	-504	-553	-88	-196	-192	-166	-224	-231
Float from previous year[4]	-231	-135	-181	-181	-105	-103	-103	-40	-81	-82	-94
Float at end of period[4]	135	181	105	103	105		40	81	82	94	91
Var. of Arrears	-10	12	0	148	0	4	0	0	-20	-40	-40
Overall balance (incl. grants, cash)	-310	-230	-378	-268	-344	-212	-220	-135	-85	-65	-38
Financing	310	230	378	268	344	213	220	134	86	65	38
Domestic financing	80	363	399	265	357	181	213	66	30	0	-37
Bank financing	55	118	279	289	42	-1	41	54	5	-47	-74
Central Bank (BEAC)	59	113	219	292	26	3	36	54	4	-48	-74
Deposits	60	104	-47	26	0	3	0	20	10	0	-25
Advances (net)	0	0	233	232	0	0	0	0	-6	-48	-48
IMF	-1	9	34	34	26	0	36	34	0	0	-1
Commercial banks (deposits)	-3	5	0	-3	16	-4	5	0	1	1	0
Other financing (net)	24	-32	80	-48	15	182	172	12	25	47	37
o.w. Amortization	*…*	*-80*	*-115*	*-234*	*-105*	*-58*	*-108*	*-69*	*-87*	*-44*	*-127*
o.w. Commercial banks loans (net)		*-9*	*85*	*-32*	*0*	*0*	*0*	*0*	*20*	*13*	*6*
o.w. Treasury bills (net)		*27*	*0*	*49*	*…*	*94*	*85*	*12*	*6*	*-1*	*5*
o.w. Treasury Bonds (gross)	*105*	*0*	*80*	*139*	*…*	*116*	*165*	*70*	*86*	*80*	*154*
Privatization and other exceptional receipts[5]	0	277	40	24	300	0	0	0	0	0	0
Foreign financing	230	-133	-21	3	-13	31	6	68	56	64	75
Loans (net)	198	-133	-41	-22	-43	12	-24	38	28	37	49
Disbursements[6]	338	46	78	34	41	39	60	78	68	76	88
Financing gap	…	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Non-oil GDP	4,682	5,179	5,264	5,184	5,486		5,039	5,337	5,486	5,884	6,307
Poverty-reducing social spending	335	309	243	260	246	102	191	…	…	…	…
Bank deposits (mostly BEAC)	214	119	157	93	157	90	93	73	63	63	88
(In months of domestically-financed spending)	2.0	1.0	1.9	1.2	1.8		1.7	1.3	1.1	0.9	1.2
BEAC statutory advances[7]	223	223	416	455	416		455	455	449	401	354

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

[1]IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351).

[2]Net of debt service on oil sales advances, and of cash calls and transportation costs linked to SHT participation in oil companies.

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

[4]Difference between committed and cash expenditure.

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

[6]Includes oil sales advance with Glencore Energy in 2013 in an amount of US$600 million (about CFAF 296 billion).

[7]Includes exceptional advances in 2015.

Table 4. Chad: Fiscal Operations of the Central Government, 2013–2020

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

	2013	2014	2015		2016		2017	2018	2019	2020
			Prog.[1]	Prel.	Prog.[1]	Proj.		Proj.		
Total revenue and grants	27.6	23.2	16.7	14.7	17.1	13.7	13.4	16.0	17.5	18.7
Revenue	25.2	21.1	13.1	10.8	13.1	8.7	9.3	11.9	13.7	14.9
Oil[2]	16.0	11.7	5.1	2.6	4.5	0.5	0.8	2.8	4.4	5.3
Non-oil	9.2	9.4	8.0	8.3	8.6	8.2	8.5	9.2	9.3	9.6
Tax	9.0	9.0	7.6	7.8	7.9	7.8	8.0	8.4	8.5	8.8
Non-tax	0.3	0.4	0.4	0.4	0.6	0.4	0.6	0.7	0.8	0.8
Grants	2.4	2.1	3.6	3.9	4.3	5.0	4.1	4.1	3.8	4.0
Budget support	0.1	0.0	1.0	1.7	0.8	2.3	1.6	1.1	0.8	0.8
Project grants	2.3	2.1	2.6	2.2	3.5	2.7	2.5	3.0	3.0	3.2
Expenditure	31.3	29.4	22.5	21.2	23.4	16.8	16.7	17.2	18.1	18.6
Current	17.6	16.6	13.7	14.0	13.7	11.9	11.1	11.3	11.8	11.5
Wages and salaries	7.1	6.6	7.0	7.1	6.9	7.3	7.1	7.0	6.7	6.4
Goods and services	2.9	2.8	1.3	1.8	1.3	1.6	1.2	1.2	1.4	1.4
Transfers and subsidies	6.8	6.3	4.5	4.6	4.8	2.3	2.2	2.3	2.8	2.7
Interest	0.7	0.9	0.8	0.4	0.7	0.8	0.6	0.8	0.8	0.9
Domestic	0.2	0.5	0.4	0.2	0.4	0.4	0.3	0.4	0.4	0.4
External	0.5	0.4	0.4	0.2	0.3	0.4	0.4	0.4	0.4	0.5
Investment	13.7	12.8	8.8	7.3	9.7	4.9	5.6	5.8	6.4	7.1
Domestically financed	10.5	9.9	4.9	4.4	5.7	1.0	1.6	1.6	2.1	2.7
Foreign financed	3.2	3.0	3.9	2.8	4.0	3.9	4.0	4.2	4.2	4.4
Overall balance (incl. grants, commitment)	-3.6	-6.2	-5.7	-6.5	-6.3	-3.1	-3.3	-1.2	-0.6	0.1
Non-oil primary balance (excl. grants, commitment)[3]	-18.1	-16.2	-9.7	-9.7	-10.1	-3.9	-3.6	-3.0	-3.8	-3.7
Float from previous year[4]	-4.9	-2.6	-3.4	-3.5	-1.9	-2.0	-0.7	-1.5	-1.4	-1.5
Float at end of year[4]	2.9	3.5	2.0	2.0	1.9	0.8	1.5	1.5	1.6	1.4
Var of Arrears	-0.2	0.2	0.0	2.9	0.0	0.0	0.0	-0.4	-0.7	-0.6
Overall balance (incl. grants, cash)	-6.6	-4.4	-7.2	-5.2	-6.3	-4.4	-2.5	-1.6	-1.1	-0.6
Financing	6.6	4.4	7.2	5.2	6.3	4.4	2.5	1.6	1.1	0.6
Domestic financing	1.7	7.0	7.6	5.1	6.5	4.2	1.2	0.5	0.0	-0.6
Bank financing	1.2	2.3	5.3	5.6	0.8	0.8	1.0	0.1	-0.8	-1.2
Central Bank (BEAC)	1.2	2.2	4.2	5.6	0.5	0.7	1.0	0.1	-0.8	-1.2
Deposits	1.3	2.0	-0.9	0.5	0.0	0.0	0.4	0.2	0.0	-0.4
Advances (net)	0.0	0.0	4.4	4.5	0.0	0.0	0.0	-0.1	-0.8	-0.8
IMF	0.0	0.2	0.6	0.7	0.5	0.7	0.6	0.0	0.0	0.0
Commercial banks (deposits)	-0.1	0.1	1.1	-0.1	0.3	0.1	0.0	0.0	0.0	0.0
Other financing (net)	0.5	-0.6	1.5	-0.9	0.3	3.4	0.2	0.4	0.8	0.6
Privatization and other exceptional receipts[5]	0.0	5.4	0.8	0.5	5.5	0.0	0.0	0.0	0.0	0.0
Foreign financing	4.9	-2.6	-0.4	0.1	-0.2	0.1	1.3	1.0	1.1	1.2
Loans (net)	4.2	-2.6	-0.8	-0.4	-0.8	-0.5	0.7	0.5	0.6	0.8
Disbursements[6]	7.2	0.9	1.5	0.7	0.8	1.2	1.5	1.2	1.3	1.4
Financing gap	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Non-oil GDP	4,682	5,179	5,264	5,184	5,486	5,039	5,337	5,486	5,884	6,307
Poverty-reducing social spending	7.2	6.0	4.6	5.0	4.5	3.8	…	…	…	
Bank deposits (mostly BEAC)	4.6	2.3	3.0	1.8	2.9	1.9	1.4	1.2	1.1	1.4
(In months of domestically-financed spending)	2.0	1.0	1.9	1.2	1.8	1.7	1.3	1.1	0.9	1.2
BEAC statutory advances[7]	4.8	4.3	7.9	8.8	7.6	9.0	8.5	8.2	6.8	5.6

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

[1] IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351).

[2] Net of debt service on oil sales advances, and of cash calls and transportation costs linked to SHT participation in oil companies.

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

[4] Difference between committed and cash expenditure.

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

[6] Includes oil sales advance with Glencore Energy in 2013 in an amount of US$600 million (about CFAF 296 billion).

[7] Includes exceptional advances in 2015.

Table 5. Chad: Balance of Payments, 2013–2020
(Billions of CFA francs, unless otherwise indicated)

	2013	2014	2015		2016		2017	2018	2019	2020
	Prel.	Prel.	Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.			
Current account, incl. official transfers	-587	-617	-732	-796	-546	-454	-448	-444	-439	-519
Trade balance	424	197	53	34	181	95	225	488	801	842
Exports, f.o.b.	1,923	1,944	1,651	1,555	1,807	1,272	1,522	1,854	2,287	2,400
Of which : oil	1,593	1,592	1,291	1,191	1,429	894	1,120	1,429	1,830	1,907
Imports, f.o.b.	-1,499	-1,747	-1,598	-1,521	-1,626	-1,177	-1,296	-1,365	-1,486	-1,558
Services (net)	-1,043	-1,060	-1,043	-1,092	-1,036	-1,005	-1,055	-1,160	-1,293	-1,347
Income (net)	-294	-298	-163	-196	-120	-53	-109	-258	-432	-508
Transfers (net)	326	544	420	458	430	509	491	486	484	494
Official (net)[2]	98	303	161	196	157	225	195	176	164	160
Private (net)	228	240	260	262	272	284	296	309	320	334
Financial and capital account	578	623	508	383	566	218	385	529	566	674
Capital transfers	104	104	133	108	175	133	129	159	171	183
Foreign direct investment[3]	257	-334	355	331	611	152	233	285	301	320
Other medium and long term investment	187	547	-30	-33	1	-51	25	14	22	34
Public sector	198	558	-19	-22	10	-39	38	28	37	49
Private sector	-10	-11	-11	-11	-12	-12	-13	-14	-15	-15
Short-term capital	30	306	50	-23	-218	-16	-1	71	73	136
Overall balance	-9	5	-224	-413	20	-237	-62	85	127	155
Financing	9	-6	171	359	-133	171	-2	-113	-154	-180
Change in official reserves (decrease +)	9	-6	171	359	-133	171	-2	-113	-154	-180
IMF (net)	0	9								
Financing gap	0	0	-53	-54	-113	-66	-64	-28	-27	-26
Financing gap (percent of GDP)	0	0	-0.8	-0.8	-1.6	-1.1	-1.0	-0.4	-0.4	-0.3
Exceptional Financing			54	54	56	66	64	28	27	26
IMF ECF			34	34	26	36	34	0	0	0
Debt relief (HIPC)			20	20	30	30	30	28	27	26
Remaining gap			0	0	-57	0	0	0	0	0
Memorandum items:										
Current account (percent of GDP)	-9.1	-8.9	-11.0	-12.3	-7.8	-7.5	-6.8	-6.4	-5.7	-6.3
Exports (percent of GDP)	30	28	25	24	26	21	23	27	30	29
Of which : oil	25	23	19	18	20	15	17	20	24	23
Imports (percent of GDP)	-23	-25	-24	-23	-23	-19	-20	-20	-19	-19
FDI (percent of GDP)	4.0	-4.8	5.3	5.1	8.7	2.5	3.5	4.1	3.9	3.9
Gross official reserves (billions of USD)	1.2	1.2	0.6	0.4	0.8	0.1	0.1	0.3	0.6	0.9
(In months of imports of goods and services)	2.5	2.1	1.5	1.0	1.8	0.3	0.3	0.8	1.3	2.0
(Idem, excluding oil sector imports)	3.0	2.5	1.8	1.2	2.4	0.3	0.3	0.9	1.5	2.2

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

[1] IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351).

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

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

Table 6. Chad: Monetary Survey, 2013–2017
(Billions of CFA francs)

	2013	2014	2015		2016		2017
		Prel.	Prog.[1]	Prel.	Prog.[1]	Proj.	Proj.
Net foreign assets	537.7	522.7	266.1	88.6	336.3	-36.0	-26.1
Central bank	527.9	534.5	308.1	145.4	376.3	29.0	33.9
Commercial banks	9.8	-11.9	-42.0	-56.8	-40.0	-65.0	-60.0
Net domestic assets	314.4	555.0	842.0	938.5	818.5	1051.9	1084.9
Domestic credit	465.4	760.4	980.0	1143.6	997.5	1136.9	1159.9
Claims on the government (net)	50.4	204.2	380.9	477.1	335.8	562.0	578.0
Treasury (net)	35.7	165.6	342.3	417.3	297.2	512.0	533.0
Banking sector	35.7	165.6	342.3	417.3	297.2	512.0	533.0
Central bank	96.9	228.7	351.3	492.2	281.2	500.0	505.0
Claims on general government	260.3	268.2	440.8	530.0	405.8	530.0	530.0
Liabilities to general government	-163.5	-39.5	-89.5	-37.7	-124.6	-30.0	-25.0
Commercial banks	-61.2	-63.2	-9.0	-74.9	16.0	12.0	28.0
Claims on general government	66.6	86.2	112.0	74.2	124.0	156.0	170.0
Liabilities to general government	-127.7	-149.3	-121.0	-149.1	-108.0	-144.0	-142.0
Fund position	0.9	10.6	41.2	41.2	65.1	65.1	81.2
Other non-treasury	14.7	38.6	38.6	59.8	38.6	50.0	45.0
Credit to the economy	389.6	537.0	555.4	540.7	592.2	511.1	500.7
Capital Accounts	-113.9	-102.8	-100.0	-118.9	-127.0	-130.0	-120.0
Other items (net)	-27.5	-23.4	-38.0	45.1	-52.0	45.0	45.0
Money and quasi money	852.1	1077.7	1108.1	1027.0	1154.9	1015.9	1058.8
Currency outside banks	448.3	539.2	554.4	482.4	577.8	477.1	497.3
Demand deposits	336.3	460.5	473.5	453.9	493.4	448.9	467.9
Time and savings deposits	67.5	78.0	80.2	90.8	83.6	89.8	93.6
Memorandum items:							
Broad money (annual percentage change)	8.6	26.5	2.8	-4.7	4.2	-1.1	4.2
Credit to the economy (annual percentage change)	6.1	37.8	3.4	0.7	6.6	-5.5	-2.0
Credit to the economy (percent of GDP)	6.1	7.8	8.4	8.4	8.5	8.5	7.6
Credit to the economy (percent of non-oil GDP)	8.3	10.4	10.6	10.4	10.8	10.1	9.4
Velocity (non-oil GDP)	5.5	4.8	4.8	5.0	4.8	5.0	5.0
Velocity (total GDP)	7.5	6.4	6.0	6.3	6.1	5.9	6.2

Sources: Chadian authorities; and IMF staff estimates and projections.
[1]IMF, Chad-Second Review under the ECF Arrangement (EBS/15/351).

Table 7. Chad: Financial Soundness Indicators, 2010–2015

	2010	2011	2012	2013	2014	2015
Capital Adequacy						
Regulatory capital / Risk-weighted assets	12.5	20.0	18.1	22.0	13.4	14.6
Asset Quality						
Gross nonperforming loans/Gross banking loans	9.9	7.6	7.4	9.8	11.7	16.5
Provisions / Nonperforming loans	81.1	89.0	64.5	65.3	68.3	56.1
Net nonperforming loans/Gross banking loans	1.9	0.8	2.6	3.4	3.7	7.3
Profitability						
Return on assets	3.2	2.1	2.0	2.3	1.8	1.6
Return on equity	32.0	19.2	15.5	21.1	19.4	13.1
Liquidity						
Liquid assets / Total assets	29.4	24.3	28.1	24.0	25.7	26.0
Liquid assets / Short term liabilities	148.3	149.3	146.6	139.3	152.9	142.1

Source: COBAC.

Table 8. Chad: Quantitative Performance Criteria (QPC) and Indicative Targets (IT)[1] under the ECF Arrangement (December 2015 – June 2016)

(In CFAF billion, otherwise indicated)

	End-Dec 2015 QPC			End-March 2016 IT		End-June 2016 QPC		
	Target	Actual	Comment	Target	Actual	Target	Actual	Comment
Floor on non-oil primary budget balance	(511)	(504)	met	(133)	(35)	(314)	(88)	met
Ceiling on net domestic government financing	399	265	met	113	105	277	181	met
Ceiling on the accumulation of domestic payment arrears by the government	0	148	missed	0	81	0	4	missed
Ceiling on the accumulation of new external payment arrears by the government or non-financial public enterprises (US$ million) [2]	0	0	met	0	0	0	1	missed
Ceiling on contracting or guaranteeing of new non-concessional external debt by the government and non-financial public enterprises, but for ordinary external trade financing of at most one-year maturity[2]	0	0	met	0	0	0	0	met
Floor for poverty-reducing social spending	243	260	met	55	43	79 [3]	102	met
Memo items: :								
Oil revenue	*270*	*133*		*47*	*2*	*112*	*5*	
Concessional borrowing	…	*34*		*40*	*14*	*40*	*31*	

Sources: Chadian authorities; and IMF staff.

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

2. Applies continuously.

3. Reflects the application of the adjuster given the expenditures compression that took place (see TMU for more details).

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

Measures	Due Dates	Macro-criticality	*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	High	*Met*
Incorporation of information on fiscal oil revenue (from the inter-ministerial structure monitoring) in the quarterly budget execution reports published by the Ministry of Finance	End-Sept. 2015	High	*Met*
Update and expand the taxpayer database	End-Dec 2015	High	*Met*
Limit emergency spending procedures to no more than 9 percent of domestically financed spending in 2015 (excluding wages, debt service, and security-related spending)	End-Dec. 2015	High	*Met*

Sources: Chadian authorities; and IMF staff.

Table 9b. Chad: Structural Conditionality under the ECF Arrangement for 2016

Measures	Due Dates	Macro-criticality	Observation
Producing an annual debt management report	End-June. 2016	Medium	Not met. Completed in October 2016
Establishment of a structure responsible for Treasury planning and monitoring, and preparation of cash management plans	End-June. 2016	High	Met
Rationalization of transfers and subsidies, based on the result of the functional and financial audit launched in 2015	End-Sept 2016	High	Not met; some progress in the October Emergency Plan
Enhanced reporting of gross and net oil revenue flows	End-June 2016	High	Not met. Tangible progress in the monitoring and reporting; but regular publication of a note still to be done.
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, ans security-related spending)	End-Dec. 2016	High	---

Sources: Chadian authorities; and IMF staff.

Table 10a. Chad: Summary Table of Actual External Borrowing Monitor, 2015

PPG external debt	USD million[1]	Percent
By sources of debt financing	**58**	**100**
Concessional debt, of which	**58**	**100**
Multilateral debt	39	67
Bilateral debt	19	33
Other	0	0
Non-concessional debt	**0**	**0**
Uses of debt financing	**58**	**100**
Infrastructure	12	21
Social (education, health)	8	14
Agriculture and livestock	18	31
Energy	8	14
Budget Financing	0	0
Other	12	21

Sources: Chadian authorities and IMF staff.

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

Table 10b. Chad: Summary Table of Projected External Borrowing Program

PPG external debt	2016		2017	
	USD million[1]	Percent	USD million[1]	Percent
By sources of debt financing	**103**	**100**	**134**	**100**
Concessional debt, of which	**103**	**100**	**134**	**100**
Multilateral debt	67	65	79	59
Bilateral debt	36	35	55	41
Other	0	0	0	0
Non-concessional debt	**0**	**0**	**0**	**0**
Uses of debt financing	**103**	**100**	**134**	**100**
Infrastructure	44	43	47	35
Social (education, health)	9	9	20	15
Agriculture and livestock	33	32	40	30
Energy	11	11	13	10
Budget Financing	0	0	0	0
Other	6	6	13	10

Sources: Chadian authorities and IMF staff.

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

Table 11a. Chad: Original Schedule of Disbursement Under the ECF Arrangement

	Amount (Percent of Quota)	Amount (Million SDR)	Available Date	Conditions for Disbursement
	9.5	13.31	August 1, 2014	Executive Board approval of the three year ECF arrangement
	14.2	19.97	February 15, 2015	Observance of the performance criteria for December 31, 2014 and completion of the first review under the arrangement
	14.7	20.65	August 15, 2015	Observance of the performance criteria for June 30, 2015 and completion of the second review under the arrangement
	12.4	17.32	February 15, 2016	Observance of the performance criteria for December 31, 2015 and completion of the third review under the arrangement
	10.0	13.99	August 15, 2016	Observance of the performance criteria for June 30, 2016 and completion of the fourth review under the arrangement
	7.6	10.66	February 15, 2017	Observance of the performance criteria for December 31, 2016 and completion of the fifth review under the arrangement
	7.6	10.66	July 15, 2017	Observance of the performance criteria for May 31, 2017 and completion of the sixth review under the arrangement
Total	***76.0***	***106.56***		

Sources: IMF Staff estimates and projections.

Table 11b. Chad: New Proposed Schedule of Disbursement Under the ECF Arrangement

	Amount (Percent of Quota)	Amount (Million SDR)	Available Date	Conditions for Disbursement
	9.5	13.31	August 1, 2014	Executive Board approval of the three year ECF arrangement
	14.2	19.97	February 15, 2015	Observance of the performance criteria for December 31, 2014 and completion of the first review under the arrangement
	14.7	20.65	August 15, 2015	Observance of the performance criteria for June 30, 2015 and completion of the second review under the arrangement
	24.4	34.14	February 15, 2016[1]	Observance of the performance criteria for December 31, 2015 and completion of the third review under the arrangement
	7.3	10.27	August 15, 2016[1]	Observance of the performance criteria for June 30, 2016 and completion of the fourth review under the arrangement
	14.7	20.54	February 15, 2017	Observance of the performance criteria for December 31, 2016 and completion of the fifth review under the arrangement
	15.2	21.32	August 15, 2017	Observance of the performance criteria for June 30, 2017 and completion of the sixth review under the arrangement
Total	***100.0***	***140.20***		

Sources: IMF Staff estimates and projections.

[1]The Third Review will be combined with the Fourth Review.

Table 12. Chad: Indicators of Capacity to Repay the Fund, 2016–30

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund obligations based on existing credit															
Principal	0.0	0.0	0.0	0.0	2.0	8.1	8.1	10.3	10.8	6.1	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit															
Principal	0.0	0.0	0.0	0.0	2.0	8.1	19.1	27.5	28.0	23.4	17.3	6.3	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.4	0.4	0.4	0.3	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit															
SDR millions	0.0	0.0	0.0	0.4	2.4	8.5	19.4	27.8	28.2	23.5	17.3	6.4	0.0	0.0	0.0
CFAF billions	0.0	0.0	0.0	0.3	1.9	6.9	15.8	22.6	23.0	19.1	14.1	5.2	0.0	0.0	0.0
Percent of exports of goods and services	0.0	0.0	0.0	0.0	0.1	0.3	0.6	0.9	0.9	0.7	0.5	0.2	0.0	0.0	0.0
Percent of debt service[1]	0.0	0.0	0.0	0.2	1.0	3.7	8.5	30.2	28.5	23.5	17.7	6.6	0.0	0.0	0.0
Percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Percent of tax revenue	0.0	0.0	0.0	0.1	0.3	1.1	2.2	2.9	2.7	2.0	1.3	0.4	0.0	0.0	0.0
Percent of quota	0.0	0.0	0.0	0.3	1.7	6.0	13.8	19.8	20.1	16.8	12.4	4.5	0.0	0.0	0.0
Outstanding IMF credit based on existing and prospective drawings															
SDR millions	89.9	131.7	131.7	131.7	129.7	121.6	102.5	75.0	47.0	23.6	6.3	0.0	0.0	0.0	0.0
CFAF billions	73.8	107.5	107.3	107.0	104.9	99.0	83.5	61.1	38.2	19.2	5.1	0.0	0.0	0.0	0.0
Percent of exports of goods and services	5.2	6.4	5.3	4.4	4.1	3.6	3.0	2.4	1.5	0.7	0.2	0.0	0.0	0.0	0.0
Percent of debt service[1]	33.3	50.8	52.8	55.4	56.6	53.4	44.9	81.5	47.3	23.5	6.5	0.0	0.0	0.0	0.0
Percent of GDP	1.2	1.6	1.5	1.4	1.3	1.1	0.9	0.6	0.4	0.2	0.0	0.0	0.0	0.0	0.0
Percent of tax revenue	18.4	24.2	22.1	20.1	17.8	15.2	11.4	7.7	4.4	2.0	0.5	0.0	0.0	0.0	0.0
Percent of quota	64.1	93.9	93.9	93.9	92.5	86.7	73.1	53.5	33.5	16.8	4.5	0.0	0.0	0.0	0.0
Net use of IMF credit (SDR millions)	44.4	41.9	0.0	0.0	-2.0	-8.1	-19.1	-27.5	-28.0	-23.4	-17.3	-6.3	0.0	0.0	0.0
Disbursements	44.4	41.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.0	0.0	0.0	0.0	2.0	8.1	19.1	27.5	28.0	23.4	17.3	6.3	0.0	0.0	0.0
Memorandum items:															
Exports of goods and services (CFAF billions)	1,421	1,680	2,018	2,458	2,581	2,735	2,742	2,593	2,604	2,620	2,640	2,666	2,698	2,738	2,786
External Debt service (CFAF billions)[1]	222	212	203	193	185	185	186	75	81	82	80	78	75	78	87
Nominal GDP (CFAF billions)	6,038	6,563	6,986	7,734	8,274	8,832	9,297	9,681	10,208	10,777	11,411	12,063	12,768	13,521	14,360
Tax revenue (CFAF billions)	402	445	486	533	590	652	731	789	867	944	1,057	1,180	1,316	1,465	1,642
Quota (SDR millions)	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2	140.2

Sources: IMF staff estimates and projections.

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

Appendix I. Letter of Intent

N'Djamena, October 27, 2016

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

Madame Managing Director,

1. On August 1, 2014, the Executive Board of the IMF approved a financial program under the Extended Credit Facility (ECF) covering the period August 1, 2014 until July 31, 2017. The First and Second reviews of the program were completed in April and December 2015 respectively. This Letter and the attached Memorandum of Economic and Financial Policies (MEFP) present the country's recent economic trends and performance under the ECF arrangement, as well as the policies we intend to implement for the remainder of 2016, 2017, and in the medium term.

2. Against a very challenging economic environment characterized primarily by an increasingly severe oil price shock and continued fiscal pressures from Chad's regional peacekeeping efforts, the Government continued to make progress in implementing the program supported by the ECF arrangement. The depressed oil price has seriously undermined budgetary oil revenues in 2015 and more so in 2016. In addition, the heavy involvement of the Chadian military in the fights against terrorist groups to maintain regional stability is placing a significant burden on public finances. It is also important to stress the security threats and the economic crisis in Nigeria that have halted cross border trade, especially in the important livestock and agriculture sectors. Finally, Chad continues to host and support at least 750 000 refugees, displaced persons, and returnees, scattered along the border with surrounding countries.

3. To respond to the dire economic and financial situation in the country, the new Government appointed on August 14, 2016 has adopted and implemented an emergency economic action plan to curtail spending where possible. This action plan complemented a move to cash-based execution of the budget since early 2016 and a large reduction in capital spending in 2015. The large fiscal adjustment efforts in 2015 and 2016 helped the Government balance its budget and stay within the broad parameters of the program. However, acute liquidity conditions led to the nonobservance of one periodic PC for end-December 2015 and end-June 2016 PCs, and another continuous PC.

- The zero ceiling on the accumulation of new external payment arrears has been missed in June 2016, when minor external payment arrears (US$1.1 million) were accumulated but cleared shortly thereafter. The Government requests a waiver on the basis of the minor nature of the nonobservance.

- The zero limit on the change in the stock of domestic payment arrears has been missed by a large margin in December 2015, but then only marginally in June 2016. The Government requests another waiver for nonobservance of this PC, based on the comprehensive strategy that will follow the independent audit of arrears, supported by your Institution, and that will allow to clear arrears and strengthen internal controls to avoid the reoccurrence of arrears accumulation.

4. The Government continued to make progress on the structural reform agenda in spite of the fiscal pressures. The use of extraordinary budget procedures remained under the agreed limit in 2015, the database of taxpaying enterprises was updated and expended, an annual debt management report was published on October 21, 2016, and the Technical Committee for Treasury Planning was reactivated. The Government has also made progress in enhancing transparency in the oil sector. A Technical Committee in charge of monitoring oil revenue has been established, and the sharing of oil-related information across government agencies improved. The Government intends to regularly produce and publish a note with this information to ensure that this structural benchmark is fully met.

5. Moving forward, the Government is committed to implement the necessary fiscal adjustment to address the immediate effects of the economic and financial crisis. In particular, a second revised and fully financed 2016 budget was submitted to the National Assembly on October 12, 2016. The plenary of the National Assembly for the adoption of this second amending budget for 2016 is scheduled for Friday, October 28, 2016. In addition, a draft 2017 budget based on conservative revenue and financing assumptions is currently under discussion by the cabinet and will be soon-now transmitted to the National Assembly after approval. The Government intends to start relaxing the spending envelope progressively in 2018 and in the medium-term, depending on the availability of budgetary resources and financing, to ensure that the economic recovery remains on a sustainable path.

6. The Government considers domestic arrears prevention and clearance are key to stabilize and reinvigorate the economy. In this regard, in addition to the current efforts to clear verified arrears and prevent their recurrence, it commits to verify the authenticity of additional claims and will seek external support to help clear them. The Government also commits to continue improve its Public Financial Management including in the expenditure chain, cash flow management system, and oil transparency are necessary to prevent the recurrence of arrears.

7. Beyond the immediate stabilization needs, the Government is determined to diversify the economic base to reduce dependence on oil, and is convinced that improving the business climate is important to encourage investment. The new 5-year National Development Plan (NDP 2016-2020) adopted on October 25, 2016 by the Steering Committee chaired by the Prime Minister, Head of Government, will elaborate the diversification strategy. The Government will seek donors' supports to finance projects and policies in the NDP 2016-2020.

8. On the basis of the policies described in this letter and its attachments, the Government request that the Executive Board of the IMF approves the completion of the third and fourth reviews

under the ECF arrangement. Given the additional balance of payments needs that have emerged due to the worsening exogenous shock, the Government requests i) an augmentation of access under the program in an amount equivalent to 24 percent of Chad's quota (equivalent to SDR 33.64 million or CFAF 28 billion); ii) an extension of the arrangement until end-November 2017 in order to conclude the sixth review and allow the disbursement of the last installment and iii) a rephasing of planned disbursements. This would allow the Government to access the equivalent of CFAF 36 billion in 2016, corresponding to the third and fourth Reviews, compared to the CFAF 26 billion originally programmed, while the remaining part of the increase in access would be disbursed in 2017 after completion of the fifth and sixth reviews respectively).

9. For the remainder of the period under the ECF arrangement, the Government undertakes to implement the policies and measures included in the MEFP to reach the program objectives. The Government will take any steps to ensure proper implementation of the program. The Government will consult with IMF staff on adoption of additional measures in accordance with the Fund's relevant consultation policies.

10. 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 Third and Fourth reviews 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 reviews by the IMF Executive Board.

Please receive, Madam Director General, the expression of my highest consideration,

Sincerely yours,

/s/

Mbogo Ngabo Seli
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

I. INTRODUCTION

1. This Memorandum of Economic and Financial Policies (MEFP) is an update of and a supplement to that of November 2015 (corresponding to the Second Review of the program supported by the Extended Credit Facility).[1] It describes the difficult 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 is implementing an emergency economic program to address the intensifying impact of three major shocks that have led to severe economic and financial disruptions. These shocks have had a significant economic impact on large segments of the population.

- The oil price shock has worsened. The price declined further in the second half of 2015 and in early 2016. In addition, after increasing in 2015 with the start of exports by the China National Petroleum Corporation (CNPC), the volume of production has slightly declined in 2016 in the context of the halt in investment in the sector. These developments have seriously undermined the 2016 oil budget revenues.

- The tense security situation in Chad and the region continues to exert significant pressures on the budget and the economy more generally. The Chadian military is heavily involved in the fights against terrorist groups including Boko-Haram and Islamic State in the region, especially in the Lake Chad Basin to maintain regional stability.[2] Military activities are placing a significant burden on public finances. More generally, the security situation is disrupting cross-border trade and economic activities including in the important livestock and agriculture sectors.

- Chad continues to host at least 750 000 refugees, displaced persons, and returnees, scattered along the border with surrounding countries. While the direct fiscal cost is difficult to measure, the Government is supporting refugees' access to land, basic community services and settlement in host communities, all of which entail fiscal cost.

[1] All the Memorandums are available on the IMF website: http://www.imf.org/external/country/TCD/

[2] Chad has stationed troops in Cameroon, Mali, Nigeria, Niger and, in particular, the Lake Chad region as well as the border with Sudan and Libya to counter various terrorist groups.

II. RECENT ECONOMIC DEVELOPMENTS AND IMPLEMENTATION OF THE ECF-SUPPORTED PROGRAM IN THE SECOND HALF OF 2015 AND IN THE FIRST HALF OF 2016

A. Recent Economic Developments

3. **Chad is facing a deteriorating economic situation, with a contraction of economic activity of at least 3 percent expected in 2016.** The Government finds that the oil companies have drastically reduced their investments to reduce their costs. As for the non-oil sector, the private sector companies depend heavily on public procurement. In the current budgetary context, their activity is negatively affected. Agriculture however has seen positive developments, thanks to a season of favorable rainfall. Nonetheless, this favorable performance was not sufficient to lead to positive overall growth in the non-oil sector. The weakness in economic activity led to an overall decline in prices in 2016.

4. **The Government is facing a very difficult fiscal situation**. The Government faced significant liquidity constraints as revenues particularly from the oil sector saw a large drop. The Government had to make difficult budget choices. It moved to a cash-based execution of the budget and had to prioritize spending in the areas of essential security spending, wage payment, debt service, and antipoverty social spending. Nonetheless significant liquidity pressures remained which led to the accumulation of some domestic payment arrears.

5. **The Government is also aware of the risks to the financial sector**. Banks' exposure to government debt and private sector dependence on government procurement have increased vulnerabilities in the banking sector. As a result, credit to the private sector declined and the non-performing loans increased.

B. Program Implementation at end-December 2015 and end-June 2016

6. **To respond to the dire economic and financial situation in the country, the new Government appointed on August 14 has enacted an emergency economic action plan to curtail spending where possible**. This action plan complemented a move to cash-based execution of the budget since early 2016. It includes 16 measures intended to balance the cuts across government agencies and spending categories (see also para. 16). While the move to a cash-based execution of the budget has helped the Government stay current on its basic obligations, some domestic payment arrears have accumulated, and delays in the payment of salaries have been experienced in recent months.

7. **The large fiscal adjustment efforts in 2015 and 2016 helped the Government stay within the broad parameters of the Fund supported program for the Third and Fourth Reviews in spite of the oil price shock and the significant fiscal burden of the tense security situation and refugee crisis**. One periodic PC was missed at end-December 2015 and end-June 2016, and one continuous PC was missed:

- ***The criterion on non-oil primary fiscal deficit (NOPD) has been met for both test-dates.*** The deficit stood at CFAF 504 billion in 2015 compared to the quantitative performance criterion set in the program at CFAF 511 billion. To be able to achieve this result, the Government generally stayed with the expenditure envelope set out in the June 2016 Revised Budget, with an overrun of only CFAF 25 billion for goods and services, which was offset by cuts in domestically financed investment of an equivalent amount. In the first half of 2016, the Government generally limited expenditure to available resource (on a cash basis), resulting in a NOPD of only CFAF 87,8billion, compared to the QPC of CFAF 314 billion.

- ***The floor for poverty-reducing social spending has been achieved in 2015, as well as in the first half of 2016 based on the relevant adjustor.*** The Government is strongly committed to increase social spending. In 2015, these expenditures reached CFAF 260.4 billion, against a floor of CFAF 243 billion. In the first half of 2016, despite the unprecedented decline in revenue, the absence of alternative sources of financing, and the need to prioritize security spending, poverty-reducing social spending reached 102 CFAF billion which represents 36.2 percent of domestically financed primary expenditure compared to 27.9 percent in 2015, an increase of more than 8 percentage points. With the adjustor agreed under the program, the PC has been met event though the nominal value was below the CFAF 110 billion floor.

- ***The zero ceiling on the accumulation of new external payment arrears has been missed in June 2016,*** when minor external payment arrears to the World Bank and the African Development Bank were accumulated but cleared shortly thereafter. A waiver is requested on the basis of the small amount involved (US$1.1 million), the quick resolution of the problem, and the improvement in communication between the Ministry of Finance and Budget and the BEAC to prevent the reoccurrence of such delays.

- ***The zero ceiling on the contracting of new non-concessional external debt has been met for both test dates***.

- ***The ceilings for net domestic government financing have been observed for both test dates.***

- ***The zero limit on the change in the stock of domestic payment arrears has been missed by a large margin in December 2015, and only marginally in June 2016.*** In spite of strong efforts to stay current on all domestic payment obligations, the sharper drop in oil revenues, as well as lower net domestic financing than budgeted (issuances in the regional public securities' market in 2015 were mainly used to repay more expensive domestic bank loans, and for an unscheduled repayment of a debt of CFAF 46 billion for supplies to the Ministry of Defense from the years 2006-08), led to the accumulation of new payment arrears in 2015 (CFAF 148 billion, or 3 percent of non-oil GDP) leading to a stock of CFAF 199.8 billion at end-2015. Since the beginning of 2016, the Government was able to repay some of the existing arrears, almost entirely offsetting the accumulation of new arrears in

2016. As a result, the stock of domestic arrears stood at CFAF 204.2 billion at end-June 2016. The Government is requesting another waiver for nonobservance of this PC, based on the comprehensive strategy put in place to clear arrears and strengthen internal controls to avoid a reoccurrence of this problem (see details in Section III. C).

8. The Government continued to make progress on the structural reform agenda in line with program objectives:

- Domestically financed expenditures (excluding salaries, debt servicing and security spending) executed using extraordinary budget procedures (DAO – Expenditure before authorization), were limited to CFAF 47.3 billion, that is, 8.7 percent of total domestically financed expenditures, below the 9 percent ceiling set for end-December 2015. However, given that the considerable cuts in 2016 targeted spending categories that are typically executed through ordinary budget procedures, the use of these procedures declined significantly making it impossible for the government to meet the structural benchmark on the use of emergency budget procedures for end-2016.

- The structural benchmark for end-December 2015 to update and broaden the database of taxpaying enterprises was met. Chad carried out its first census of enterprises, co-financed by the EU, the AfDB and the Government. The census identified 30,761 physical units, of which 85.4 percent are small enterprises, 11.4 percent medium-sized enterprises, 0.5 percent large enterprises and 2.7 percent not classified. Of this number, the Directorate General of Taxation has identified 452 large enterprises and about 1,500 small and medium-sized enterprises. As a result, the number of taxpayers has increased by 23 (from 429 to 452) for large companies and by 75 (from 1,425 to 1,500) for small and medium-sized enterprises.

- The publication of an annual debt management report (a benchmark for end-June 2016) on the ministry of finance and budget web site was done on October 21, 2016.

- Regarding the establishment of a structure responsible for Treasury planning and monitoring, and preparation of cash management plans (structural benchmark for end-June 2016), the Technical Committee for Treasury Planning originally created in 2012,[3] has been reactivated. The minutes of several meetings of this Committee have been provided to the IMF. Cash management plans are updated regularly and used by the General Directorate of the Treasury.

- Progress has been made to enhance reporting of gross and net oil revenue flows, a decree setting up a Technical Committee in charge of monitoring oil revenue has been signed by the Minister of Finance and Budget and the Minister of Oil and Energy on September 14, 2016.[4] This Committee brings together technicians from the Ministry of Finance and Budget (Studies and Forecasting Unit, Public Accounting Unit, Debt Direction, Statistics Unit, and

[3] Decree nº 001/PR/PM/MFB/SE/SG/DGTCP/12 modified by nº 032/PR/PM/MFB/SE/DGTCP/13
[4] Decree nº 106/PR/PM/MFB/MPE/2016

Forecasting and macroeconomic modeling Unit), and from the Ministry of Oil and Energy (Studies and Legal Unit, Accounting Unit, SHT exploration and production Unit, and Unit in charge of oil trading at SHT). Tangible progress in the exchange of information is evident by a better integration of the parameters explaining oil revenue in the preparation of the new Revised Budget for 2016 and the Initial Budget for 2017. The Government intends to regularly produce and publish a note with this information, to ensure that this structural benchmark is fully met (See section IV).

III. ECONOMIC AND FINANCIAL POLICIES FOR THE REMAINDER OF THE PROGRAM

9. Looking forward, the Government has mapped out a two-pronged approach to meet the challenges facing the country and improve the socio-economic conditions of the population.

- It will continue to implement the necessary fiscal adjustment to address the immediate effect of the economic and financial crisis. In particular, a second revised 2016 budget, which closes the financing gap that has emerged under the previous budget, has been approved by the cabinet. In addition, a draft 2017 budget based on conservative revenue assumptions is currently under discussion by the cabinet. The revised 2016 budget has been submitted to the National Assembly in October, 12, 2016 while the submission of the draft 2017 budget is a prior action for the completion of the Third and Fourth Reviews.

- A consensus has emerged in the country on the need to diversify the economy away from oil. The Government and other domestic stakeholders recognize the permanence of the oil price shock and the importance of reducing reliance on the sector as an engine for growth. In this regard, the Government is preparing a 5-year national development plan (NDP) that outlines the plan to diversify the economy. It will seek to raise resources from donors in the context of a January 2017 donor conference to finance projects and policies in the NDP.

A. Closing the Financing Gap in the 2016 Budget

Lower than anticipated oil and non-oil revenue, in addition to the non-materialization of expected exceptional receipts linked to the sale of a government oil asset, led to a large financing gap in 2016. In response, the Government has implemented corrective actions throughout the year, complemented by an Emergency plan in August 2016. A new fully financed revised 2016 budget was submitted to the National Assembly in October 12, 2016.

10. Oil revenue are much lower than anticipated. The first revised 2016 budget adopted in June only accounted for a partial drop in oil revenue (from the originally estimated CFAFA 250 billion to CFAF 116 Billion). Revised estimates suggest that oil budgetary revenue will only reach CFAF 25 billion for the whole year, just 10 percent of the amount initially envisaged.

11. The effect of lower oil prices on oil revenues has been aggravated by the large government debt contracted to finance the State's participation in the Esso consortium. In 2014, the Government contracted an oil-collateralized loan of US$1.35 billion (13 percent of GDP) with Glencore. The loan financed the purchase by the Chad Hydrocarbons Corporation (SHT) of the 25 percent shares previously held by Chevron in the Esso Consortium (Badoit project). The loan is serviced primarily by revenues from the Badoit project (less production costs and transportation charges). Where this amount turns out to be insufficient, part of the revenues from oil royalties paid to the Government is also used: up to 50 percent by June 30, 2016 and 70 percent thereafter. Since the beginning of the year, more than half of the value of oil shipments were deducted to service this debt. With the prevailing and projected oil prices, de facto, servicing this debt absorbs the Government's oil revenue that would otherwise be used for financing priority spending.

12. In the context of depressed domestic activities and exports, non-oil (tax and customs) revenue is also underperforming. Based on revenue collection in the first three quarters of the year, non-oil revenue for 2016 is expected to reach CFAF 415 billion (under the CFAF 470 billion originally projected).

13. The current international oil sector environment has complicated the Government's efforts to sell its 10 percent stake in four oil fields currently exploited by CNPC. The Government was anticipating CFAF 300 billion in exceptional receipt on account of this sale. While the sale plan remains in place, the Government recognizes the high likelihood that the sale may take a long time to happen.

14. Against this difficult background, the Government adopted a number of measures throughout the year, culminating with an Emergency Plan in late August and a second revised 2016 budget (LFR2) in October. The cautious cash-based implementation of the budget since early 2016 and the first revision of the 2016 budget (LFR1) adopted in June 2016 prevented the fiscal deficit from widening, and paved the way for the adoption of a another revised budget (LFR2) that excludes the exceptional proceeds from the asset sale.

15. The LFR2 includes cuts of 0.7 percent for wages and salaries, 52 percent for transfers and subsidies, and 78 percent for domestically financed investments from the respective levels in 2015. This includes a previous CFAF 109 billion reduction (equivalent to 2 percent of non-oil GDP) in domestically financed investments included in LFR1. The Government is certain that these cuts will be implemented; it has already moved to a cash based execution of the budget, and has taken 16 measures as part of the emergency action plan to contain spending. These include cuts in allowances, the suppression of scholarships, the restructuring of a number of public agencies and the reduction in the staffing size of some including the presidency.

16. Financing the deficit requires a mix of financing from the domestic and regional market and donor support. With access to direct BEAC financing already exhausted after the statutory and exceptional advances received in 2015, decisions taken by the monetary policy committee of the BEAC in March and April 2016 to raise the ceiling for Chadian commercial bank's refinancing at the BEAC (from CFAF 200 billion to CFAF 300 billion), and to halve the required reserves at the central bank for the entire regional banking system, have paved the way for increased issuance of public securities' issuances on the CEMAC regional market. In 2016, taking into account the net issuances in the first three quarters of the year and the amount of securities due to mature by the end of the year, the Government is expected to raise up to CFAF 240 billion in domestic public securities. This amount includes the CFAF 65 billion issuance as part of the comprehensive strategy for clearing domestic arrears (Section III. C). To supplement this financing, the Government obtained an exceptional bilateral loan from Cameroon in the amount of CFAF 30 billion.

17. In addition, the Government has continued negotiations with its external partners and received commitments for at least CFAF 85 billion in grant budget support (in addition to the CFAF 25 billion committed in 2015 but disbursed in 2016), more than doubling the amount indicated in the 2016 initial budget. By mid-October 2016 however, only CFAF 22 billion had been disbursed, by the African Development Bank. The Government expects that the remainder of the committed grants from other donors (including the World Bank and European Union) will be disbursed in 2016 after the completion of the Third and Fourth Reviews.

18. To supplement this package of budgetary aid, the Government is requesting an augmentation of access under the ECF-supported program of an amount equivalent to an additional 24 percent of its quota (equivalent to SDR 33.64 million or CFAF 28 billion). This amount would fill the additional financing requirement that arose because of the worsening and persistent external shocks. The Government is also requesting an extension of the arrangement until end-November 2017 and a rephasing of planned disbursements. This would allow the Government to access the equivalent of CFAF 36 billion in 2016 (the sum of SDR 34.14 million and SDR 10.27 million associated with the third and fourth reviews respectively), compared to the CFAF 26 billion originally programmed for the Third and Fourth reviews, while the remaining part of the increase in access would be disbursed in 2017 (for a total of SDR 20.54 million and 21.32 million for the fifth and sixth reviews respectively).

B. The 2017 Budget and Medium-Term Fiscal Framework

19. The Government expects that the fiscal situation will remain difficult in 2017 and the medium-term, and has revised its medium-term macroeconomic framework accordingly. Non-oil GDP is expected to begin its rebound in 2018, and oil budgetary revenue will continue to be modest into the medium term because of low oil prices and the large debt service associated with the Glencore loan (in spite of projected increase in the volume of production).

20. As such the Government is determined to continue on the path of strong fiscal adjustment in the context of the 2017 draft budget. The draft budget is based on conservative revenue assumptions and maintains a very tight spending envelop to ensure that it is fully financed. The non-oil primary deficit is planned to remain broadly similar to the level expected to prevail in 2016 (3.6 percent of non-oil GDP). The Government is confident that this deficit will be achieved given that the supporting emergency measures started in 2016 will remain in place. In fact, the effect of these measures is expected to fully materialize in 2017. In addition, the Government will continue to execute the budget on a cash-basis to ensure a balanced fiscal position without the accumulation of arrears.

21. The Government will explore options to mitigate the budgetary burden of repaying the Glencore loan. While it is committed to continue servicing this debt, it will aim to undertake a debt management operation that aligns the burden of the loan with the developments in oil prices after the loan was originally contracted. The objective is to allow more oil revenues to finance priority spending and help support the economic recovery.

22. The Government will consult with the IMF on the use of oil revenues above the conservative amount assumed in the draft 2017 budget and of any exceptional receipts including from the sale of the oil asset initially planned for 2016. Options include loosening the very tight spending envelop, clearing verified arrears (see Section III.C), and financing needed infrastructure investment projects. Decisions on the use of these potential additional resources will be made after consultation with the IMF.

23. The Government will continue to refrain from contracting new non-concessional external borrowing. The Government will continue to ensure that external financing agreements have at least 35 percent grant element and are consistent with debt sustainability. To this end, all loan agreements will continue to be submitted, for prior approval, to the National Commission for Debt Analysis (CONAD), which decides following the technical and financial analysis of the Technical Team for Debt Sustainability Analysis (ETAVID).

24. The spending envelope could be relaxed progressively starting in 2018 depending on the availability of budgetary resources and financing to ensure that the economic recovery remains on a sustainable path. For 2018, oil revenues are expected to start recovering which would help modestly increase the spending envelop. From 2019 onward, both non-oil and oil revenue would rebound to healthy levels (in part due to a significant increase in oil production according to oil company projections). This would help support a sustainable fiscal trajectory with non-oil primary deficit of around 4 percent in 2019 and 2020, and 5 percent thereafter. This trajectory will allow a gradual increase in domestic investment spending, to 4.5 percent of non-oil GDP by 2022.

C. Domestic Arrears Settlement Strategy

25. The Government is firmly determined to implement a global strategy to clear existing arrears and avoid their reoccurrence. As a first step, the Government launched an operation in 2016 to clear CFAF 65 billion out of the stock of recognized arrears. This transaction was financed by two bond issuances in late March 2016, whose proceeds were transferred to a domestic commercial bank. On a voluntary basis, companies or individuals that have a verified claim would be paid back 93 percent of their claims (with the remaining 7 percent retained by the bank as a management fee). By mid-September 2016, CFAF 51 billion of domestic arrears were already cleared. This operation is expected to be finalized by the end of the year.

26. In addition to the already validated arrears, the Government is committed to verify and validate the authenticity of additional claims. In this regard, an FAD technical assistance mission on managing and preventing domestic payment arrears, took place in September 15-28, 2016. The TA mission estimates the potential size of the arrears at around CFAF 536 billion which include the arrears recognized by the Treasury (CFAF 204 billion).

27. As a follow up to the TA mission and in line with its recommendations, the Government intends to launch an independent external audit for identifying and assessing existing arrears. The Terms of Reference (ToR) for the recruitment of an international firm to conduct the audit of domestic arrears will be in line with the recommendations made in the FAD Report, and will be finalized before the end of this year (Structural benchmark). The Government considers arrears clearance to be an integral part of its efforts to reinvigorate economic activity. It will seek donor support to finance the audit and later to clear the arrears. An international tender will then be launched as soon as financial support to commissioning the audit is available.

28. The clearance of arrears will then continue at a pace consistent with the medium-term fiscal framework. The clearance strategy will depend on the size, nature and composition of identified arrears and may include both cash payments with or without discounts, at once or spread over time, and payments through securitization with varying maturities. The clearance of arrears should not be at the expense of funding the normal execution of the budget. The Government will consult the IMF when designing the clearance strategy.

29. Pending the results of the independent audit and the associated clearance plan, the government will consider using additional funding or revenue beyond those planned in the budget to help to clear the stock of arrears. However, in case of the materialization of exceptional receipts (linked to the sale of an oil asset or, for instance, the resolution of a tax dispute with an oil company), the Government will consult the IMF on the use of its proceeds.

30. Finally, the Government will implement measures to prevent the accumulation of new domestic arrears. The Government will take stock of the weaknesses identified by the FAD TA mission that contribute to the creation and accumulation of payment arrears, in the areas of budget preparation (notably in revenue forecasting and public investment budgeting), budget execution and cash management. Measures will be implemented within the structural reform agenda based on recent technical assistance reports on public finance management (See Section IV).

IV. STRUCTURAL REFORMS

31. The Government will focus on continuing the path of reforms already committed under the current program and on diversifying the economy. Administrative reforms, including strengthening transparency in the oil sector will continue to be guided by the 2005 Action Plan for the Modernization of Public Finance (PAMFIP), while the diversification strategy will be guided by the forthcoming 5-year National Development Plan. The Government intends to continue the strong collective collaboration with all its development partners to ensure an effective implementation of reforms. The Government emphasizes the progress that has been made since the beginning of the

ECF-supported program, especially in terms of integrating CEMAC directives within Chadian legislation, and the implementation of other actions agreed under the the joint World Bank, African Development Bank, and European Union roadmap initiated in 2015.

32. Recognizing the importance of further enhancing transparency in the oil sector and better forecasting budgetary oil revenues, the Government has created a technical committee to facilitate the sharing of information related to oil revenue (see para 9). This committee intends to meet regularly and prepare and publish an oil sector note. The note will include information on production trends, exported cargoes (shipments), shipments schedule, the discount of the Chadian crude oil (Doba Blend) relative to the Brent price, oil revenues and their detailed breakdown, as well as all information on financial flows relating to SHT that influence the final revenue level, such as cash-call pay to the ESSO consortium (and also any other future participations), transportation costs, and debt-service (interest payments, amortization and fees) of the Glencore loan. The Government will seek IMF support to develop a template for this note and agrees to transmit any other oil sector information requested by the IMF. The template will be updated on a monthly basis and the committee will publish the first oil note by end 2016, and on a quarterly basis thereafter. In addition, the Government is fully committed to remain compliant with the EITI requirements and is now facilitating the work of the EITI National Committee to publish the reports for 2014 and 2015.

33. Concerning improvement of the expenditure chain, the following activities are underway:

- Efforts to gradually reduce the use of emergency spending procedures (DAO) will continue. In this regard, the Government is committed to limit the use of DAOs (excluding salaries, debt servicing, expenses of the Independent National Electoral Commission, and military spending) to less than 15 percent of domestically financed expenditures in the first half of 2017 (structural benchmark). While this target is higher than previous ones, it reflects the large compression in spending categories that are typically executed through ordinary procedures.

- Preparation of national budgets in accordance with CEMAC directives will allow a move to medium-term program budgeting by 2022. Currently, with technical assistance from the World Bank, the tools for organizing the budget orientation debate are developed, the medium-term expenditure framework and medium-term budgetary framework are consolidated, and preparation for the program budget for 2017 in five pilot ministries are underway. This reform is accompanied by the acquisition of a new information system that can display the budgetary and accounting information in real time. After this process, the Government will be able to publish a table with functional category of expenditure in accordance with the new information system on the website of the Ministry of Finance and Budget.

- The SIGASPE software used for the payment of civil servants' salaries is now fully operational. It ensures control of wage bill and the number of civil servants in Chad, and continues to generate savings, beyond the initial projections following the discovery of some ghost workers during its implementation. By mid-2016, more than 80 percent of civil servants were already paid via bank transfer. In addition, the Ministry of Finance and Budget officially launched in October an accounting and organizational audit of the payment of civil servants, technically and financially supported by the European Union. Based on the results of this audit, the Government will adopt a detailed action plan for reforming the payroll of civil service by end-June 2017 (structural benchmark).

34. Concerning the gradual implementation of the cash flow management system, the Government intends to draw from the conclusions of the technical assistance report prepared by the IMF Fiscal Affairs Department at end 2015:

- While the creation of a single treasury account remains a medium-term objective, ongoing efforts to identify all the bank accounts of the State and public entities (over 350 at end-2014) will continue. In addition to the number of accounts, the Directorate General of Treasury and Public Accounting (DGTCP) is expected to track the amounts deposited in each account.

- Progress was made towards operationalizing the Cash Plan Committee, the permanent structure in charge of cash flow forecasts and management, under the DGTCP, and in charge of monitoring the current Treasury account in BEAC, centralizing public accounting operations, cash flow and public debt (See. Para 9, structural benchmark for end-June 2016). Moving forward, efforts would focus on strengthening the responsiveness of the Committee to update revenue and expenditure forecasts.

- Regarding financing, the Treasury Unit in charge of the issuance of Treasury bills and bonds on the CEMAC regional market is taking actions to ensure better programming and visibility of issuances, strengthen the network of primary dealers (SVT) – increased from seven to eight banks in 2016 –, and improve dialogue with them.

35. Strengthening public debt recording and monitoring capacity remains an important objective of the reform agenda. To further improve public debt management, the government intends to draw on the findings of recent AFRITAC Center's technical assistance missions to develop a medium-term debt strategy.

36. The decline in the importance of the oil sector as a major source of revenue for the Government brings into focus the necessity of improving non-oil tax revenues. The Government intends to improve the functioning of the tax administration and expand the tax base. Building mainly on a recent technical assistance reports, the Government will implement the following priority measures**:**

- **Management of large enterprises will be strengthened.** Tracking of the tax obligations of large companies, especially those concerning VAT, remains a real challenge to the tax authority. An action plan to stabilize the integrated tax management system (SIGI) will be developed. Based on the census conducted by INSEED, the segmentation of enterprises will be completed and monitoring of compliance with declaration requirements for large enterprises will be strengthened.

- **Customs duty exemptions will be better monitored and controlled**. Given the large impact of exemptions on customs revenue, customs authorities intend to program the new codification of customs exemptions in the SYDONIA (ASYCUDA) software as soon as possible and to begin producing detailed monthly reports on these measures. In addition, the payment of duties and taxes at a bank counter will be extended to all customs offices, and the recording of goods at Nguéli will be computerized as soon as possible. The SYDONIA module for monitoring goods kept in bonded warehouses is expected by end-2016.

37. Beyond strengthening administrations, tax policy reforms are an essential part of the effort to widen the tax base. In this regard, the Government will rely on the recommendations of the IMF technical assistance reports on taxation. In addition, the Government will organize a national workshop on tax and customs exemptions in January 2017 to lay the ground of reforms in this area with a view to begin the elimination of unjustified tax and customs exemptions in the 2018 budget law. Reform of VAT will be given priority as it is likely to yield significant gains. While the single rate will be maintained, the Government intends to broaden the tax base by reducing exemptions which are currently extensive and contained in many ad hoc agreements. An audit of the exemptions, financed by the European Union, has been launched in October 2016 and will form the basis for identifying specific reform measures.

38. Pursuing efforts to improve public procurement procedures remains a key priority of the Government. While the new public procurement code was adopted by the Council of Ministers of September 11, 2015, the Government reaffirms its commitment to continue reducing the award of public contracts by mutual agreement.

39. Reforms towards economic diversification, in particular through the improvement of the business climate for private sector activity, is essential for growth and job creation, particularly for the young and women. The Government is convinced that improving the business climate is a promising route to export diversification and to attracting foreign investment beyond the oil sector. The new NDP currently under review will elaborate the diversification strategy. It has four strategic axes: (i) to strengthen national unity; (ii) to improve governance under the rule of law; (iii) the diversification of the economy and the improvement of its competitiveness; and (iv) to ensure a better quality of life to the population (social protection). The preparation of the NDP involved a broad-based national consultation process. The final draft document was discussed with all internal stakeholders in a workshop in October 6-7, 2016 and will be submit to the Cabinet for adoption before being transmitted to the National Assembly by end November 2016 (Structural benchmark). In January 2017, the Government will organize a round table in Paris with all its technical and financial partners, in order to mobilize financing for the key priorities of the National Development Plan.

V. MONITORING THE IMPLEMENTATION OF THE PROGRAM

40. 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.

41. 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 fifth program review will be based on performance criteria as of end-December 2016 and should be completed on or after February 15, 2017. The sixth and last review will be based on performance criteria as of end-June 2017 and should be completed on or after August 15, 2017.

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

Table 1. Quantitative Performance Criteria (QPC) and Quarterly Indicative Targets (IT)[1]

(In CFAF billion)

	End-Sept. 2016 IT	End-Dec 2016 QPC	End-March 2017 IT	End-June 2017 QPC
Floor on non-oil primary budget balance	(437)	(196)	(57)	(105)
Ceiling on net domestic government financing	345	213	25	40
Ceiling on the accumulation of domestic payment arrears by the government	0	0	0	0
Ceiling on the accumulation of new external payment arrears by the government or non-financial public enterprises [2]	0	0	0	0
Ceiling on contracting or guaranteeing of new non-concessional external debt by the government and non-financial public enterprises, but for ordinary external trade financing of at most one-year maturity (US$ million)[2]	0	0	0	0
Floor for poverty-reducing social spending	183	191	32	80
Memo items: :				
Oil revenue	*175*	*25*	*8*	*20*
Concessional borrowing	*40*	*60*	*20*	*40*

Sources: Chadian authorities; and IMF staff forecasts.

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

[2]Applies continuously.

Table 2: Prior Action and Structural Benchmarks for the Remainder of the Program under the ECF Arrangement

Measures	Due Dates	Macro-criticality
Prior action: Submission to the National Assembly of the draft 2017 Budget		
Submission to the National Assembly of the National Development Plan 2016-2020	End-Nov. 2016	High
Finalization of the terms of reference for the recruitment of an international firm to conduct the audit of domestic arrears	End-Dec. 2016	High
Adoption by the Government of an action plan based on the recommendations of the audit of the civil service payroll system	End-June 2017	High
Limit emergency procedures to no more than 15 percent of domestically financed spending in the first half of 2017 (excluding wages, debt service, expenses of the Independent National Electoral Commission, and security-related spending)	End-June 2017	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 Letter of Intent (LOI) and Memorandum on Economic and Financial Policies (MEFP) dated October 27, 2016, 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; and

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 executive 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 incorporated or sells goods and services to the public on a large scale. Concerning Chad, and within the framework of the program, this definition includes the following companies: *Société Tchadienne des Eaux (STE), Société Nationale d'Electricité (SNE), Société Tchadienne des Postes et de l'Epargne (STPE), Cotontchad Société Nouvelle (SN), Société des Hydrocarbures du Tchad (SHT), TOUMAÎ Air Tchad, Nouvelle Société Tchadienne des Textiles (NSTT), Cimenterie de Baore (SONACIM)*.

5. **Gross oil revenue** is defined as the sum of royalties, statistical fees, profit tax, dividends, bonuses, revenues from exploration duties, surface tax, and any other flows of revenue paid by oil companies, except indirect duty and taxes. **Oil revenue** is defined as **Gross oil revenue** minus the debt service (interest payments, amortization and fees) on oil sales advances, and minus the

payment of cash calls and transportation costs linked to the SHT participation in oil companies. 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. **Exceptional oil–related revenue**, whose definition is given below, is excluded from oil revenue.

6. **Exceptional receipts include exceptional 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 exceptional 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 sometime after the date on which the goods are delivered or services are provided; and (iii) lease agreements, that is, arrangements under which the lessee is allowed to use a property for a duration usually shorter than that of the life of the property in question, but without transfer of ownership, while the lessor retains the title to the property. For the purposes of this guideline, the debt is the present value (at the inception of the lease) of all the lease payments expected for the period of the agreement, except payments necessary for the operation, repair, and maintenance of the property;

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

11. For the purposes of this memorandum but with the exception of the term "payments arrears on expenditures" defined below, the term **arrears** is defined as any debt obligation (as defined in paragraph 10 above) that has not been amortized in conformity with the conditions specified in the pertinent contract establishing them.

- Domestic payment arrears here are the sum of (i) validated 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 June 2016, the expenditure arrears stock stood at CFAF 204 billion, which does not include **unrecognized expenditure arrears** defined immediate below.

- **Unrecognized expenditure arrears** are defined as any additional arrears on expenditure incurred on or before end of June 2016, which have not been validated.

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

13. The fiscal program is hinged on the **non–oil primary balance (NOPB)**. The non–oil primary balance is defined as total government revenue, minus grant, oil revenue and exceptional 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

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

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

(continued)

banking system (BEAC and commercial banks), including the refund to the IMF[3], since the end of the previous year. Net non-bank financing to the government includes the issuance of government bonds and loans within CEMAC (including those contracted with BDEAC and from CEMAC Member States) net of related amortizations since the end of the previous year.

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

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

C. Quantitative Targets

18. The **quantitative targets** listed below are those specified in Table 1 of the MEFP. Adjusters of the quantitative targets are specified in Section D below. Unless stated otherwise, all quantitative targets will be assessed cumulatively from the beginning of the calendar year to which they apply. The quantitative targets and details on their assessment are as follows:

- **A floor for the non–oil primary balance**. The non–oil primary balance is defined in paragraph 13 above.
- A **ceiling on the net domestic financing to the government**. The net domestic financing ceiling is calculated as the net domestic financing to government (defined in paragraph 15). This ceiling does not apply to the new agreements on internal debts restructuring and arrears securitization.
- **A zero ceiling for the change in stock of domestic arrears by the government** from end-June 2014. Domestic arrears are the sum of validated payment arrears on expenditure and payment arrears on domestic debt as defined in paragraph 10 and 11 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 applies continuously.
- **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; 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

[3] As a reminder, net claims of the banking system to the State represent the difference between government debts and its deposits in the Central Bank and commercial banks. The scope of the net claims of the bank system on the State is defined by BEAC and represents the government net position.

the existing debt and up to the amount of the actually rescheduled debt. This ceiling will be evaluated continuously.

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

D. Adjusters of Quantitative Targets

19. To take into account factors or changes beyond the government's control, various quantitative targets for 2016 and 2017 will be adjusted, as follows:

- Should additional expenditure compressions be needed, poverty-reducing 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, exceptional 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 exceptional and privatization receipts. The magnitude of the adjustment will be proportional to the cumulative excess/shortfall as follows: 50 percent for the last quarter of 2016, 50 percent for the first quarter of 2017, and 75 percent for the remainder of 2017.

    - 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 exceptional and privatization receipts.

- Specific current expenditure for the support of refugees and/or "retournés" from 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 15 percent of total domestically–financed expenditure in the first half of 2017 applies to domestically–financed spending excluding wages, debt service, expenditures of the Independent National Electoral Commission, and military spending.

Summary of Data to be Reported		
Data	***Provider***	***Periodicity and Target Date***
Oil and Non–oil revenue, by category *Collection situation* *Revenue position of the revenue–collecting agencies*	Ministry of Finance and Budget (Treasury)	Monthly, within 30 days of month–end
Budget execution data, including on poverty–reducing social spending, showing commitments, payment authorizations, validations, and payments *Table showing the four phases; payroll table, including benefits*	Ministry of Finance and Budget General Budget Directorate DGB	Monthly, within 15 days after month–end.
Table of expenditure before payment authorization; TOFE, on a cash basis; *Comparative table on budget execution, consolidated balance tables (changes in debts, claims, etc.); and consolidated Treasury balance*	Ministry of Finance and Budget General Budget Directorate DGB DGTCP DGTCP	Monthly, within 30 days of month–end
Detailed budget execution information for transfers in the same classification as the budget	Ministry of Finance and Budget (General Budget Directorate)	Monthly, within 30 days of month–end
Details by project financed domestically, execution of the investment budget, with the information organized by Ministry	Ministry of Finance and Budget (General Budget Directorate)	Quarterly, within 30 days of the end of the quarter.
Details, by externally financed project; investment budget execution; information organized by Ministry	Ministry of Finance and Budget (DGB) Ministry of Plan and International Cooperation (DGCI)	Quarterly, within 30 days of the end of the quarter.
Information on public procurement in the previous month and updating of payment maturity for the rest of the year	Ministry of Finance and Budget (Financial Control)/SGG (OCMP/Procurement Directorate)	Monthly, within 30 days of month–end

Summary of Data to be Reported (concluded)		
Data	***Provider***	***Periodicity and Target Date***
Details on the servicing of the domestic debt and payment arrears of the government[1]	Ministry of Finance and Budget (Debt Directorate, DCP)	Quarterly, within 30 days of the end of the quarter.
Details on the servicing of the external debt of the government[2]	Ministry of Finance and Budget DGTCP (Debt Directorate)	Quarterly, within 30 days of the end of the quarter.
Details on new loans contracted or guaranteed by the government and non financial public companies	Ministry of Finance and Budget (Debt Directorate) Ministry of Plan and International Cooperation (DGCI)	Within 45 days of transaction completion.
Monetary survey	BEAC	Monthly, within 45 days of month–end
Provisional monetary data from the BEAC *(Exchange rates, foreign reserves, assets and liabilities of the monetary authorities, base money, broad money, central bank balance sheet, consolidated balance sheet of the banking system, interest rates[3])*	BEAC	Monthly, within 45 days of month–end
Balance of SDR account at month end	BEAC NGP Committee	Monthly, within 3 months of month–end
Net banking system claims on the government (NGP)	BEAC	Monthly, within 30 days of month–end
Consumer price index	INSEED	Monthly, within 30 days of month–end
Gross domestic product and gross national product	Macroeconomic Framework Committee (SG MFB)	Annually, within 120 days of year end.
Balance of payments (External current account balance, exports and imports of goods and services, etc.)	BEAC	Annually, within 180 days of year end (preliminary data)
Gross external debt	Ministry of Finance and Budget DGT (Debt Directorate)	Annually, within 90 days of year end

[1] Including maturities.

[2] Including the breakdown by currency and maturity

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

INTERNATIONAL MONETARY FUND

CHAD

October 28, 2016

THIRD AND FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AUGMENTATION OF ACCESS, EXTENSION OF THE CURRENT ARRANGEMENT, AND REPHASING OF DISBURSEMENTS—DEBT SUSTAINABILITY ANALYSIS

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

The debt sustainability analysis shows that Chad remains at high risk of external debt distress, reflecting vulnerabilities concentrated in the next few years. The assessment of high risk is reinforced by vulnerabilities related to domestic debt. Two external debt indicators exhibit temporary and small breaches of their indicative thresholds, and a third one, the external debt service-to-revenue ratio, shows a relatively protracted and large breach. These breaches reflect low government oil revenue and high debt service payments on external debt falling due in the short term. Although the debt indicators remain well below their indicative thresholds in the medium to long term, the DSA confirms that Chad is susceptible to external macroeconomic shocks such as the ongoing oil price shock. Preserving debt sustainability in the current environment requires that the authorities continue on the path of fiscal adjustment and implement prudent debt management policies, including a comprehensive strategy for domestic arrears clearance. Progress in economic diversification would also strengthen debt sustainability.[1]

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

BACKGROUND

Public External Debt

1. The composition of Chad's external public debt has changed significantly over the past decade. Debt owed to multilateral institutions and traditional bilateral donors has been basically constant in nominal terms over the last few years. Chad has instead relied more on non-Paris Club creditors (e.g., China, Libya, and India) and commercial credits to address its financing needs. There is no recorded external private debt in Chad.

2. After stabilizing at around 20 percent, the external public debt-to-GDP ratio increased in 2013-14 following two non-concessional oil sales' advance operations with a commercial creditor, Glencore Energy. In 2013, the authorities signed two agreements for a total of US$600 million with Glencore Energy to cover revenue shortfalls. In 2014, a new commercial borrowing operation for US$ 1.4 billion was contracted by SHT (a state-owned oil company) to finance the purchase of Chevron's shares in Chad's largest oil consortium in June of that year. After these operations, the external public debt-to-GDP ratio rose above 27 percent of GDP in 2014.

3. As of end-2014, nearly half of Chad's debt was commercial debt (Text Table 1). In addition, around 40 percent was owed to multilateral creditors, and less than 20 percent to bilateral creditors (the bulk of which was owed to non-Paris Club creditors).

4. In late 2015, a rescheduling agreement with Glencore consolidated the two oil sales' advance operations, extending their maturities. The rescheduling agreement implied an increase in the original debt's net present value, but extended its maturity from 4 to 6-7 years. Repaying the Glencore loan, however, continues to have a significant effect on the flow of oil revenues to the budget.

5. Following the achievement of the HIPC completion point in April 2015, Chad was able to secure at least US$756 million in debt relief. This amount includes MDRI relief from International Development Association (IDA) and African Development Bank (AfDB), forgiveness from the IMF, and a hundred percent cancellation from the Paris Club.[2] Regarding non-Paris Club members, the authorities signed a new agreement with Saudi Arabia in July 2015 which reschedules their remaining amount on IDA comparable terms.

[2] As of end 2015, the Paris Club's Official Development Assistance (ODA) claims on Chad have been fully canceled, while the stock of non-Official Development Assistance (NODA) claims is US$4 million.

Text Table 1. Chad: External Debt Stock at Year-End, 2002–2015
(Billions of CFA francs)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015p
Total	786.3	736.6	797.2	898.9	896.2	776.9	839.4	786.2	1,016.7	1,226.3	1,299.6	1,410.7	2,010.2	1,616.1
(Percent of GDP)	54.1	44.5	32.6	24.3	24.2	19.9	16.7	18.8	19.1	20.2	20.9	22.7	27.0	24.5
Multilateral	687.7	652.5	715.3	810.2	805.5	693.6	725.7	683.6	758.6	767.3	771.4	719.9	734.8	343.3
IMF	67.3	57.0	47.7	47.5	37.4	24.3	20.1	12.6	8.3	4.6	2.4	0.9	11.1	38.3
World Bank/IDA	398.3	394.0	444.5	507.8	486.1	435.6	435.7	402.7	429.1	420.7	414.8	387.8	397.4	125.2
African Development Fund/Bank	169.8	159.9	168.5	179.8	205.8	174.1	195.4	185.5	207.7	209.4	200.4	181.4	180.7	56.8
Others	52.3	41.5	54.6	75.0	76.2	59.6	74.5	82.8	113.5	132.6	153.8	149.8	145.6	123.1
Bilateral	98.6	84.1	81.9	88.8	90.7	83.3	113.6	102.6	258.1	296.1	311.1	283.2	334.0	258.3
Paris Club official debt	25.8	24.0	25.2	24.3	23.2	20.1	19.1	17.1	16.5	17.0	15.8	13.8	11.5	2.1
Non-Paris Club official debt	72.7	60.1	56.7	64.4	67.5	63.3	94.5	85.5	241.6	279.1	295.3	269.4	322.5	256.1
of which: China, People's Republic	25.4	22.0	13.6	15.4	13.9	-	21.9	20.4	23.3	66.1	85.9	83.3	129.0	78.3
Libya	-	-	-	-	-	-	-	-	148.9	149.3	150.0	133.9	139.6	148.5
India	-	-	-	-	11.3	14.8	22.7	21.4	23.7	22.4	20.8	18.3	21.1	26.9
Commercial 1/										162.9	217.1	407.6	941.5	1014.5

1/ Commercial debt includes debt signed with CNPC and Glencore.

Source: World Bank, Chadian authorities, selected creditors, and staff estimates. The concept of debt used here includes both contracted and guaranteed debt. Figures are based on historical data as of end-2014 and preliminary information for 2015. The official external debt stock data reported in this table may not accurately reflect the actual level of external debt. For example, some project loan disbursements are recognized only after a lag. This table has discrepancies with corresponding fiscal or balance of payments flow estimates, giving rise to residuals in the sustainability analysis.

Public Domestic Debt

6. **The stock of public domestic debt has increased in recent years, reaching 9.9 percent of GDP at end-2014 (Text Table 2).** This growth is the result of drawing down the statutory advances provided by BEAC (the regional central bank), the sale of five-year savings bonds (CFAF 108 billion in 2011, and CFAF 90 billion in 2013), a CFAF 50 billion loan from Republic of Congo (in 2012), a CFAF 15 billion loan from Equatorial Guinea (in 2013), and the increasing use of commercial bank loans (which increased from CFAF 9 billion in 2013 to CFAF 127 billion in 2014). The stock of public domestic debt includes a balance of CFAF 52 billion in treasury arrears at end-December 2014. Additionally, short-term domestic obligations include the issuance of 3-month Treasury bills before the end of 2014 (CFAF 27.5 billion).

7. **The stock of domestic public debt rose to about 18 percent of GDP in 2015; in part a result of the authorities stepping up their domestic debt issuance program in the CEMAC market.** For the first time ever, Chad issued Treasury bills in the last quarter of 2014. Treasury bills have been regularly issued throughout 2015, with a gradual extension of maturities (up to one year) and interest rates below 3.4 percent. During 2015, the Treasury issued CFAF 156 billion (gross) in Treasury bills. The issuance of Treasury bonds amounted to CFAF 139 billion between July and December 2015, with maturities of two, three and five years, and an effective interest rate on average of 4.3 percent. Some of these Treasury bonds were used in swap operations involving the

exchange of commercial bank loans, which explains the reduction in the stock of those loans from CFAF 127 billion in 2014 to CFAF 56 billion in 2015.

Text Table 2. Chad: Stock of Domestic Debt at Year-End, 2011-2015
(Billions of CFA francs)

	2011	2012	2013	2014	2015
Total	**501.3**	**548.0**	**584.8**	**686.4**	**1129.8**
(Percent of GDP)	**8.7**	**8.6**	**9.1**	**9.9**	**17.5**
Central Bank financing	241.9	241.9	222.5	222.5	454.6
Statutory advances	*208.6*	*208.6*	*187.8*	*187.8*	*280.0*
Exceptional advance					*140.0*
Consolidated debt	*33.3*	*33.3*	*34.7*	*34.7*	*34.7*
Commercial banks' loans	8.5	8.5	8.5	127.3	56.4
2011 Bond[1]	107.6	107.6	80.7	53.8	26.9
2013 Bond[1]			90.3	72.2	54.2
Treasury Bonds[2]					139.3
Republic of Congo		50.3	40.3	30.3	20.3
Equatorial Guinea			15.0	13.3	11.7
Cameroon					
Domestic arrears	56.4	50.3	39.9	51.8	199.8
Others[3]	86.9	89.4	87.7	87.7	87.7
Memo items:					
Treasury Bills				*27.5*	*79.0*

Source: Chadian authorities.

1/ Issued through banks' syndication.
2/ Auctioned in the regional securities' market.
3/ Legal commitments, standing payment orders, and accounting arrears.

8. Domestic financing in 2015 included additional advances from BEAC. The 2015 statutory and extraordinary advances (CFAF 92.6 billion and CFAF 140 billion, respectively) have a maturity of 10 years, a grace period of 3 years, and an interest rate equivalent to BEAC's rediscount rate.

9. As of end-2015, the government accrued a sizable amount of domestic payment arrears. The balance of treasury arrears increased from CFAF 52 billion at end-December 2014 to around CFAF 200 billion (3.1 percent of GDP) in 2015. The stock of verified domestic arrears stood at CFAF 204 billion at end-June 2016.

DSA ASSUMPTIONS

10. The DSA incorporates preliminary information on external debt for 2015. The historical information on external debt, as of December 2014, is based on the latest World Bank-DRS database. Preliminary estimates on external debt are used for 2015. Compared to the previous DSA, this analysis incorporates revised projections of debt service.

11. The assumptions underpinning the DSA reflect the persistent oil price shock and security challenges. The analysis is conducted under a baseline scenario in line with the ECF-supported program. The financing gap in 2015 was covered through central bank advances, spending cuts, increased net domestic financing, and Fund disbursements under the ECF arrangement. The projected financing gap in 2016 is larger than in the previous DSA update and it is assumed to be financed through a combination of further fiscal adjustment, the mobilization of additional domestic financing, grant budget support, external concessional loans, and Fund disbursements associated with the third and fourth reviews under the ECF arrangement. The analysis incorporates the 2015 rescheduling that consolidated the various non-concessional oil sales' advance operations, but in contrast to the previous DSA update, it excludes exceptional receipts from divestments in the oil sector.

12. Oil production and revenue: Chad's medium- and long-term macroeconomic outlook is characterized by a small decline in oil production in 2016-17 followed by gradual increases when new fields come on line, but a steady decline of oil production over the longer term.[3] The baseline projection for oil production in 2017 is fairly conservative, as prospects could somewhat improve in the context of the recent recovery in oil prices.

- Oil production is expected to temporarily rise from 144,000 bpd in 2015 to about 171,000 bpd in 2018-19. Proven reserves in the new fields are much smaller than that in the original Doba basin and will also likely be nearly exhausted around 2030. Hence, oil production and exports are projected to decline steadily to negligible levels beyond 2030. These prospects might change with new oil exploration activities or with the use of new oil extraction techniques.

- Chad's oil trades below the WEO reference price, reflecting a quality discount and transport cost of US$ 6-10 per barrel. For the medium term (five-year horizon) the price of a barrel of Chadian oil is assumed to increase from about US$34 (all discounts included) in 2016 to about US$53 in 2020, in line with the trend projected in the WEO. From 2021 onward, the

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

price is assumed to increase, on average, by around 3 percent per year in U.S. dollar terms (Box 1).

13. Fiscal policy: The analysis assumes a substantial fiscal adjustment in response to the current adverse shocks, with a non-oil primary deficit (NOPD) of about 4 percent of non-oil GDP in the short and medium term. The gradual recovery in oil prices is expected to help oil revenues increase from 1 percent of non-oil GDP in 2016 to over 5 percent of non-oil GDP in 2020. Over the longer term, in transition to the post-oil era, it is assumed that dwindling oil revenues will be partly offset by a stabilization of total government primary spending at around 20 percent of GDP, while the primary balance will be adjusted gradually to reach a small deficit of less than 2 percent of non-oil GDP by the end of the projection horizon. The latter is projected to be achieved mainly by: (i) gradually increasing non-oil revenues (from about 8 percent of non-oil GDP at present to about 16 percent of non-oil GDP by 2036);[4] (ii) maintaining total investment outlays around 10 percent of non-oil GDP in the long term; and (iii) keeping recurrent spending at relatively low levels, notably, by streamlining transfers and subsidies to public enterprises. The analysis also assumes a comprehensive strategy for clearing domestic arrears and avoiding further accumulation going forward.

[4] This assumes that Chad improves its tax effort in line with the CEMAC average. A recent Fund TA mission estimated a non-oil tax revenue gap above 5 percent of non-oil GDP.

Box 1. Chad: Macroeconomic Assumptions, 2016–2036

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

Inflation is assumed to stabilize at 3 percent, consistent with the CEMAC convergence criterion. The disruptions to cross–border trade flows with Cameroon and Nigeria might continue to lead to increased volatility on domestic prices in the short run.

The **fiscal outlook** features a modest increase in oil revenues in the medium term but a decline in the long term. The NOPD is projected at 4 percent of non-oil GDP in 2020. The medium-term outlook for non-oil revenue is relatively low as a result of the regional security shock and a slowdown in demand from Nigeria, but a recovery is assumed in the long run. The long-run fiscal adjustment would maintain an appropriate level of investment and social spending to ensure steady growth and poverty reduction.

The evolution of the **external current account** deficit will be largely driven by the oil price path. The current account deficit is projected to fall from 7.5 percent of GDP in 2016 to about 6.3 percent of GDP in 2020, thanks to an increase in oil export values. After 2020, barring new oil discoveries, the external current account is projected to remain in deficit due to lower crude oil exports, stabilizing at around 4 percent of GDP beyond 2030. Non-oil sector imports are assumed to evolve in line with non-oil GDP over the projection horizon, while oil sector imports would decrease over the medium to long term as foreign direct investment declines too.

Foreign direct investment (FDI) is expected to be low in the short term, as investments from oil companies are envisaged to decline. FDI is assumed to stabilize in 2018-20 at around 4 percent of GDP before it declines to an average of 2 percent of GDP in 2021-35 in line with the assumption of maturing oil fields and amortized investments.

External financing: The analysis incorporates the 2015 rescheduling agreement with Glencore that consolidated the remaining balance of the loans and extended its maturity from 4 to 6-7 years. Under the ECF-supported program, external financing is assumed to be on concessional terms over the medium to long term.

Domestic financing: Domestic financing assumptions consider a continued but moderate placement of domestic debt instruments and exclude further utilization of BEAC advances. The stock of domestic arrears is expected to be gradually cleared until reaching negligible levels in the medium to long term. In 2016, the analysis incorporates a loan from Cameroon for an amount of CFAF 30 billion.

Text Table 3. Chad: Medium-Term Projections

	2015	2016	2017	2018	2019	2020	2021	2016-21 Avg.	2022-36 Avg.
Real GDP growth (percent per year)	1.8	-3.5	-0.3	4.7	6.3	3.9	3.4	2.4	3.0
Oil	32.1	-5.9	-4.5	16.0	19.6	3.7	0.5	4.9	-5.6
Non-oil	-2.9	-3.0	0.6	2.6	3.5	4.0	4.2	2.0	4.1
Consumer price inflation (percent per year)	3.7	-2.0	0.1	3.0	3.0	3.0	3.0	1.7	3.0
External current account balance (percent of GDP)	-12.3	-7.5	-6.8	-6.4	-5.7	-6.3	-6.1	-6.5	-4.4
Exports of goods and services (percent of GDP)	26.5	23.5	25.6	28.9	31.8	31.2	31.0	28.7	21.0
					(In percent of non-oil GDP)				
Government revenue and grants	14.7	13.7	13.4	16.0	17.5	18.7	21.0	16.7	20.3
Of which: oil revenue	2.6	0.5	0.8	2.8	4.4	5.3	8.3	3.7	4.4
Of which: grants	3.9	5.0	4.1	4.1	3.8	4.0	3.8	4.1	5.8
Government expenditure (commitment basis)	21.2	16.8	16.7	17.2	18.1	18.6	19.5	17.8	20.0
Overall fiscal balance (incl. grants; cash basis)	-5.2	-4.4	-2.5	-1.6	-1.1	-0.6	1.1	-1.5	0.0
Non-oil primary fiscal bal. (excl. grants; commitment basis)	-9.7	-3.9	-3.6	-3.0	-3.8	-3.7	-4.5	-3.7	-3.0
Memorandum items:									
Chadian crude oil price (US$/barrel)	43.4	33.8	45.2	48.5	50.8	52.7	54.3	47.6	68.1

Sources: Chadian authorities; and IMF staff estimates and projections

EXTERNAL DSA

14. The evolution of external debt is driven by the government's borrowing strategy which envisages a reasonable volume of project and budget support loans from both traditional and non-traditional sources and no further usage of commercial loans. Under the ECF-supported program, external financing is assumed to be on concessional terms over the medium to long term mostly financed by disbursements from multilaterals (46 percent) such as the IMF, WB, AfDB, Islamic Development Bank, and Arab Bank for Economic Development in Africa, and from other development partners. This leads to a grant element of an average of 37.2 percent over the projection period (Figure 1a).

15. Under the baseline scenario, three of the external debt indicators are above their thresholds, indicating a high risk of debt distress (Table 1, Figure 1).[5] The PV of debt-to-revenue ratio and the debt-service-to exports ratio show temporary and small breaches of their indicative thresholds. The debt service-to-revenue ratio exhibits a more protracted and large breach in the 2016-2020 period. These breaches reflect the significant reduction in government oil revenue and the spike in debt service payments falling due in the next few years for the non-concessional loan contracted with Glencore. Conditional on the assumptions of the baseline scenario (including a sustained fiscal adjustment), the external debt indicators remain well below their indicative thresholds in the medium to long run.[6]

[5] Arrears vis-à-vis the WB and the AfDB, were incurred during the first half of 2016, respectively at €869,000 and €80,000. These were cleared in early July.

[6] The residuals in Table 1 are associated with the government's purchase of shares in the country's largest oil consortium in 2014, which was financed with a foreign commercial loan (around CFA 690 billion); the significant debt relief in 2015; and a substantial loss in international reserves in 2015 and 2016. The existence of historical and projected residuals can also be explained by shortcomings in quality affecting balance of payments data.

Stress tests

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

PUBLIC DSA

17. The recent increase in domestic debt has led to an increase in the risk to overall debt sustainability. (Tables 2 and 3, Figure 2). With the accumulation of domestic arrears and the increased issuances of debt securities in the regional market, the PV of debt-to-GDP ratio shows a breach in 2016-2017 under the baseline scenario. The domestic debt component would fall from 23 percent of GDP in 2016 to 16 percent of GDP in 2020 and will continue a steady decline until it reaches about 6 percent of GDP in 2036. Altogether, the public debt stock would decrease from about 47 percent of GDP in 2016 to 29 percent of GDP in 2020 until it stabilizes around an average of 18 percent of GDP in 2022-36.

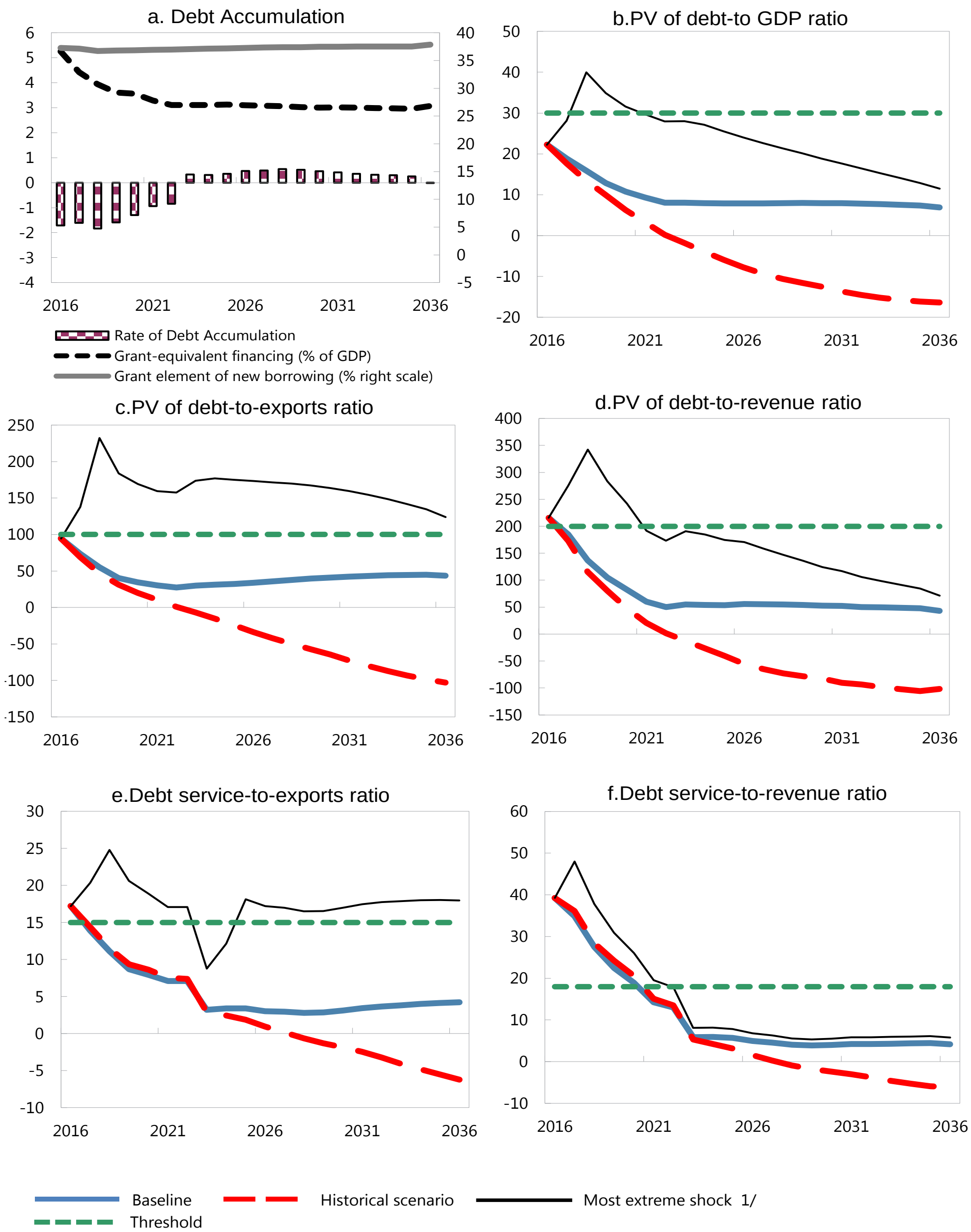
18. Standard stress tests indicate sustainability risks in the next few years. In particular, a real depreciation shock in 2016 could impair public debt sustainability in the period 2016-18 (Most Extreme Shock in Figure 2 and Bound Tests in Table 4).

CONCLUSION

19. Chad remains at high risk of external debt distress with vulnerabilities concentrated in the next few years. The inclusion of Chad's domestic debt in the analysis reinforces the conclusions of the external DSA. On account of the persistent decline in oil prices and the burden imposed by the repayment of the Glencore loan, the baseline scenario shows breaches of some indicators around the beginning of the projection period, while over the long term all indicators are markedly below their thresholds. Preserving debt sustainability, however, is conditional on the substantial fiscal adjustment assumed under the baseline projection. In the event of a sustained rebound in the oil price and with improvements in the policy environment, the assessment of the debt sustainability could improve to moderate risk in the next few years. Given the exhaustible and volatile oil revenues, it is necessary to strengthen fiscal and debt management, maintain a prudent external and domestic borrowing policy, and make further progress in diversifying the economy. The effective functioning of the inter-ministerial debt coordination units will be important for strengthening the capacity to record and monitor public debt. In addition, the government has started issuing annual debt management reports (with support from Fund TA missions), and will undertake institutional improvements in the management of domestic payment arrears in line with Fund TA recommendations.

20. The authorities broadly concur with the staff assessment. The authorities acknowledge the risks associated with debt sustainability and note that the Glencore loan is an important factor behind the external risk rating. They also acknowledge the importance of technical assistance in their current efforts to improve debt management. As for diversifying the economy, they have renewed their commitment to improve the business climate for private sector activity beyond the oil sector. The authorities are determined to implement a comprehensive strategy to clear existing arrears and avoid their reoccurrence.

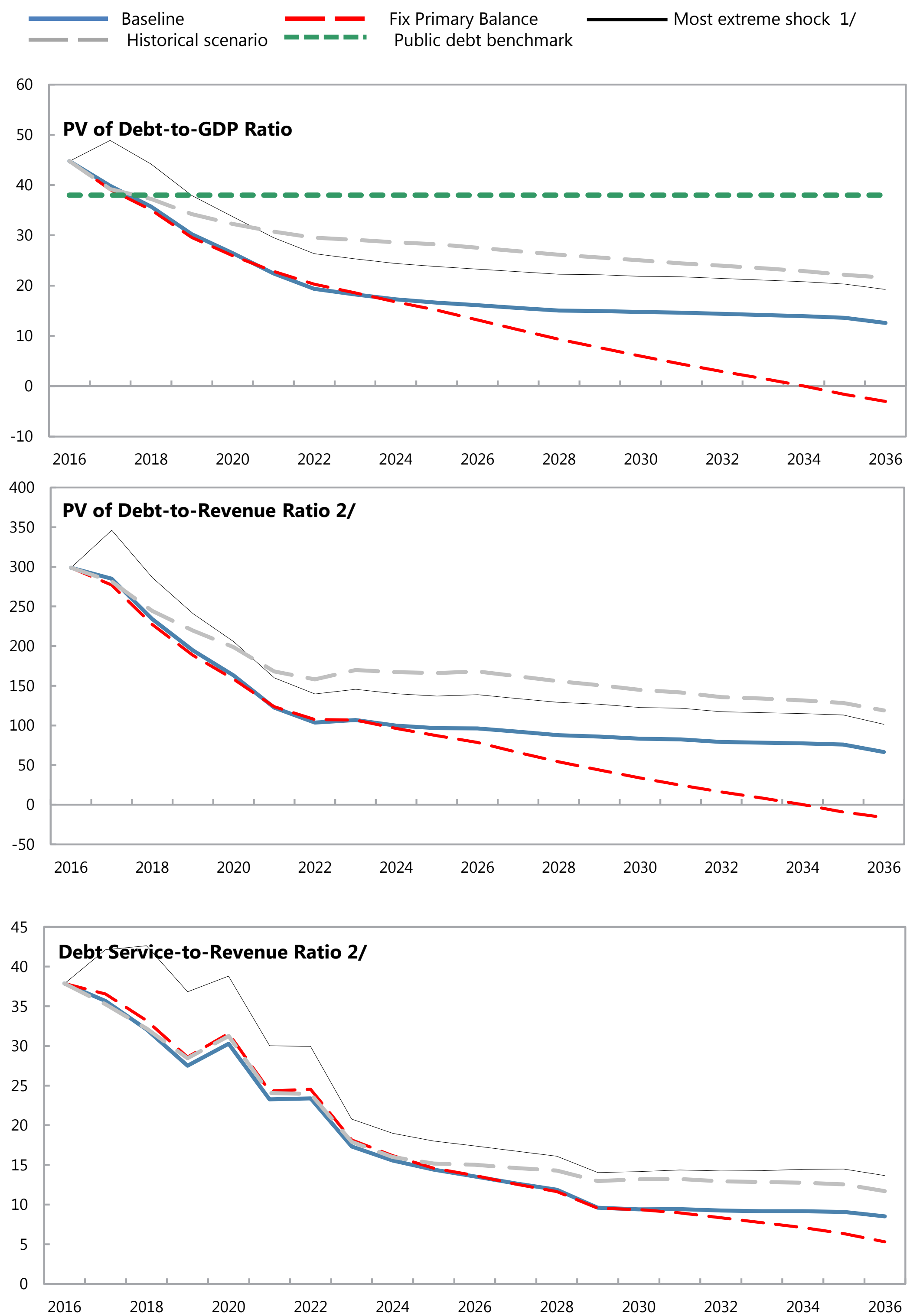
Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt under Scenarios, 2016–36[1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Chad: Indicators of Public Debt Under Alternative Scenarios, 2016-2036 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Table 1 .Chad: External Debt Sustainability Framework, Baseline Scenario, 2013-2036 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	**21.2**	**29.1**	**25.0**			**24.7**	**21.7**	**18.8**	**15.7**	**13.6**	**12.3**		**11.1**	**9.7**	
of which: public and publicly guaranteed (PPG)	21.2	29.1	25.0			24.7	21.7	18.8	15.7	13.6	12.3		11.1	9.7	
Change in external debt	1.1	7.9	-4.2			-0.2	-3.0	-2.9	-3.2	-2.0	-1.4		0.0	-0.6	
Identified net debt-creating flows	4.3	2.2	15.4			6.0	3.3	1.3	0.7	1.8	1.5		2.8	1.4	
Non-interest current account deficit	**8.5**	**8.2**	**11.2**	**4.2**	**7.1**	**6.3**	**5.8**	**5.6**	**5.1**	**5.9**	**5.8**		**5.0**	**2.6**	4.2
Deficit in balance of goods and services	9.7	12.5	16.3			15.1	12.7	9.6	6.4	6.1	6.2		6.8	5.2	
Exports	33.5	31.5	26.5			23.5	25.6	28.9	31.8	31.2	31.0		23.1	15.9	
Imports	43.2	43.9	42.9			38.6	38.3	38.5	38.1	37.3	37.1		29.9	21.1	
Net current transfers (negative = inflow)	-5.1	-7.9	-7.1	-5.6	1.6	-8.4	-7.5	-7.0	-6.3	-6.0	-5.7		-5.0	-3.8	-4.6
of which: official	-1.5	-4.4	-3.0			-3.7	-3.0	-2.5	-2.1	-1.9	-1.9		-1.6	-1.6	
Other current account flows (negative = net inflow)	3.9	3.6	1.9			-0.4	0.7	2.9	5.0	5.7	5.3		3.2	1.2	
Net FDI (negative = inflow)	**-4.0**	**-5.2**	**-5.1**	**-4.9**	**2.0**	**-2.5**	**-3.5**	**-4.1**	**-3.9**	**-3.9**	**-4.1**		**-2.0**	**-1.0**	-1.8
Endogenous debt dynamics 2/	**-0.3**	**-0.9**	**9.3**			**2.2**	**1.0**	**-0.2**	**-0.5**	**-0.2**	**-0.2**		**-0.2**	**-0.2**	
Contribution from nominal interest rate	0.6	0.7	1.2			1.3	1.0	0.8	0.6	0.4	0.3		0.1	0.1	
Contribution from real GDP growth	-1.1	-1.4	-0.7			0.9	0.1	-1.0	-1.1	-0.6	-0.4		-0.3	-0.3	
Contribution from price and exchange rate changes	0.2	-0.2	8.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-3.1**	**5.8**	**-19.6**			**-6.2**	**-6.3**	**-4.2**	**-3.9**	**-3.9**	**-2.8**		**-2.8**	**-2.1**	
of which: exceptional financing	0.0	0.0	-7.7			-0.9	-0.8	-0.4	-0.4	-0.3	-0.3		-0.2	-0.1	
PV of external debt 4/	...	...	23.2			22.3	18.9	15.9	12.9	10.8	9.3		7.9	6.9	
In percent of exports	...	...	87.3			94.6	73.7	55.2	40.5	34.6	30.1		34.0	43.4	
PV of PPG external debt	**...**	**...**	**23.2**			**22.3**	**18.9**	**15.9**	**12.9**	**10.8**	**9.3**		**7.9**	**6.9**	
In percent of exports	**...**	**...**	**87.3**			**94.6**	**73.7**	**55.2**	**40.5**	**34.6**	**30.1**		**34.0**	**43.4**	
In percent of government revenues	**...**	**...**	**245.3**			**215.7**	**185.1**	**136.5**	**104.6**	**82.6**	**60.2**		**55.9**	**43.0**	
Debt service-to-exports ratio (in percent)	**3.9**	**15.6**	**9.5**			**17.2**	**13.9**	**11.1**	**8.7**	**7.9**	**7.1**		**3.0**	**4.2**	
PPG debt service-to-exports ratio (in percent)	**3.9**	**15.6**	**9.5**			**17.2**	**13.9**	**11.1**	**8.7**	**7.9**	**7.1**		**3.0**	**4.2**	
PPG debt service-to-revenue ratio (in percent)	**7.1**	**29.8**	**26.8**			**39.2**	**34.9**	**27.5**	**22.5**	**18.9**	**14.2**		**5.0**	**4.2**	
Total gross financing need (Billions of U.S. dollars)	0.8	1.1	0.9			0.8	0.7	0.6	0.5	0.6	0.6		0.7	0.8	
Non-interest current account deficit that stabilizes debt ratio	7.4	0.3	15.3			6.5	8.9	8.5	8.3	7.9	7.1		4.9	3.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.7	7.3	1.8	4.8	4.1	-3.5	-0.3	4.7	6.3	3.9	3.4	2.4	2.9	3.3	3.0
GDP deflator in US dollar terms (change in percent)	-1.0	0.8	-23.2	1.1	13.0	-2.7	10.0	2.1	4.8	3.7	1.8	3.3	2.9	2.9	2.6
Effective interest rate (percent) 5/	3.3	3.6	3.3	2.1	1.2	4.7	4.3	3.8	3.4	2.9	2.3	3.6	1.3	1.2	1.3
Growth of exports of G&S (US dollar terms, in percent)	-8.4	1.4	-34.0	0.9	19.4	-16.8	19.4	20.6	22.6	5.8	4.5	9.4	0.7	3.0	1.1
Growth of imports of G&S (US dollar terms, in percent)	-7.7	9.9	-23.7	7.8	17.9	-15.5	8.7	7.6	10.4	5.4	4.8	3.6	1.9	2.9	1.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	37.3	37.2	36.7	36.8	36.9	36.9	37.0	37.3	37.9	37.4
Government revenues (excluding grants, in percent of GDP)	18.5	16.5	9.4			10.3	10.2	11.7	12.3	13.1	15.5		14.1	16.1	15.1
Aid flows (in Billions of US dollars) 7/	0.4	0.4	0.4			0.5	0.5	0.5	0.5	0.5	0.5		0.6	1.1	
of which: Grants	0.3	0.3	0.4			0.5	0.4	0.4	0.4	0.5	0.4		0.5	1.0	
of which: Concessional loans	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.2	4.4	3.9	3.6	3.6	3.3		3.1	3.1	3.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			83.9	80.4	86.5	85.4	84.1	80.5		80.2	90.5	82.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	13.0	14.0	11.0			10.3	11.3	12.1	13.4	14.5	15.3		19.7	35.1	
Nominal dollar GDP growth	4.7	8.1	-21.8			-6.1	9.7	7.0	11.4	7.8	5.3	5.8	5.9	6.2	5.7
PV of PPG external debt (in Billions of US dollars)			2.5			2.3	2.1	1.9	1.7	1.6	1.4		1.6	2.4	
(PVt-PVt-1)/GDPt-1 (in percent)						**-1.7**	-1.6	-1.8	-1.6	-1.3	-0.9	-1.5	0.5	0.0	0.3
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	23.2			22.3	18.9	15.9	12.9	10.8	9.3		7.9	6.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	87.3			94.6	73.7	55.2	40.5	34.6	30.1		34.0	43.4	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	9.5			17.2	13.9	11.1	8.7	7.9	7.1		3.0	4.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief), changes in gross foreign assets, and valuation adjustments. Projections also include contribution from price and exchange rate 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 2a. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-2036
(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	22	19	16	13	11	9	**8**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	22	18	13	10	6	3	**-8**	-16
A2. New public sector loans on less favorable terms in 2016-2036 2/	22	19	17	14	12	11	**10**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	22	19	16	13	11	10	**8**	7
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	22	24	31	27	24	23	**18**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	22	24	23	19	16	14	**11**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	22	22	21	18	16	14	**12**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	22	28	40	35	32	30	**24**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	22	26	22	18	15	13	**11**	10
PV of debt-to-exports ratio								
Baseline	95	74	55	40	35	30	**34**	43
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	95	69	47	31	20	10	**-34**	-103
A2. New public sector loans on less favorable terms in 2016-2036 2/	95	75	57	43	37	34	**45**	68
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	95	74	55	41	35	30	**34**	44
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	95	138	232	184	169	160	**173**	124
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	95	74	55	41	35	30	**34**	44
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	95	84	74	56	50	45	**50**	48
B5. Combination of B1-B4 using one-half standard deviation shocks	95	127	193	153	141	134	**145**	101
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	95	74	55	41	35	30	**34**	44
PV of debt-to-revenue ratio								
Baseline	216	185	137	105	83	60	**56**	43
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	216	173	115	80	48	21	**-55**	-102
A2. New public sector loans on less favorable terms in 2016-2036 2/	216	189	141	111	89	68	**74**	67
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	216	184	141	108	85	62	**58**	44
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	216	236	265	219	186	147	**131**	57
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	216	232	198	152	120	87	**81**	62
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	216	212	182	145	119	91	**82**	48
B5. Combination of B1-B4 using one-half standard deviation shocks	216	276	342	284	242	191	**171**	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	216	255	188	145	114	83	**77**	59

Table 2a. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-2036 (continued)
(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
Debt service-to-exports ratio								
Baseline	17	14	11	9	8	7	**3**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	17	14	11	9	9	8	**1**	-6
A2. New public sector loans on less favorable terms in 2016-2036 2/	17	14	11	9	8	7	**3**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	17	14	11	9	8	7	**3**	4
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	17	20	25	21	19	17	**17**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	17	14	11	9	8	7	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	17	14	11	9	8	7	**5**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	17	18	20	17	15	14	**14**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	17	14	11	9	8	7	**3**	4
Debt service-to-revenue ratio								
Baseline	39	35	27	22	19	14	**5**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	39	36	28	24	21	15	**2**	-6
A2. New public sector loans on less favorable terms in 2016-2036 2/	39	35	28	23	19	15	**6**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	39	35	28	23	20	15	**5**	4
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	39	35	28	25	21	16	**13**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	39	44	40	33	27	21	**7**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	39	35	28	23	20	15	**8**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	39	39	35	31	26	20	**17**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	39	48	38	31	26	20	**7**	6
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	36	36	36	36	36	36	**36**	36

Sources: Country authorities; and staff estimates and projections.

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

Table 3. Chad: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016-2036

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate					Projections				
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	30.3	39.1	42.4			47.2	42.7	38.6	33.0	29.3	25.4	36.0	19.4	15.4	18.1
of which: foreign-currency denominated	21.2	29.1	25.0			24.7	21.7	18.8	15.7	13.6	12.3		11.1	9.7	
Change in public sector debt	1.6	8.7	3.4			4.8	-4.5	-4.1	-5.6	-3.8	-3.9		-0.5	-1.2	
Identified debt-creating flows	-0.3	-1.7	5.2			-1.0	-3.2	-4.3	-5.8	-4.6	-5.4		-1.2	-2.1	
Primary deficit 6/	1.3	2.6	2.8	0.6	4.0	-2.6	-1.8	-2.9	-2.7	-2.8	-4.0	-2.8	-0.2	-1.3	-0.7
Revenue and grants	20.8	18.4	12.9			15.0	14.0	15.3	15.5	16.2	18.3		16.7	19.0	
of which: grants	2.3	2.0	3.4			4.7	3.8	3.6	3.3	3.2	2.8		2.6	2.9	
Primary (noninterest) expenditure	22.1	21.0	15.7			12.3	12.2	12.4	12.9	13.4	14.3		16.5	17.6	
Automatic debt dynamics	-1.1	0.2	3.1			2.2	-1.0	-1.0	-2.8	-1.5	-1.1		-0.7	-0.7	
Contribution from interest rate/growth differential	0.9	-1.5	-2.6			4.2	-1.5	-1.1	-2.7	-1.3	-1.4		-0.7	-0.7	
of which: contribution from average real interest rate	2.5	0.5	-1.9			2.6	-1.6	0.9	-0.3	-0.1	-0.4		-0.2	-0.2	
of which: contribution from real GDP growth	-1.6	-2.1	-0.7			1.5	0.1	-1.9	-2.3	-1.2	-1.0		-0.6	-0.5	
Contribution from real exchange rate depreciation	-2.0	1.7	5.7			-2.0	0.4	0.1	-0.2	-0.2	0.3		...	...	
Other identified debt-creating flows	-0.5	-4.4	-0.7			-0.5	-0.5	-0.4	-0.4	-0.3	-0.3		-0.2	-0.1	
Privatization receipts (negative)	0.0	-4.0	-0.4			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.5	-0.4	-0.3			-0.5	-0.5	-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	1.9	10.4	-1.9			5.8	-1.3	0.2	0.3	0.9	1.4		0.7	0.9	
Other Sustainability Indicators															
PV of public sector debt	...	...	40.6			44.8	39.9	35.7	30.2	26.5	22.4		16.1	12.6	
of which: foreign-currency denominated	...	...	23.2			22.3	18.9	15.9	12.9	10.8	9.3		7.9	6.9	
of which: external	...	...	23.2			22.3	18.9	15.9	12.9	10.8	9.3		7.9	6.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.8	8.4	7.9			4.3	5.7	4.5	4.1	4.4	2.6		4.0	2.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	315.6			298.9	285.0	234.1	194.5	163.0	122.5		96.3	66.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	430.1			433.6	390.7	305.9	245.9	202.5	144.8		114.4	78.4	
of which: external 3/	...	...	245.3			215.7	185.1	136.5	104.6	82.6	60.2		55.9	43.0	
Debt service-to-revenue and grants ratio (in percent) 4/	12.0	31.5	36.5			37.9	35.7	32.1	27.5	30.3	23.3		13.6	8.5	
Debt service-to-revenue ratio (in percent) 4/	13.5	35.3	49.7			54.9	48.9	41.9	34.8	37.6	27.5		16.1	10.0	
Primary deficit that stabilizes the debt-to-GDP ratio	-0.3	-6.1	-0.5			-7.5	2.8	1.2	2.9	0.9	-0.1		0.2	-0.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.7	7.3	1.8	4.8	4.1	-3.5	-0.3	4.7	6.3	3.9	3.4	2.4	2.9	3.3	3.0
Average nominal interest rate on forex debt (in percent)	3.3	3.6	3.3	2.1	1.2	4.7	4.3	3.8	3.4	2.9	2.3	3.6	1.3	1.2	1.3
Average real interest rate on domestic debt (in percent)	3.8	-0.2	-1.2	2.4	3.8	1.6	-3.3	1.5	-1.8	-1.0	-0.8	-0.6	-0.1	0.0	-0.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.4	8.3	21.2	3.3	14.8	-7.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-2.0	3.3	3.1	1.2	3.6	0.2	5.3	0.2	3.7	3.1	3.0	2.6	2.8	3.0	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.8	-0.5	-32.1	-3.2	10.2	-26.8	2.4	7.4	11.3	8.0	10.6	2.1	3.4	1.2	4.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	37.3	37.2	36.7	36.8	36.9	36.9	37.0	37.3	37.9	...

Sources: Country authorities; and staff estimates and projections.

1/ The coverage of public sector debt comprises the obligations of the central government, including commercial debt. The definition of debt corresponds to gross debt.

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

3/ Revenues excluding grants.

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

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

6/ The primary deficit 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 2016-2036

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	45	40	36	30	26	22	16	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	45	39	37	34	32	31	28	22
A2. Primary balance is unchanged from 2016	45	39	35	30	26	23	13	-3
A3. Permanently lower GDP growth 1/	45	40	37	32	29	26	25	37
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	45	39	37	32	29	25	22	22
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	45	44	44	38	35	31	26	21
B3. Combination of B1-B2 using one half standard deviation shocks	45	41	41	36	32	28	23	18
B4. One-time 30 percent real depreciation in 2017	45	49	44	38	34	30	23	19
B5. 10 percent of GDP increase in other debt-creating flows in 2017	45	46	42	36	33	29	24	20
PV of Debt-to-Revenue Ratio 2/								
Baseline	299	285	234	194	163	122	96	66
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	299	281	244	220	199	168	168	119
A2. Primary balance is unchanged from 2016	299	277	227	188	158	124	78	-16
A3. Permanently lower GDP growth 1/	299	285	237	202	175	139	148	189
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	299	280	239	202	174	136	129	113
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	299	309	286	244	212	168	153	111
B3. Combination of B1-B2 using one half standard deviation shocks	299	294	268	227	196	153	136	96
B4. One-time 30 percent real depreciation in 2017	299	346	286	241	206	160	139	101
B5. 10 percent of GDP increase in other debt-creating flows in 2017	299	327	273	232	200	158	143	105
Debt Service-to-Revenue Ratio 2/								
Baseline	38	36	32	28	30	23	14	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	38	35	32	28	31	24	15	12
A2. Primary balance is unchanged from 2016	38	37	33	29	32	24	14	5
A3. Permanently lower GDP growth 1/	38	37	34	29	33	25	16	15
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	38	36	34	29	33	25	15	12
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	38	37	34	30	33	25	18	13
B3. Combination of B1-B2 using one half standard deviation shocks	38	36	33	29	32	25	17	11
B4. One-time 30 percent real depreciation in 2017	38	42	43	37	39	30	17	14
B5. 10 percent of GDP increase in other debt-creating flows in 2017	38	37	34	30	32	25	17	12

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

Statement by Mr. Sembene, Executive Director for Chad
November 11, 2016

On behalf of my Chadian authorities, I would like to thank Management and Staff for their continuous support and policy advice to Chad in extremely challenging times.

The sharp decline in oil prices since 2014 and the deterioration of the security situation in the second half of 2015 have significantly impacted Chad's economic and financial prospects. In addition, the country is harboring more than 750,000 refugees from neighboring countries due to security challenges, notably the multiplication of terrorist acts in the Lake Chad region. Public finances have been under extreme pressure as a result of these continuous shocks, which increased the vulnerabilities of private and financial sectors. The oil price shock intensified in early 2016 and the authorities' policy responses to the worsening environment at that time have been mainly through large additional fiscal adjustment absent substantial financial support by the international community.

Amid the exceptional size and pace of fiscal adjustment, the authorities' Fund-supported program remains on track. Performance at end-2015 and at end-June 2016 was satisfactory, and strong corrective actions were taken to address slippages in program implementation. In this light, my authorities request the completion of the third and fourth reviews under the ECF arrangement and the granting of related waivers. They also request an augmentation of access under the program, the extension of the arrangement, and the rephrasing of disbursements.

I. Recent Developments and Performance under the ECF Arrangement

As noted above, the **fiscal situation** deteriorated markedly in 2016. Oil revenue continues to fall and is projected to be 80 percent lower in 2016 compared to 2015, due notably to the lower price and production. In addition, the expected sale of oil assets has been delayed. Furthermore, non-oil revenue has been also underperforming due to the depressed domestic activities and lower exports. These negative revenue developments lead to significant financial constraints.

In response to these adverse developments, my Chadian authorities have implemented strong corrective actions since the beginning of the year and moved to a cash-based budget execution to control expenditures. They adopted a **first revision of the 2016 budget** in June 2016. As liquidity constraints grew and given the lack of available external financing, my Chadian authorities resorted to drastic spending cuts in an emergency action plan adopted in August 2016.

The **emergency action plan** consists of 16 drastic measures which my authorities started to implement, in particular those having an immediate budgetary impact. These include suppressing student scholarships, reducing some allowances for both Parliamentarians and senior officials, and restructuring a number of public agencies. The essential security spending, wage payment and debt service were given priority and antipoverty social spending was preserved.

The measures were supported by a **second revision of the 2016 budget** submitted to the National Assembly in early November 2016. This second revised budget presents more realistic assumptions and excludes the exceptional proceeds from the oil asset sale. Expenditures were reduced by 23 percent compared to 2015. Moreover, my authorities have prepared and submitted to the National Assembly a budget for 2017 which is also based on conservative assumptions.

Despite all the adjustment efforts since the beginning of this year, domestic **arrears** slightly accumulated in the first half of 2016 after a significant build up in 2015 because of liquidity problems. As the staff report indicates, the regional central bank raised the ceiling for Chadian commercial banks refinancing, and halved the level of required reserves for the CEMAC banking system. This enabled the authorities to issue a large amount of securities in the first three quarters of the year. However, the greater banks' exposure to government debt and the high private sector dependence on government procurement have increased vulnerabilities in the banking sector. In particular, non-performing loans increased to 17 percent of gross banking loans and as a result, credit to the private sector declined.

Progress has been made in the implementation of structural reforms, notably by containing expenditures executed through extraordinary budget procedures, broadening the database of taxpaying enterprises, and establishing a unit at the Treasury tasked with preparing cash management plans. Following the formation of the new government in August 2016, the annual debt management report has been finalized and published on the website of the ministry of finance; and the monitoring and reporting of oil revenue flows have been enhanced. The software used for the payment of civil servants' salaries is now operational and is generating savings beyond initial projections following the discovery of ghost workers during its implementation. In addition, an accounting and organizational audit of the payment of civil servants has been launched and, based on the results of this audit, a detailed action plan for reforming the payroll of civil service will be adopted by end-June 2017.

The preparation of the new National Development Plan (NDP), which will lay out the diversification strategy over the next five years, is about to be completed. The final draft document was discussed with all internal stakeholders in a workshop in October 6-7, 2016 and will be submitted to the government for adoption before being transmitted to the National Assembly by end-November 2016. In January 2017, the Government will organize a round table in Paris with all its technical and financial partners, in order to mobilize financing for the key priorities of the NDP.

Despite the difficult environment, program performance under the ECF arrangement has been broadly satisfactory in the period under review, with all performance criteria (PCs) met, except the periodic PC on the non-accumulation of domestic arrears at end-December 2015 and end-June 2016 due to liquidity constraints, and the continuous PC on non-accumulation of external payment arrears at end-June 2016. As already indicated above, the implementation of the structural reforms monitored under the program progressed well.

The Chadian authorities consider that prevention and clearance are key to stabilize and reinvigorate the economy. In this regard, they are implementing a global strategy to clear existing arrears and avoid their reoccurrence, with the assistance of the Fund, as clearly described in the Memorandum of Economic and Financial Policies (MEFP).

Given the additional balance of payments needs that have emerged due to the worsening exogenous shock, my authorities request i) an augmentation of access under the program in an amount equivalent to 24 percent of Chad's quota (equivalent to SDR 33.64 million or CFAF 28 billion); ii) an extension of the arrangement until end-November 2017 to accommodate for the conclusion of the sixth review and allow the disbursement of the last installment and iii) a rephasing of planned disbursements.

Financing remains a significant challenge for 2016 as financing from the regional market and the central bank is close to regulatory limits. Against that backdrop, my authorities appeal to Chad's development partners to follow through on their financial pledges for this year. It is worth stressing that given the dire economic and financial situation in Chad, my authorities were hopeful that the entire augmentation requested would be made available in full this year, instead of spreading it over two years, to address the severe financial constraints they are experiencing.

II. Program for the Period Ahead

Going forward, my authorities are determined to meet the challenges facing the country and improve the socio-economic conditions of the population. In this regard, they will continue to implement the necessary fiscal adjustment needed to address the immediate effect of the economic and financial crisis, while pursuing and expanding the implementation of structural reforms aimed at improving the business climate and fostering economic diversification in the context of the new National Development Plan.

My authorities remain committed to a satisfactory implementation of the program. However, maintaining such a performance going forward, becomes more and more challenging. Given that oil price prospects are not positive and as the country's involvement in regional peacekeeping efforts is likely to continue, my Chadian authorities expect that the fiscal situation will remain difficult in 2017 and over the medium term.

Fiscal policy will be geared toward achieving fiscal and debt sustainability. My Chadian authorities are determined to continue on the path of strong fiscal adjustment in the context of the 2017 budget. Since the emergency measures taken in 2016 will have a full effect in 2017, they are confident that the projected fiscal deficit of 3.6 percent of non-oil GDP will be achieved. My authorities intend to use any fiscal resources in excess of those budgeted to reduce the stock of arrears and relax the spending envelope. The authorities will continue to refrain from contracting new non-concessional external financing. However, my authorities continue to stress the increasing difficulty of securing concessional financing and look forward to the Fund's continued support to assist them in their efforts to mobilize additional financing, as needed.

Given the weaker oil revenues, my authorities will step up efforts to increase non-oil domestic revenue mobilization. In particular, with the assistance of the Fund, they will pursue the strengthening of tax and customs administrations and undertake tax reforms to widen the tax base, through notably eliminating unjustified tax and customs exemptions and reforming the VAT. An audit of the exemptions, financed by the European Union, has been launched in October 2016 and will form the basis for identifying specific reform measures.

The authorities will focus on pursuing **structural reforms** already committed under the current program and on diversifying the economy, in line with the recommendations of technical assistance reports. Administrative reforms, including strengthening transparency in the oil sector will continue to be guided by the 2005 Action Plan for the Modernization of Public Finance (PAMFIP), while the diversification strategy will be guided by the forthcoming 5-year National Development Plan. The authorities intend to continue the strong collective collaboration with all the country's development partners to ensure an effective implementation of reforms.

Regarding specifically oil sector transparency, my authorities are fully committed to remain compliant with the EITI requirements and are now facilitating the work of the EITI National Committee to publish the reports for 2014 and 2015. As regards public financial management, my authorities will pursue their efforts to improve the expenditure chain and the implementation of the cash flow management system, as laid out in the MEFP. In particular, efforts to gradually reduce the use of emergency spending procedures will continue and the ongoing development of the medium-term program budgeting framework will be pursued. As to debt management, my authorities will draw on the recent Fund TA to develop a medium-term debt management strategy.

III. Conclusion

To conclude, despite a very difficult global and regional environment, my authorities managed to maintain their ECF-supported program on track through a strong fiscal adjustment and steady implementation of the reform agenda. Given the actions taken to address the debt payment arrears that occurred during the review period and the authorities' continued commitment to the program, my authorities are requesting the completion of the third and fourth reviews under the ECF arrangement, the granting of related waivers as well as the approval of augmented access, arrangement extension and program rephasing. I would appreciate Directors' favorable consideration for my authorities' requests.

Moreover, given the weaker medium-term economic prospects for Chad and significant risks to its economic outlook, my authorities call on the country's development partners to provide highly-needed support to their ongoing efforts to address balance needs and pursue a smooth implementation of their economic program.