



CHAD

December 2019

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW —PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHAD

In the context of the Fifth Review Under the Extended Credit Facility Arrangement and Financing Assurances Review, 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 and summarizing the views of the Executive Board as expressed during its December 13, 2019 consideration of the staff report on issues related to the IMF arrangement
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 13, 2019, following discussions that ended on November 5, 2019 with the officials of Chad on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 2, 2019.
- A **Staff Supplement** updating information on recent developments.
- 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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services

PO Box 92780 • Washington, D.C. 20090

Telephone: (202) 623-7430 • Fax: (202) 623-7201

E-mail: publications@imf.org Web: <http://www.imf.org>

Price: \$18.00 per printed copy

**International Monetary Fund
Washington, D.C.**



Press Release No. 19/460
FOR IMMEDIATE RELEASE
December 13, 2019

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review of the Arrangement under Extended Credit Facility for Chad and Approves US\$38.8 Million Disbursement

- Performance under the ECF arrangement has been broadly satisfactory as the program is supported by CEMAC-wide efforts to maintain an appropriate monetary policy stance.
- Improving governance remains a key element of the country's strategy to revive the private sector.
- Efforts to raise non-oil revenue, especially through improvements in the tax and customs administration will need to be continued.

On December 13, 2019, the Executive Board of the International Monetary Fund (IMF) completed the fifth review of Chad's economic program supported by an Extended Credit Facility (ECF) arrangement. The completion of the review enables the disbursement of SDR28.04 million (about US\$38.8 million), bringing total disbursements under the arrangement to SDR196.28 million (about US\$271.7 million).

Chad's ECF arrangement was originally approved by the Executive Board on June 30, 2017 (see Press Release No. 17/257) for SDR 224.32 million (about US\$310.5 million or 160 percent of Chad's quota). The ECF-arrangement aims at stabilizing the economy and supporting the resumption of growth, especially in the non-oil sector, lay the foundation for robust and inclusive growth, and contribute to the regional effort to restore and preserve external stability for the Central African Economic and Monetary Union (CEMAC).

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

"Chad's performance under the Fund's ECF-supported program has been broadly satisfactory, reflecting strong commitment by the authorities despite a challenging environment, including security concerns and a tense social situation. Good progress on the structural reform agenda has been made, despite some delays. Looking ahead, it is essential that the authorities continue to pursue prudent fiscal policy, particularly in the run up to the upcoming elections, create

sufficient fiscal space for increased social and development spending, and pay down domestic debt and arrears.

“Fiscal consolidation efforts should give emphasis to strengthening domestic revenue mobilization, particularly by reducing exemptions and improving VAT collection, controlling the wage bill, and strengthening public financial management. Effort to contain public debt vulnerabilities should be sustained by reducing domestic debt and strictly adhering to the zero limit on non-concessional borrowing.

“Accelerating the implementation of structural reforms to enhance the business climate and improve governance is necessary to boost economic recovery. In addition, developing and implementing a clearance strategy for domestic arrears and addressing public banks vulnerabilities is also essential.

“Chad’s program is supported by the implementation of supportive policies and reforms by the regional institutions in the areas of foreign exchange regulations and monetary policy framework and to support an increase in regional net foreign assets, which are critical to the program’s success.”



CHAD

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW

KEY ISSUES

Context. Non-oil economic activity is recovering slowly, with non-oil growth projected to increase to 2 percent in 2019, from 0.5 percent in 2018. Fiscal consolidation is in line with program objectives and the debt position is improving. The security situation and social conditions remain difficult. Parliamentary elections are expected in early 2020. The reform momentum is progressing slowly, hampered by weak administrative capacity and fragility.

Program performance. All end-June quantitative performance criteria (QPCs) and the indicative target (IT) on social spending have been met. Of the five structural benchmarks (SBs) due by end-September, two were met, one was completed in October, and progress has been made on the two outstanding. One SB due by end-November is proposed to be reset to end-December 2019. The program is supported by CEMAC-wide efforts to maintain an appropriate monetary policy stance, build up regional reserves, and promote financial sector stability.

Key policy recommendations. Staff urged the authorities to: (i) submit a draft 2020 budget to the National Assembly in line with their commitments under the program, (ii) continue efforts to increase non-oil revenue, especially through improvements in the tax and customs administrations, (iii) intensify efforts to ensure that the end-year social spending target is met, (iv) strengthen debt management and refrain from contracting non-concessional borrowing, (v) adopt restructuring and funding plans for the two public banks, and (vi) continue to strengthen the anti-corruption framework.

Staff views. Staff supports the completion of the fifth review under the ECF arrangement, given Chad's broadly satisfactory performance and commitment to the program despite significant challenges. Completion of the fifth review will result in the disbursement of SDR 28.04 million. The Fund arrangement remains instrumental to catalyze donor support and address Chad's protracted balance of payment needs. The main downside risks to the program include rising insecurity, a drop in oil prices, fiscal slippages in the run-up to the elections, and further deterioration in the position of public banks. The upside risks mostly consist of higher oil revenues.

November 26, 2019

Approved By
David Owen and
Martin Sommer

Discussions started at the margins of the Annual Meetings and then continued in N'Djamena during October 24–November 5. The staff team comprised Mr. E. Gemayel (head), Messrs. M. Ben Hassine and M. Ahmed, Ms. A. Viseth (all AFR), Mr. R. Green (SPR), Mr. J. Ntamatungiro (Resident Representative) and Mr. B. Topeur (local economist). Mr. Bangrim Kibassim (OED) joined the mission. Staff of the BEAC and the World Bank attended some of the policy meetings. Meetings were held with Mr. Kabadi, President of the National Assembly, Mr. Nguilin, Minister of Finance and Budget, Mr. Doubragne, Minister of Economy and Development Planning, Mr. Koua, Minister of Oil, Energy and Mines, Mr. Mahamat Hassan, National Director of the BEAC, and other senior officials, as well as representatives of the private sector, civil society, and international development partners. A press conference was held at the end of the mission and a press release was issued. Ms. M. Ndiguimbaye assisted the mission in N'Djamena and Ms. V. Pilouzoue and Ms. N. Margevich supported the preparation of the staff report.

CONTENTS

BACKGROUND	4
RECENT DEVELOPMENTS	7
PROGRAM PERFORMANCE	9
OUTLOOK AND RISKS	11
POLICY DISCUSSIONS	11
A. Fiscal Consolidation Remains Essential	11
B. Maintaining Debt on a Downward Trajectory	17
C. Stepping Up Structural Reforms and Improving Governance	18
D. Safeguarding the Banking Sector	19
PROGRAM MODALITIES	20
STAFF APPRAISAL	21
BOX	
1. New Oil Price and Production Smoothing Mechanism (Lissage)	16

FIGURES

1. Chad and Neighboring Countries: Fragility Indicators, 2010–19	5
2. Selected Development Indicators, 1990–2018	6
3. Fiscal Revenue Developments, 2011–19	7
4. Recent Economic Developments, 2012–19	12

TABLES

1. Selected Economic and Financial Indicators, 2017–23	23
2. Fiscal Operations of the Central Government, 2017–23 (In billions of CFAF)	24
3. Fiscal Operations of the Central Government, 2017–23 (Percent of non-oil GDP)	25
4. Balance of Payments, 2017–23	26
5. Monetary Survey, 2017–23	27
6. Financial Soundness Indicators, 2011–19	27
7. Quantitative Performance Criteria (QPC) and Indicative Targets (IT) under the ECF Arrangement	28
8. Structural Benchmarks and Prior Actions for the Program 2019–20	29
9. Schedule of Disbursement Under the ECF Arrangement	29
10. Indicators of Capacity to Repay the Fund, 2019–33	30

APPENDIX

I. Letter of Intent	31
Attachment I. Memorandum of Economic and Financial Policies	33
Attachment II. Technical Memorandum of Understanding	47

BACKGROUND

1. Since the approval of the current ECF arrangement in June 2017, progress has been made in stabilizing the economy, but challenges persist. Whereas the fiscal and debt positions have improved, economic conditions continue to be difficult. Non-oil economic recovery has remained subdued and the country continues to be exposed to security and humanitarian shocks. Chad continues to provide costly security assistance to the region through peace-keeping missions. While the authorities remain committed to the program, implementation is constrained by weak administrative capacity and fragility.

2. The security situation and social conditions remain difficult. Boko Haram continues to launch deadly attacks in the Lake Chad region. In August, President Deby declared a state of emergency in a rebel-prone province in the north and in two eastern provinces that suffered a heavy death toll in intercommunal clashes. In early September, the state of emergency was extended to January 2020. To stem the circulation of illegal arms and criminals, borders with Libya, Sudan, and Central African Republic have been under heavy military guard since end-August. Parliamentary elections, which had been announced for 2019, are expected to take place in early 2020. Presidential elections are expected in 2021. The election period could revive social tensions, which had eased with the implementation of the October 2018 agreement with trade unions.

3. The efforts by the BEAC to more strictly enforce CEMAC's forex regulation have faced resistance from oil and gas companies. The latter expressed concerns that strict implementation of the regulation—which requires repatriation and surrendering of export proceeds within 150 days—would affect their operations and profitability. The BEAC invited companies to identify more clearly and in full transparency specific issues of concern in the regulation and will plan new rounds of technical consultations with a view to identify the flexibility that would be deemed necessary to implement the regulation to the oil and mining sectors.¹

¹ See CEMAC regional reports, June 2019 and December 2019, for a fuller discussion of these issues affecting all CEMAC countries, including Chad.

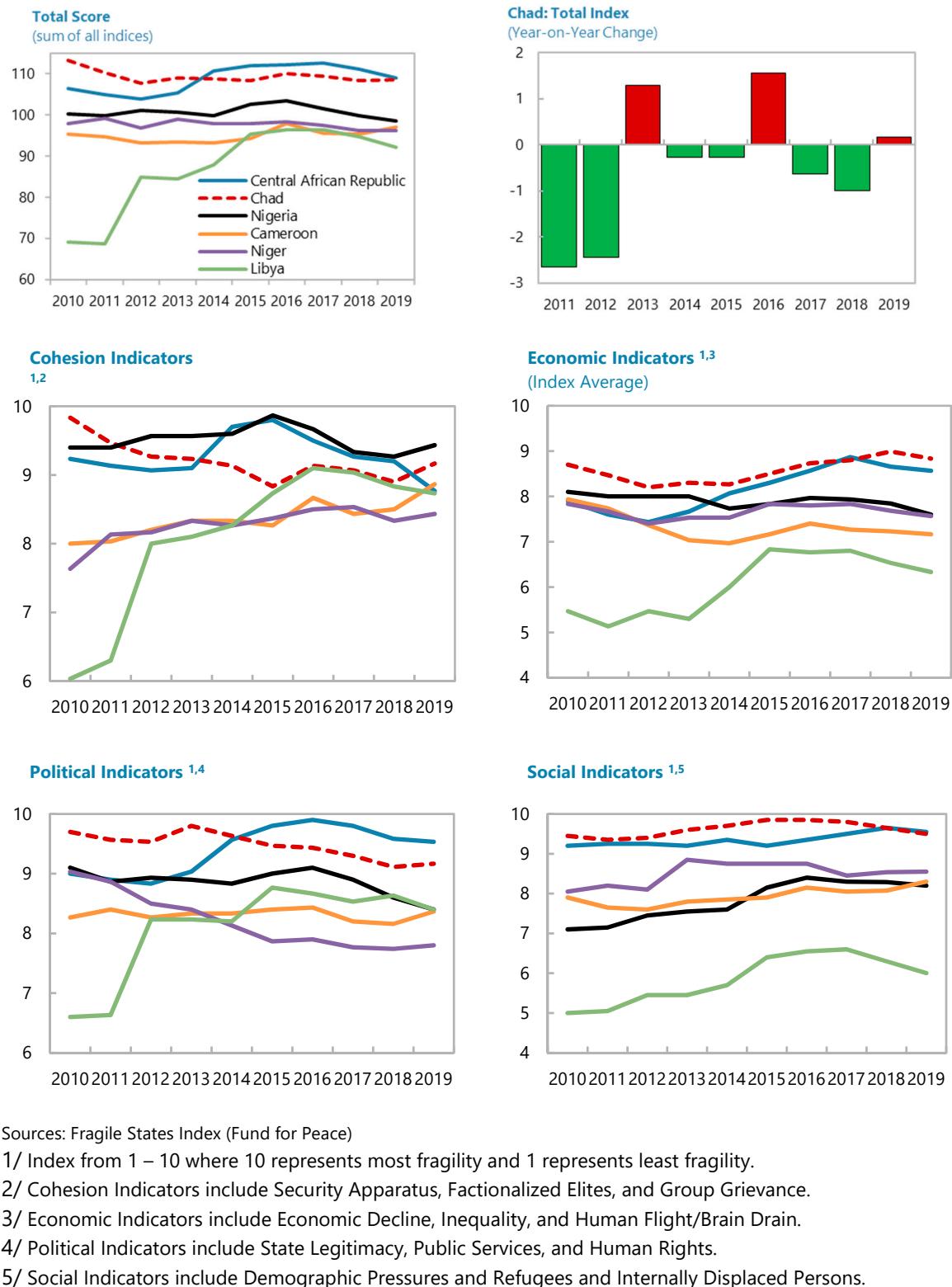
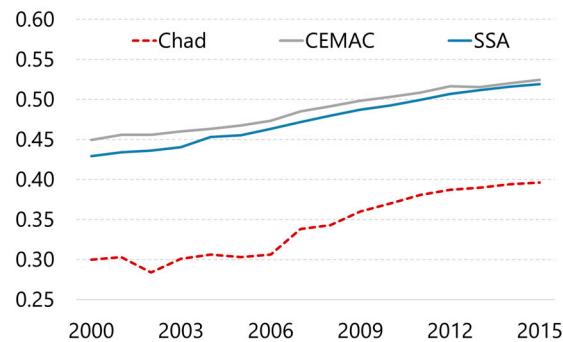
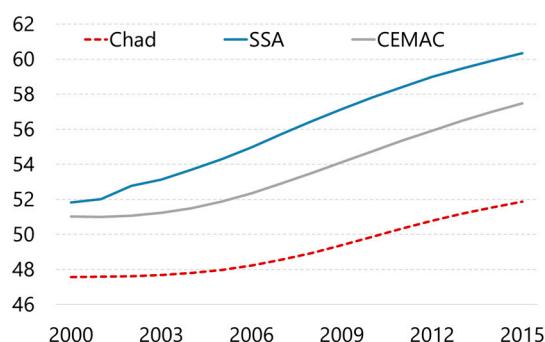
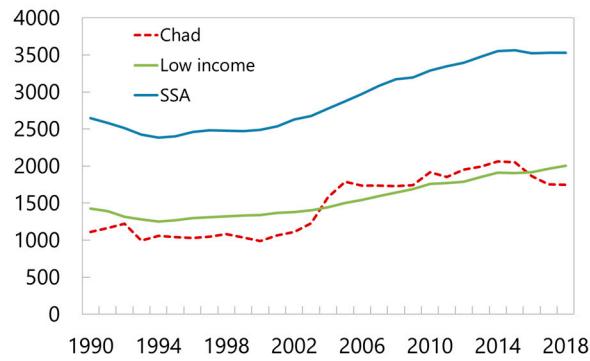
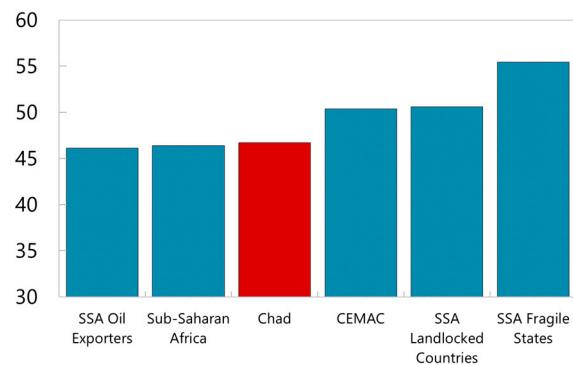
Figure 1. Chad and Neighboring Countries: Fragility Indicators, 2010–19

Figure 2. Chad: Selected Development Indicators, 1990–2018**Human Development Index****Life Expectancy at Birth****GDP per capita, PPP**

(Constant 2011 international dollars)

**Poverty Headcount Ratio**

(Percent of population)



Sources: World Bank Development Indicators; World Population Review; Chadian authorities; and IMF staff calculations.

RECENT DEVELOPMENTS

4. The economy is regaining momentum in 2019.

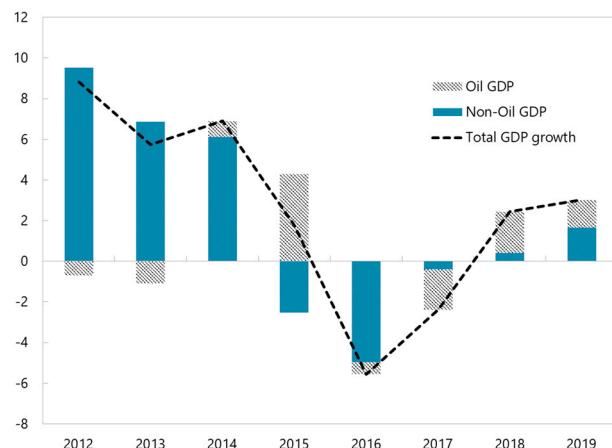
Overall growth is expected to reach 3.0 percent compared to 2.4 percent in 2018. Non-oil economic growth is expected to reach 2 percent, supported by an increase in public investment, domestic arrears clearance, and the recovery of the cotton sector. Oil GDP was revised upward and is expected to grow by 7.6 percent. Inflation in September was in negative territory (-2.1 percent y/y), reflecting subdued food and transport prices, and will remain low for the remainder of the year.

5. Fiscal performance during the first nine months of the year was satisfactory.

Non-oil revenue, including tax revenues, has been in-line with the budget. Likewise, oil revenue was in line with projections. Overall, fiscal expenditures were broadly consistent with the budget with two notable exceptions: (i) social spending fell short of projections in the third quarter with the authorities reporting difficulties disbursing allocated funds, and (ii) the wage bill slightly exceeded projections (0.1 percent of non-oil GDP) due to higher security spending, reflecting the restitution of basic salaries to the military. Deposits at the BEAC dropped during the first nine months in line with projections.

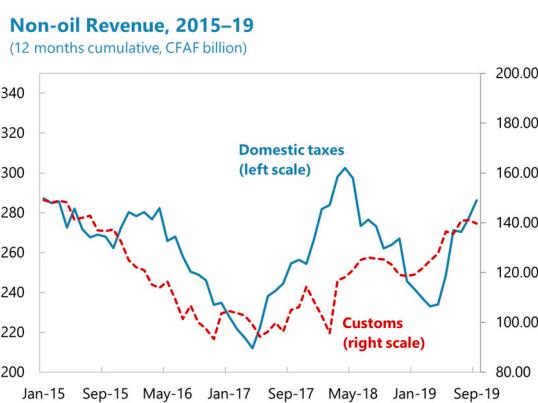
Text Figure 1. Chad: Contribution to real GDP growth

(Percent change)



Sources: Chadian authorities and IMF staff calculations.

Figure 3. Chad: Fiscal Revenue Developments, 2011–19



GDP, Oil Price and Fiscal Balance, 2011–19
(Percent of non-oil GDP)



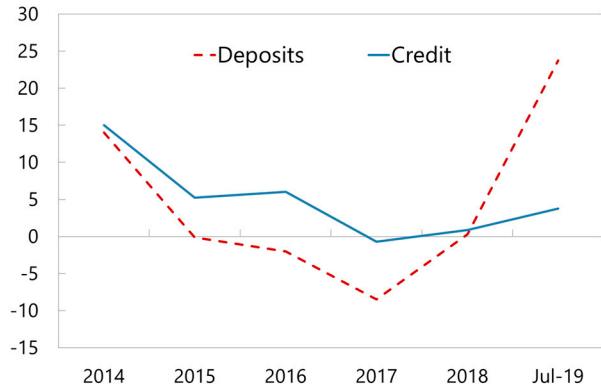
Sources: Chadian authorities and IMF staff calculations

6. Banking activity picked-up during the first eight months of the year, but vulnerabilities remain. Deposits increased by 25.7 percent and credit picked-up by 4.6 percent. BEAC refinancing declined substantially from CFAF 160.0 billion in December 2018 to CFAF 93.7 billion, reflecting an improvement in banks' liquidity. Overdue loans,² while still high, have dropped somewhat from 31.4 percent of total loans at end 2018 to 27 percent. Provisions increased to 56.3 percent compared to 53 percent at end 2018.

7. Chad continues to make progress

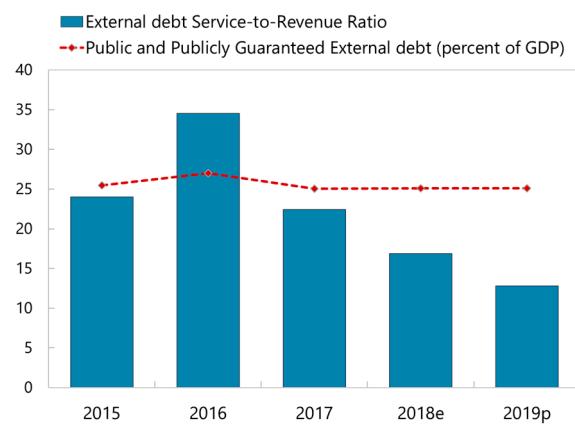
on reducing external debt vulnerabilities. Outstanding external arrears fell with the signing of a debt agreement with Angola in June. Only two bilateral creditors remain with outstanding arrears—both in CFAF—Equatorial Guinea and Republic of Congo. Good faith efforts are underway and nearing completion to address outstanding arrears with Mega Bank, a foreign commercial bank. Higher revenues have lowered the debt service-to-revenue ratio, which is now forecast to reach 12.8 percent in 2019 compared to the LIC DSA benchmark vulnerability threshold of 14 percent. On the other hand, the forecast for external debt in 2019 rose by 0.5 percent of GDP.

Text Figure 2. Chad: Credit and Deposit Growth, 2014–19
(Percent change)



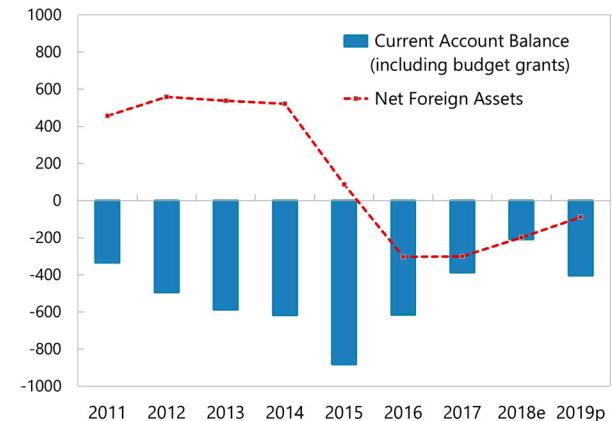
Sources: Chadian authorities and IMF staff calculations.

Text Figure 3. Chad: Trends in External Debt, 2015–19



Sources: Chadian authorities and IMF staff calculations.

Text Figure 4. Chad: Current Account Deficit vs Net Foreign Assets
(CFAF Billions)



Sources: Chadian authorities and IMF staff calculations.

² Overdue loans are the sum of loans overdue for >90 days (NPLs) and <90 days.

8. The current account deficit is projected to widen, but the underlying external position is improving. Several oil fields are under development or will be soon, resulting in higher imports financed by FDI. Despite the expected increase in oil exports, the current account deficit is forecast to rise to 6.2 percent of GDP in 2019 from 3.4 percent of GDP in 2018. The strong FDI inflows should allow net foreign assets to continue to climb substantially in 2019 and beyond.

9. Chad continues to contribute to the success of the regional strategy by implementing policies that support the stability of the Central African Economic and Monetary Community (CEMAC) financial and monetary arrangement, especially the recovery of the regional central bank's (BEAC) reserves. BEAC maintained an appropriately tight monetary policy stance, which, together with ongoing fiscal consolidation efforts by CEMAC member states and a stricter implementation of the foreign exchange regulation, contributed to an overperformance of the end-June 2019 projection for net foreign assets (a regional policy assurance) by about € 800 million. Chad has also reportedly provided all the contracts and agreements with oil companies to the relevant regional institutions to help ensure adequate repatriation of export receipts. In addition, the BEAC has gradually reduced its liquidity injections and adopted a regulation to deal with banks excessively depending on BEAC's refinancing. BEAC and COBAC have also aimed at a smoother yet effective implementation of the foreign exchange regulation.

PROGRAM PERFORMANCE

10. Program performance remained broadly satisfactory.

- **All end-June quantitative performance criteria and the indicative target on social spending have been met.** Payments of domestic arrears have exceeded the target. The use of emergency spending procedures (DAO) was under control, but regularization was extremely low at 20 percent, compared to a target of 70 percent (both are memo items under the program).
- **Progress on the implementation of the structural reform agenda was mixed.** Out of the five SBs due by end-September, only two were met (the quarterly note on the oil sector and the semi-annual note on exemptions). The VAT taxpayer list was finalized and integrated into the computerized system in October. The restructuring and funding plans for BCC and CBT have yet to be finalized. The audit of domestic arrears is progressing, but the delay is expected to result in missing the deadline for adopting a clearance strategy (SB, end-November). The authorities are requesting to reset this SB to end-December 2019 in order to have more time to prepare the strategy.

11. Performance at end-September was satisfactory. All but one end-September IT were met. The social spending target was missed as a result of difficulties in executing goods and services due procurement procedures. The use of DAO was under control at 16 percent, but regularization was at 40 percent, well below the 75 percent target.

Text Table 1. Chad: Quantitative indicators for end-September 2019
 (In billions of CFAF; cumulative from the beginning of the year, except where otherwise indicated)¹

	End-June, 2019 PCs				End-Sept. 2019 ITs			
	PC	PC w/ adjustor	Actual	Status	IT	IT w/ adjustor	Actual	Status
Performance Criteria								
Floor on non-oil primary budget balance	-125		-122	met	-190		-181	met
Floor on customs revenue	50		72	met	90		109	met
Ceiling on net domestic government financing excluding BEAC	-50		-60	met	-70		-85	met
Ceiling on net government financing from the BEAC	150		107	met	170		168	met
Ceiling on the stock of domestic payment arrears by the government	140		130	met	120		119	met
Ceiling on new external arrears of the government and non-financial public enterprises ²	0		0	met	0		0	met
Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises ²	0		0	met	0		0	met
Indicative Targets								
Floor for poverty-reducing social spending	114		120	met	177		168	not met
<i>Memo item:</i>								
Emergency spending procedures-DAO (Percent of primary spending)	22		14		22		16	
Regularization of emergency spending procedures-DAO (Percent of total DAO)	70		20		75		40	
External concessional borrowing (US\$ million)	52		51		78		100	
Oil Revenue	181		183		271		266	
Grants	0		0		23		0	

Sources: Chadian authorities; and IMF staff estimations

1. Quantitative indicators and adjustors are defined in the TMU.

2. To be respected continuously.

Text Table 2. Chad: Structural Benchmarks up to end-October 2019

Measures	Due Dates	Status
Structural Benchmarks		
1. Publication of a quarterly note on the oil sector, in line with the template agreed with the authorities, including detailed information on debt service to Glencore.	Quarterly, starting end-June 2019	met
2. Publish a semi-annual note which lists all new exemptions (including renewal and extension of exemptions).	Semi-annual, starting end-July 2019	met
3. Create and publish a VAT taxpayer list and integrate it in the computerized system by end-September 2019 and apply a custom penalty rate of 15 percent for companies not registered.	End-September 2019	not met, implemented with delay
4. Based on the conclusion of the audit of BCC and CBT, adopt restructuring and funding plans for CBT and BCC	End-September 2019	not met, partially implemented
5. Complete audit of remaining domestic arrears.	End-September 2019	not met
6. Adopt a clearance strategy of domestic arrears based on the audit results	End-November 2019	[...]
7. Complete the implementation of the recommendations of the audit of the 47 exemption agreements with a view to removing or modifying those that do not comply with the legal texts or that have not been correctly executed	End-February 2020	

Sources: Chadian authorities; and IMF staff.

OUTLOOK AND RISKS

12. Under current policies, the medium-term outlook is expected to improve. Non-oil growth is projected to gradually increase and plateau at 4 percent starting 2021, with stronger contributions from cotton and livestock production beginning next year. Oil production is expected to increase as a result of new extraction technologies. Inflation is projected to remain below 3 percent. Continuing fiscal consolidation will result in steady narrowing of the non-oil primary balance and a gradual reduction in public debt. The current account deficit is forecast to remain above 6 percent of GDP through 2024, driven by FDI-related imports.

13. Nevertheless, risks to the outlook remain tilted to the downside. Near-term risks continue to stem from domestic developments, particularly a worsening of the security situation, loosening of fiscal discipline—especially in the run-up to the forthcoming parliamentary elections—and a deterioration in the position of public banks. Oil and gas companies could retaliate against the BEAC's forex repatriation enforcement by cutting down on their investments. High turnover among mid- and high-level officials within ministries continues to complicate policymaking. Externally, lower than projected donor support could result in a financing gap. On the upside, the recent pickup in oil prices, if sustained, could improve the fiscal position.

14. The authorities broadly agreed with staff views on the outlook and risks. They concurred with staff projections. However, they saw scope for higher oil revenues thanks to higher oil production and profit tax. They agreed with staff on the risks to the banking sector as well as the prevalent debt vulnerabilities. However, they see a need for higher spending on wages and public investment to address the country's deteriorating security and development needs.

POLICY DISCUSSIONS

Policy discussions for the fifth review focused on measures to (i) safeguard fiscal consolidation efforts in order to keep the debt trajectory on a sustainable path, (ii) swiftly address weak public banks, and (iii) advance the structural reform agenda.

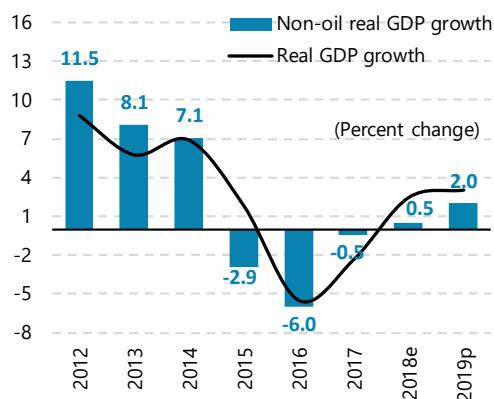
A. Fiscal Consolidation Remains Essential

15. The fiscal deficit for 2019 remains in line with the target agreed at the time of the fourth review. The overall balance will slightly deteriorate (0.1 percent of non-oil GDP) as a result of lower oil revenues. The underlying non-oil primary balance (NOPB)³ remains at 4.2 percent of non-oil GDP. Meeting this target will require continued efforts to strengthen domestic revenue mobilization and contain spending, particularly the wage bill. Efforts should be redoubled to meet the social spending target.

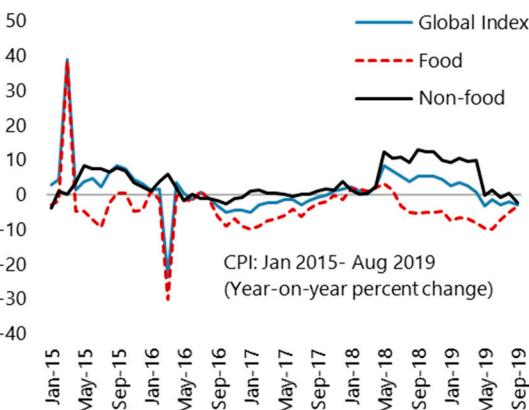
³ The 2019 underlying NOPB excludes election spending, which is a one-off expense.

Figure 4. Chad: Recent Economic Developments, 2012–19

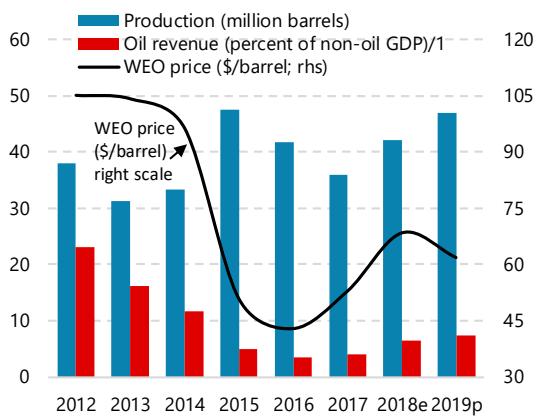
After three years of recession, non-oil GDP has continued to rebound in 2019 ...



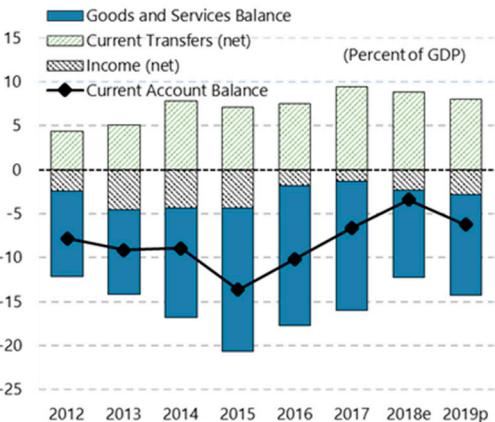
...with inflation decreasing significantly.



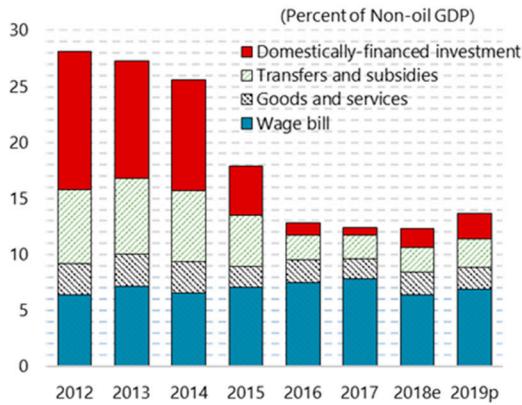
Following a sharp decline in 2017, oil production has increased for the second consecutive year in 2019 ...



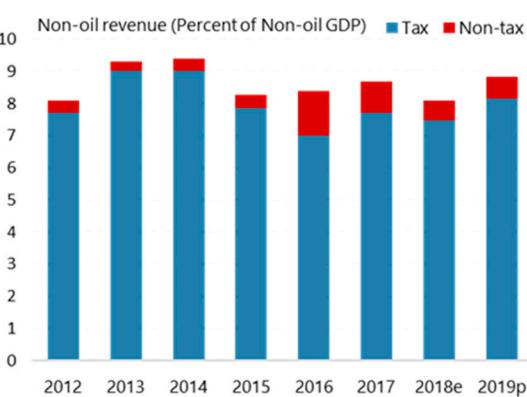
...however the current account is expected to worsen slightly.



Public spending is expected to slightly increase in 2019 ...



... and non-oil tax revenue continues to show improvement.



Sources: Chadian authorities; and IMF staff calculations.

1/ Oil revenue is net of operational costs linked to government participation in oil companies, and transportation cost.

		Text Table 3. Chad: Non-oil primary balance (% non-oil GDP)			
		2019		2020	
		4th Review	5th Review	4th Review	5th Review
Non-oil primary balance (commitment basis, excl. grants)		-4.8%	-4.9%	-3.8%	-4.9%
Elections spending		0.6%	0.6%	0.0%	0.0%
Transfers to the electricity company		0.0%	0.0%	0.0%	1.0%
Underlying NOPD		-4.2%	-4.2%	-3.8%	-3.9%
Overall balance		0.0%	-0.1%	2.3%	3.0%
Non-oil GDP		5212	5166	5515	5466

16. Emphasis should continue to be on strengthening domestic revenue mobilization to meet the end-year target. The impact of lower oil prices compared to the budget reference price (US\$64 vs. US\$72) will be offset by higher oil profit tax payment by the main oil operator.⁴ The authorities should continue to strengthen non-oil revenue collection, building on the measures identified at the time of the fourth review as well as the recently introduced measures on the VAT regarding the enforcement of the 15 percent penalty rate for non-compliant companies. The new VAT measures are expected to have a positive impact on revenues starting in the last quarter of 2019.

17. Expenditures are expected to be broadly in line with the 2019 budget. The authorities are committed to meet their spending target for the year, except for the wage bill, which is expected to be slightly higher (0.2 percent of non-oil GDP) following the restitution of the basic salary to the military. They argued that the worsening security situation combined with the drastic cuts in the military salaries in 2017 was impacting soldiers' morale. To make this increase budget neutral, the authorities agreed to offset it by reducing goods and services. Staff encouraged the authorities to accelerate the execution of social spending, especially in health and education. They also emphasized the importance of limiting the use of DAO and increase its regularization, in line with targets. Staff and the authorities also agreed that unused election spending should be saved and rolled into the 2020 budget.

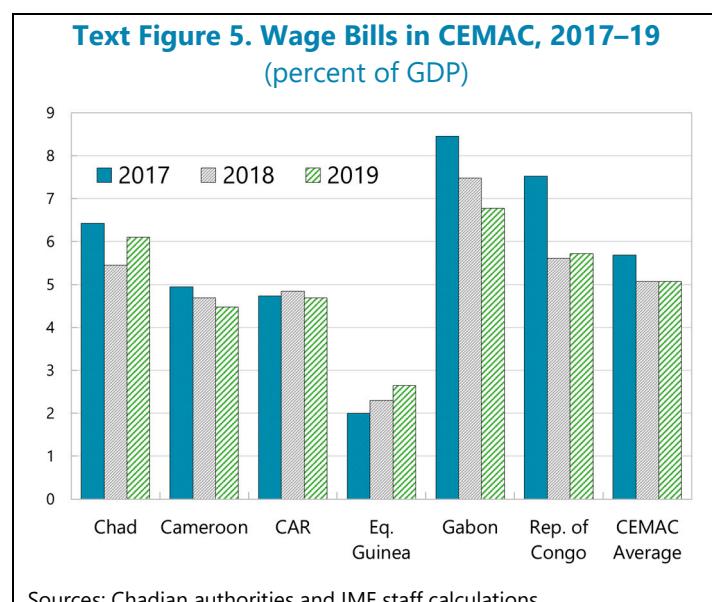
18. The authorities remain committed to maintaining their consolidation efforts in 2020. The budget to be submitted to the National Assembly (prior action) will target a NOPB of -4.9 percent of non-oil GDP, 1.1 percent higher than the target agreed at the time of the fourth review as it includes transfers to the national electricity company (SNE). These transfers, an off-budget transaction in the past, will be transparently reflected in the 2020 budget both on the revenue and expenditure sides, and will have no impact on the overall balance. The latter will significantly improve to 3.0 percent of non-oil GDP, as a result of higher oil revenues. Given this favorable development, staff emphasized the importance of fiscal restraint, especially during an

⁴ Oil profit tax in previous years was offset by the amortization of the operator's initial investment. The impact this year will be partial with a full year effect expected in 2020.

election year, since Chad remains at high risk of external and overall debt distress under the DSA completed at the time of the Fourth Review.

19. Revenue will significantly increase in 2020. Oil revenue will receive a sizeable boost (+2.7 percent of non-oil GDP) mainly as a result of a significant increase in profit tax payment by the main oil operator. The revenue counterpart to the SNE transfers will also contribute to the increase (about one percent of non-oil GDP). Non-oil revenues are also expected to increase (+0.5 percent of non-oil GDP) as a result of new measures related to streamlining tax exemptions, enhancing tax and customs administration, and reforming VAT.

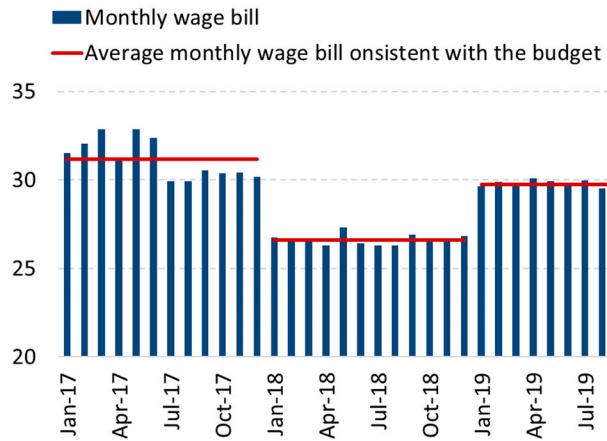
20. Excluding the SNE transfers, expenditures in 2020 would have been lower compared to the fourth review projections. The wage bill will drop by 0.2 percent of non-oil GDP, despite accommodating the new hires approved in the 2019 budget as well as the salary increase to the military. Goods and services are also expected to be lower. SNE transfers will increase expenditures by one percent of non-oil GDP. Like 2019, the authorities committed to an envelope for social spending of 34 percent of primary spending (excluding transfers to the electricity company). Staff encouraged the authorities to continue to repay domestic arrears, and step-up the repayment in case of an oil revenue windfall.



21. The introduction of a new oil price and production smoothing mechanism represents a step forward in addressing the procyclicality of fiscal policy (Box 1). The authorities agree that the volatility of oil prices and the procyclical fiscal policy conducted in the past have hampered economic activity. With support from the World Bank they are preparing a smoothing mechanism, which will allow them to gradually build buffers. The new mechanism, which is in line with the Fund's advice at the time of the last Article IV,⁵ will help avoid pro-cyclical policies and bolster Chad's capacity to service its debt. Appropriate legislation was adopted on November 15 by the National Assembly and the mechanism will be operational in the context of the 2020 budget, with expected savings of at least CFAF 10 billion.

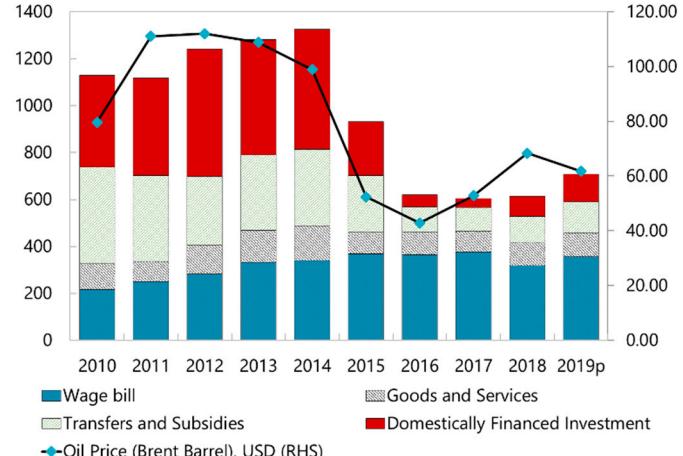
⁵ EBS/19/60, Annex III, "Oil Dependence and Considerations for a Price Smoothing Mechanism"

Text Figure 6. Chad: Wage Bill, 2017–19
(CFAF billions)



Sources: Chadian authorities and IMF staff calculations.

Text Figure 7. Chad: Procyclicality of Fiscal Policy
(CFAF billions)



Sources: Chadian authorities and IMF staff calculations.

Authorities' Views

22. The authorities reiterated their commitment to pursue their consolidation efforts. They argued that oil profit tax from the main oil operator will be much higher than budgeted by at least a third but agreed with staff to maintain a conservative projection. They also would have liked to have a higher wage bill (+0.2 percent of non-oil GDP) and higher domestic investment (+0.2 percent of non-oil GDP) but agreed to maintain them at reasonable levels in line with the agreement at the time of the fourth review. They, however, indicated that at the time of the sixth review, if the oil profit tax—which is expected to be paid around April based on 2019 actual profits—is higher, they would like to increase domestic investments to address their large infrastructure and social needs.

Box 1. New Oil Price and Production Smoothing Mechanism (*Lissage*)

In order to stabilize public expenditures in the face of oil revenue volatility, the authorities have devised an oil price and production smoothing mechanism. Starting 2020 the mechanism sets aside oil revenues until it reaches CFAF 40 billion (0.8 percent of non-oil GDP). The funds are then available to cushion budget shortfalls when oil revenue comes in more than 10 percent below budgeted amounts. Such shortfalls roughly correspond to oil price reductions greater than US\$5/bbl.

As a baseline, CFAF 10 billion will be automatically paid into a special treasury account each year. Further, if oil revenue in any given year is higher than budgeted, 20 percent of such difference would be paid into the special account, up to a maximum of CFAF 10 billion per year. The likelihood of attaining surplus oil revenue and the attendant deposits in the smoothing account is boosted by using conservative assumptions on both price (\$3 below the World Economic Outlook (WEO) price) and production (10 percent below forecast) as the budgeted benchmark.

If oil revenue does dip more than 10 percent below budgeted oil revenues, the smoothing mechanism may be used to finance expenditure budgeted in a given fiscal year, subject to amounts available in the fund. However, the funds may not be used for non-budgeted items or to extinguish debts.

This mechanism differs from the CEMAC "reference balance" that targets a floor for the overall balance of -1.5 percent of GDP. The reference balance is defined as the overall balance minus 20 percent of oil revenues relative to GDP and 80 percent of the difference between oil revenues and their average relative to GDP over the previous three years.

Overall, both mechanisms aim to provide fiscal policy buffers in dealing with shocks. However, according to the authorities, they differ in that the new mechanism indicates that accumulated resources must be saved to stabilize government spending in case of a shock. Whereas, under the CEMAC rule, savings are not explicitly required, as surplus oil revenue can be used for debt repayment or arrears clearance.

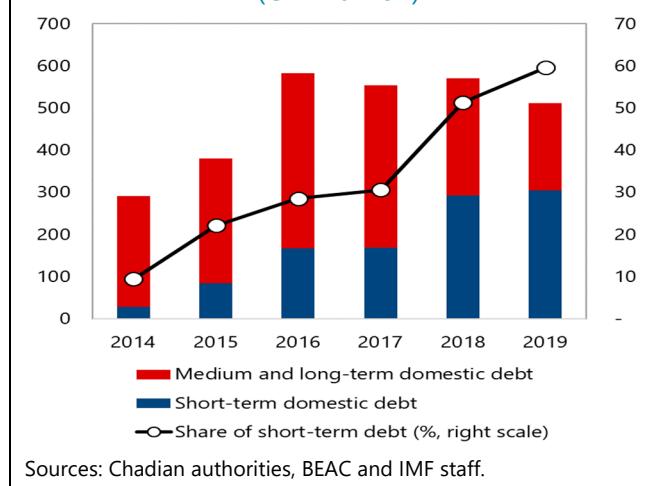
B. Maintaining Debt on a Downward Trajectory

23. Significant fiscal effort remains essential to maintain debt on a downward trajectory.

Fiscal space must be preserved for domestic debt repayment and arrears clearance. Creating fiscal space through higher non-oil revenue will help improve the sustainability of debt service capacity. Higher than anticipated oil revenues in 2020 are expected to facilitate implementation of the new domestic arrears' clearance strategy. The authorities will aim to limit domestic debt rollover to 85 percent of securities in 2020 as part of a broader push to improve bank liquidity and reduce domestic debt.

Extending the maturity of the current domestic debt profile will reduce rollover risk and could moderate repayment needs.

Text Figure 8. Chad: Domestic Debt, 2014–19
(CFAF billion)



Sources: Chadian authorities, BEAC and IMF staff.

24. Adhering to the zero-limit on non-concessional borrowing by resisting pressure to pursue commercial loans during the current program will provide a critical anchor to external debt sustainability.

Chad remains at high risk of external debt distress. Further efforts are needed to identify projects that have significant economic and development yield that could attract investors with alternative financing arrangements that would not undermine debt sustainability.

25. Debt management must improve to make Chad's debt capacity more robust. In Chad, low capacity, low resources, and poor coordination among responsible entities leaves a high level of operational risk in debt management. Risk of errors, omissions, unintentional arrears, and loss of key personnel underly the debt management process. This should be urgently addressed through (i) reforming the roles and structures of debt management, (ii) improving communication among responsible entities, and (iii) augmenting the resources applied to debt management. External debt management, while suffering from the above risks, has been well served by the dedicated escrow account and monthly debt management coordination meetings.

Authorities' Views

26. The authorities remain committed to aggressively reducing domestic and external debt vulnerabilities. They anticipate growth dividends from reducing the domestic debt overhang. The assessment of high risk of debt distress remains a point of frustration, given significant progress made under the program to restructure external debt and clear external arrears. Development needs are extremely high and concessional financing is quite limited. The authorities feel the returns to modest non-concessional borrowing far exceed any ensuing increase in risk of debt distress.

C. Stepping Up Structural Reforms and Improving Governance

27. Streamlining exemptions and strengthening tax administration should remain a priority. Staff underscored the need to adjust and eliminate inefficient exemptions, which are not in line with existing legislation, based on the 2017 audit of the 47 exemption agreements. They also agreed with staff on the need to reduce the scope for discretionary extension of exemptions, particularly in the oil sector and refining activities, and prepare a strategy for granting new exemptions (MEFP ¶25). Drawing on IMF technical assistance, the authorities plan to allocate new resources (building and software) to tax directorates in charge of large and medium firms (SB, April 2020).

28. Efforts to bolster the VAT administration are critical. VAT proceeds in Chad are among the lowest in Africa. The authorities are making progress in implementing their VAT action plan. The list of VAT tax payers has been published and integrated in the computerized system and a 15 percent penalty rate is being applied on non-compliant taxpayers. The authorities have also published the list of authorized firms eligible for VAT retention. Staff underscored the importance of setting-up a VAT refund mechanism at the BEAC by allocating 5 percent of VAT revenue to the dedicated account.

29. PFM reforms will improve public sector efficiency and accountability and rebuild fiscal buffers. Staff and the authorities agreed on the need to continue to press ahead with PFM reforms. The new PFM strategy, which will be implemented in 2020, should help improve budgeting procedures, which lack basic forecasting and coordination between agencies. Recognizing the persistent problem posed by the use of DAO (MEFP ¶28), the authorities will issue a decree by year-end to reduce the ceiling on its use. Once the audits on domestic arrears is finalized, they plan to adopt a strategy to clear them. Steps will be taken to improve cash management, including implementing a treasury single account (TSA), starting with a census of all the government's accounts in commercial banks. They also plan to modernize their procurement system (MEFP ¶33).

30. The authorities remain committed to improving governance, but efforts are hampered by capacity constraints. They acknowledged the importance of good governance for private sector development and intend to continue working to implement the United Nations Convention against Corruption (UNCAC). They emphasized that their efforts to reduce tax exemptions, strengthen tax administration, and modernize procurement should help reduce vulnerabilities to corruption. They indicated that with the support of the UN, an assessment of the country's penal code will be done to make sure that it is in line with the convention. They agreed to establish a legislative framework for asset declaration,⁶ either by adopting stand-alone implementing legislation or by including the necessary provisions in future anti-corruption legislation. Implementation of the AML/CFT framework at the national level is led by the National Agency for Financial Investigation (ANIF).

⁶ While the Constitution specifies that the president of the republic, ministers, and certain "public figure" and "agent of the state", have to declare their assets at the beginning and end of their service, it lacks the mechanisms and specifics necessary to effective implementation, compliance, and enforcement.

While operational since 2009, the ANIF is in dire need of human resources and greater coordination with regional institutions involved in AML/CFT, particularly the COBAC.

Authorities' Views

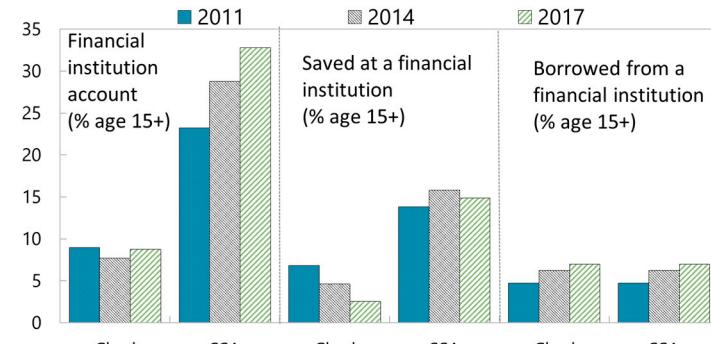
31. The authorities recognize the importance of fiscal reform and good governance as key elements to revive the private sector and reduce the scope for corruption. They agree with staff that streamlining exemptions and strengthening VAT administration will help further mobilize domestic revenues. They are determined to strengthen the PFM framework. With respect to arrears, given the limited resources available, they will seek to identify the necessary concessional financing to clear them. They are also committed to adopting implementing legislation for the asset declaration regime, in consultation with international donors.

D. Safeguarding the Banking Sector

32. The tight sovereign-bank nexus and the high dependence on oil has been a challenge for the banking sector. The large accumulation of domestic arrears and sharp increase in domestic debt following the recent crisis has led to the build-up of vulnerabilities especially in the two large public banks—which represent around 45 percent of total asset of the banking sector—through the deterioration of their liquidity position and asset portfolio quality. This tight sovereign bank nexus exposes banks and the government to risks. Authorities agree that banks should continue to properly classify their loans and provision them adequately in line with existing banking regulations. They are also making efforts to ease bank liquidity pressures by lowering rollover of domestic debt. Payment of domestic arrears would also help in this regard.

33. Despite some delays, the authorities are making progress in their reform strategy of the two public banks (BCC and CBT). Building on the June audit reports of the two banks, restructuring and funding plans are expected to be adopted by end-November (prior action). To that effect, the authorities will be allocating in the 2020 budget CFAF 3 billion for the recapitalization of one of the two banks and CFAF 9 billion to repay outstanding credit to both banks (MEFP ₣135). In addition, the government is committed to address all the weaknesses identified in the audit, in particular the governance structure of the banks. To ensure proper implementation of the restructuring and funding plans, performance-based contracts will be signed with the management of the two banks (SB, March 2020).

Text Figure 9. Chad: Financial Inclusion Indicators, 2011–17



Sources: Chadian authorities, BEAC, and IMF staff.

34. Further efforts are needed to improve financial inclusion through mobile banking and microfinance. The stability of the banking sector would benefit from more stable resources through higher deposits. Yet, only 9 percent of the population in Chad has a bank account. Mobile banking has the potential to enhance financial access, but challenges include poor network connections, especially in remote areas, and the population's low literacy rate. Following the 2018 revised CEMAC regulation for microfinance,⁷ several institutions faced difficulties and had to either shut down or restructure.

Authorities' Views

35. The authorities are mindful of the vulnerabilities in the banking system. They agree with the need to swiftly address the vulnerabilities stemming from the two large public banks. They recognize the potential for mobile banking and view the digitalization of the economy as a mean to develop this sector. Regarding the regulatory system of the microfinance sector, they requested additional support from the COBAC.

PROGRAM MODALITIES

36. Financing needs for 2019 and 2020 are covered (Text Table 4). The IMF, along with multilateral and bilateral partners, is expected to cover the country's financing gap for the remainder of this year and 2020. Despite downside risks to the outlook, Chad's capacity to repay the Fund is expected to remain adequate (Table 10).

**Text Table 4. Chad: Financing Gap under Program and Sources of Financing
(US\$ million)**

Million of US Dollars	2017	2018	2019	2020
Financing Gap	192	362	228	163
Budget support	143	262	102	125
Multilateral ¹	86	203	68	108
Bilateral	56	59	34	17
IMF financing	49	99	126	39
percent of quota	25	50	65	20

¹ Disbursement from the AfDB in 2018 includes US\$ 65 million planned for 2017 but disbursed in January 2018.

37. Staff and the authorities reached understandings on policy measures underpinning the remainder of the arrangement. The end-March ITs were revised in line with the updated macroframework. Three prior action (PAs) were set related to the submission of 2020 budget, adoption of restructuring and funding plans of the two public banks, and finalization of domestic arrears audit. The last two PAs are to address two missed SBs for end-September. The authorities are

⁷ The new regulations introduced internal control requirements, minimum social capital, AML/CFT regulations, and prudential norms.

requesting to reset the end-November SB on the arrears clearance strategy to end-December 2019. Two new SBs were added to the reform agenda for next year. These consist of signing performance contracts with the management of the two public banks and allocating resources to tax directorates.

38. The BEAC has provided an updated policy assurance on end-December 2019 and end-June 2020 NFAs in support of CEMAC countries' Fund-supported programs. In its updated letter of policy support, the BEAC presented a revised NFA projections reflecting in part the strong performance through mid-2019. BEAC also reiterated its commitment to implement an adequately tight monetary policy, together with member states implementing fiscal adjustment agreed in the context of IMF-supported programs, to achieve the NFA projections. The regional assurances on regional NFAs are critical for the success of Chad's program and will help bolster the region's external sustainability. The BEAC also continues to implement the remaining recommendations of the 2017 safeguards assessment.

STAFF APPRAISAL

39. Chad continues to face a challenging environment. The country remains exposed to security and humanitarian shocks, while weak administrative capacity and fragility continue to constraint its policymaking. Despite these challenges, the authorities continue to be committed to the program.

40. Economic activity is recovering, and the outlook is favorable. Arrears clearance and domestic debt repayment will further stimulate economic activity. The expected boost in oil production as a result of new technologies is welcome but should not deter important reforms to promote non-oil activity. Such reforms, while difficult at times, will also increase resilience and ensure sustainable and broad-based growth.

41. Prudent fiscal policy has been essential in putting public finances on a sustainable path and should be maintained in the run-up to the elections. Emphasis should continue on mobilizing domestic revenues. Widening the tax base by streamlining exemptions and enforcing the new VAT measures will be essential. The wage bill, one of the highest in the CEMAC region, should remain under control. Efforts should be stepped-up to meet the end-year social expenditure target. DAO use should be contained, and its regularization needs to be accelerated.

42. Domestic arrears continue to be an impediment to economic activity. The audit needs to be finalized as soon as possible and the clearance strategy should be swiftly prepared and implemented beginning 2020. This will significantly contribute in addressing banking vulnerabilities and supporting economic recovery. Oil windfalls should be used to help accelerate arrears repayment.

43. Public debt has decreased, but vulnerabilities remain. It is critical to maintain aggressive plans for reducing domestic debt, including issuing longer maturities to reduce rollover risk. Maintaining a zero limit for non-concessional borrowing under the current program will further

strengthen the debt position. Considering NCB in the future will be contingent on an updated DSA and the quality and criticality of potential projects for which concessional financing is not available.

44. Sustained efforts are needed to safeguard banking sector stability. Adopting restructuring and funding plans for the two state banks is essential to contain vulnerabilities. Signature of performance-based contracts will ensure successful execution of these plans. Limiting domestic debt rollover will help ease liquidity pressure. Enforcing proper loan classification and adequate provision is essential.

45. The reform momentum should persist. The new PFM strategy is welcome, and its implementation will help modernize the management of public finances. Implementation of a TSA will be critical to help contain the emergence of new arrears. Addressing governance weaknesses is essential for private sector development and reducing the scope for corruption.

46. Risks to the program remain high but are manageable with a strong commitment from the authorities. Maintaining fiscal discipline and staying the course with the reform agenda will help contain fiscal risks, enhance economic efficiency, and improve governance. These in turn will pave the way for private sector-led growth and economic diversification. Continued dialogue with the Fund and provision of capacity development by the IMF and other development partners will reinforce implementation capacity.

47. While Chad is one of the smaller economies in the CEMAC region, it continues to implement strong policies that support the regional stability. Strong implementation of agreed fiscal consolidation path by the four countries already with Fund-supported programs and the possible approval of new IMF-supported programs with Equatorial Guinea and CAR would support a further recovery in BEAC net foreign asset position.

48. Based on Chad's performance under the program and the adequate implementation of the regional policy assurance by the BEAC, staff supports the authorities' request for the completion of the fifth review and financing assurances review. Staff proposes that completion of the sixth review be conditional on the implementation of critical policy assurances on NFAs at the union level, as established in the December 2019 union-wide background paper.

Table 1. Chad: Selected Economic and Financial Indicators, 2017–23

	2017	2018	2019		2020		2021		2022		2023
	Prel.	Prel.	4th Rev.	Proj.	Proj.						
(Annual percentage change, unless otherwise indicated)											
Real economy											
GDP at constant prices	-2.4	2.4	2.4	3.0	5.5	3.9	4.8	5.8	5.3	5.4	4.0
Oil GDP ¹	-11.2	12.7	4.0	7.6	16.7	7.5	8.2	13.4	10.6	10.6	4.4
Non-oil GDP	-0.5	0.5	2.0	2.0	3.0	3.0	4.0	4.0	4.0	4.0	3.9
GDP deflator	-0.8	2.3	2.6	1.9	2.9	2.8	3.0	3.0	2.9	2.9	1.7
Consumer price index (annual average) ²	-0.9	4.0	2.9	1.0	3.0	3.1	3.0	3.0	3.0	3.0	3.0
Oil prices											
Brent (US\$/barrel) ³	54.4	71.1	61.8	64.4	61.5	60.5	60.8	58.0	60.4	57.3	57.4
Chadian price (US\$/barrel) ⁴	49.4	65.1	58.8	61.4	58.5	57.5	56.8	54.0	56.4	53.3	53.4
Oil production for exportation (millions of barrels)	36.0	42.2	45.2	47.0	53.9	51.1	58.9	58.9	65.9	65.9	69.1
Exchange rate CFAF per US\$ (period average)	580.9	555.2
Money and credit											
Net foreign assets	0.5	11.1	10.5	11.9	10.4	11.2	11.6	11.1	7.1	5.2	9.9
Net domestic assets	-4.7	-10.6	-1.0	-0.9	0.3	1.2	-4.6	-3.0	1.0	2.7	-3.0
Of which: net claims on central government	-4.4	-6.8	5.7	6.8	-1.0	-1.1	-5.7	-3.4	-0.8	0.8	-4.8
Of which: credit to private sector	-1.7	1.3	1.5	0.3	1.2	2.3	1.1	0.4	1.8	1.9	1.7
Broad money	-4.3	0.5	9.5	11.0	10.7	12.4	7.0	8.2	8.1	8.0	6.8
Velocity (non-oil GDP/broad money) ⁵	5.3	5.4	5.0	5.1	4.8	4.8	4.8	4.8	4.7	4.7	4.7
External sector (valued in US dollar)											
Exports of goods and services, f.o.b.	15.4	37.6	-1.8	3.7	16.0	3.0	6.0	8.2	10.2	10.0	6.0
Imports of goods and services, f.o.b.	5.4	15.3	3.1	6.3	10.6	4.1	6.4	7.2	8.8	10.1	4.1
Export volume	-10.8	11.6	7.2	9.9	15.7	8.5	7.8	12.5	10.1	10.2	4.4
Import volume	5.7	12.2	2.4	4.9	10.4	3.8	5.4	6.8	7.7	9.5	3.3
Overall balance of payments (percent of GDP)	-1.1	1.9	1.0	1.0	1.0	1.1	1.2	1.1	-0.1	-0.3	0.3
Current account balance, including official transfers (percent of GDP)	-6.6	-3.4	-6.5	-6.2	-5.9	-6.2	-6.4	-6.6	-6.3	-7.1	-6.3
Terms of trade	29.8	20.0	-9.0	-6.9	0.2	-5.4	-2.5	-4.2	-1.1	-0.7	0.7
External debt (percent of GDP) ⁶	25.1	25.1	24.6	25.1	22.2	23.2	19.7	20.5	17.3	18.2	16.3
NPV of external debt (percent of exports of goods and services)	94.1	62.4	65.5	61.2	55.3	59.1	50.1	53.5	42.8	46.8	42.0
(Percent of non-oil GDP, unless otherwise indicated)											
Government finance											
Revenue and grants	17.1	18.3	18.9	18.9	20.9	22.5	21.5	22.5	22.3	22.5	23.3
Of which: oil revenue ⁷	4.1	6.7	6.9	7.0	8.1	9.7	8.8	9.7	9.4	9.6	9.9
Of which: non-oil revenue	8.7	8.1	8.8	8.8	9.4	9.4	9.8	9.8	10.0	10.0	10.4
Expenditure	18.0	16.5	18.9	18.9	18.6	19.5	19.0	20.0	18.7	19.4	18.9
Current	13.7	12.0	12.7	12.7	12.4	13.1	12.3	13.3	11.9	12.7	12.1
Capital	4.4	4.5	6.2	6.3	6.2	6.4	6.7	6.7	6.8	6.7	6.8
Non-oil primary balance (commitment basis, excl. grants) ⁸	-3.8	-4.2	-4.8	-4.9	-3.8	-4.9	-3.8	-5.0	-3.5	-4.3	-3.3
Overall fiscal balance (incl. grants, commitments basis)	-0.9	1.9	0.0	-0.1	2.3	3.0	2.5	2.5	3.6	3.0	4.3
CEMAC reference fiscal balance (in percent of GDP) ⁹	0.5	-0.8	-2.0	-2.1	-0.4	-1.1	0.1	-0.3	0.9	0.9	2.0
Total debt (in percent of GDP) ⁶	49.8	48.3	43.8	44.4	39.0	39.7	34.9	35.1	31.2	30.9	27.6
Of which: domestic debt	24.7	23.2	19.2	19.3	16.8	16.6	15.2	14.5	13.9	12.8	11.3
Memorandum items:											
Nominal GDP (billions of CFA francs)	5,855	6,136	6,446	6,443	6,997	6,880	7,552	7,502	8,181	8,131	8,602
Of which: non-oil GDP	4,830	4,970	5,212	5,166	5,515	5,466	5,900	5,850	6,299	6,249	6,675
Nominal GDP (billions of US\$)	10.1	11.1	11.2	11.0	12.3	11.8	13.4	12.9	14.6	14.1	15.0

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

¹2017 oil GDP growth was revised to reflect final 2016 and 2017 oil GDP data. It also reflects oil production used for local consumption.²2017 inflation rate reflects the authorities' data using the year 2014 as a base year.³WEO projections for Brent crude oil price.⁴Chadian oil price is Brent price minus quality discount.⁵Changes as a percent of broad money stock at the beginning of period.⁶Central government, including government-guaranteed debt.⁷oil revenues for 2018 includes receipts associated with Government oil cargo originally planned for 2017.⁸Total revenue excluding grants and oil revenue, minus total expenditure excluding net interest payments and foreign-financed investment.⁹The CEMAC reference fiscal balance is calculated as the overall fiscal balance minus the savings from oil revenue, which is the sum of 20 percent of oil revenue of the current year and 80 percent of the oil revenue in excess of the average oil revenues in the previous three years.

Table 2. Chad: Fiscal Operations of the Central Government, 2017–23
 (In billions of CFAF, unless otherwise indicated)

	2017	2018	2019	2020		2021		2022		2023
	Prel.	Prel.	4th Rev.	Proj.						
Total revenue and grants	826	910	985	975	1,151	1,230	1,268	1,316	1,402	1,403
Revenue	620	737	819	816	968	1,045	1,096	1,143	1,222	1,223
Oil ¹	200	335	362	359	449	531	517	569	591	597
Non-oil	420	403	457	457	519	515	579	574	632	626
Tax	373	372	421	421	481	477	539	534	589	583
Non-tax	47	31	35	35	38	37	40	40	43	42
Grants	206	173	167	159	183	185	171	172	179	180
Budget support	102	119	54	46	62	64	37	38	36	37
Project grants	103	53	113	113	121	121	135	135	143	143
Expenditure	871	818	984	978	1,025	1,065	1,121	1,170	1,178	1,214
Current	659	595	661	655	681	715	724	776	750	796
Wages and salaries	376	319	350	357	355	368	358	373	362	373
Civil Service	291	238	255	247	258	256	261	259	263	258
Military	86	82	95	110	96	112	97	115	98	116
Goods and services	88	100	109	102	114	106	138	138	150	150
Transfers and subsidies ²	103	109	131	131	137	179	158	204	170	211
Interest	92	67	71	65	76	62	69	61	68	61
Domestic	34	29	23	23	27	25	27	26	25	24
External	58	38	48	42	49	37	42	35	43	37
Of which: Glencore loan (after restructuring)	51	30	36	30	39	26	32	24	32	26
Investment	212	223	323	323	344	350	397	394	428	419
Domestically financed	36	84	118	118	124	130	152	149	168	159
Foreign financed ³	176	138	205	205	220	220	245	245	260	260
Overall balance (incl. grants, commitment)	-46	92	1	-3	125	165	147	146	224	189
Non-oil primary balance (excl. grants, commitment) ⁴	-183	-211	-251	-251	-211	-268	-227	-290	-218	-267
Float from previous year ⁵	-80	-12	-49	-49	-75	-80	-79	-79	-91	-91
Float at end of period ⁶	12	49	75	80	79	79	91	91	80	80
Var. of Arrears ⁶	6	-35	-60	-60	-35	-45	-40	-40	-25	-15
Repayment of other arrears ⁷	-13	-54	-10	0	-10	-10	-30	-40	-60	-60
Overall balance (incl. grants, cash)	-121	40	-43	-32	85	110	89	77	128	103
Non-oil primary balance (excl. grants, cash)	-259	-262	-296	-281	-251	-324	-285	-358	-314	-353
Financing	122	-40	43	32	-85	-110	-89	-78	-128	-103
Domestic financing	45	-73	18	22	-43	-78	-35	-38	-58	-46
Bank financing	9	-81	119	123	0	19	-46	-39	-92	-70
Central Bank (BEAC)	-11	-74	119	123	0	19	-46	-39	-92	-70
Deposits	-24	-129	46	49	-21	-2	-40	-32	-30	-9
Advances (net)	-14	0	0	0	0	0	0	0	-48	-48
IMF	27	55	73	74	21	21	-6	-7	-14	-14
Commercial banks (deposits)	20	-6	0	0	0	0	0	0	0	0
Other financing (net), of which:	-37	-2	-102	-101	-43	-97	12	1	34	24
Amortization	-71	-169	-109	-109	-145	-142	-73	-70	-68	-58
Commercial banks loans	11	59	0	0	10	-9	10	10	15	15
Non-bank loans (gross) ⁸	2	0	32	32	35	35	39	39	41	41
Treasury bills (net)	-6	108	-54	-25	-45	-64	-12	-13	-1	1
Treasury Bonds (gross)	27	0	28	0	102	97	48	47	47	37
Bank Recapitalization	0	0	0	0	0	-3	0	-2	0	0
Stabilization Funds	0	0	0	0	0	-10	0	-10	0	-10
Privatization and other exceptional receipts	73	9	0	0	0	0	0	0	0	0
Foreign financing	77	33	25	11	-41	-32	-54	-39	-71	-56
Loans (net)	30	10	-2	-17	-67	-58	-80	-66	-96	-83
Disbursements	159	111	73	73	64	73	72	72	76	76
Budget borrowings	88	26	13	13	0	9	0	0	0	0
Project loans	71	85	60	60	64	64	72	72	76	76
Amortization	-128	-101	-75	-90	-131	-131	-151	-137	-172	-159
Of which: Glencore loan (after restructuring)	-59	-40	-14	-27	-64	-62	-78	-62	-92	-76
Debt relief/rescheduling (HIPC)	30	27	27	28	26	26	25	26	26	26
External arrears ⁹	17	-3	0	0	0	0	0	0	0	0
Financing Gap	-1	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>										
Non-oil GDP	4,830	4,970	5,212	5,166	5,515	5,466	5,900	5,850	6,299	6,249
Poverty-reducing social spending	202	182	241	241						
Bank deposits (including BEAC)	119	254	208	205	229	207	268	239	299	248
(In months of domestically-financed spending)	2.0	4.5	3.2	3.2	3.4	2.9	3.7	3.1	3.9	3.9
BEAC advances ¹⁰	480	480	480	480	480	480	480	480	432	384

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

¹Net of cash calls and transportation costs linked to the oil public enterprise (SHT) participation in private oil companies.

²Includes subsidies to the electricity company starting from 2020.

³Includes projects financed by the BDEAC, but the corresponding loans (in CFAF) are counted as domestic financing.

⁴Total revenue less grants and oil revenue, minus total expenditures, less interest payments and foreign financed investment.

⁵Difference between committed and cash expenditure, and errors and omissions.

⁶Recognized arrears, as registered by the Treasury in the "restes à payer" table.

⁷Other arrears include unrecognized arrears, the total of which will be specified after the audit of arrears, and the clearance in 2018 of CFAF 54 billion of arrears of the then public company Coton Tchad owed to domestic banks.

⁸Bilateral or multilateral loans in CFAF (e.g. BDEAC, loan from Cameroon in 2016).

⁹27 billion in 2016 include arrears to China, cleared through an agreement in April 2017.

¹⁰All debt to BEAC was consolidated and rescheduled in September 2017 into long term securities.

Table 3. Chad: Fiscal Operations of the Central Government, 2017–23
(Percent of non-oil GDP, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023			
	Prel.	Prel.	4th Rev.	Proj.	4th Rev.	Proj.	4th Rev.	Proj.	Proj.	
Total revenue and grants	17.1	18.3	18.9	18.9	20.9	22.5	21.5	22.5	22.5	
Revenue	12.8	14.8	15.7	15.8	17.6	19.1	18.6	19.5	19.6	
Oil ¹	4.1	6.7	6.9	7.0	8.1	9.7	8.8	9.7	9.6	
Non-oil	8.7	8.1	8.8	8.8	9.4	9.4	9.8	9.8	10.0	
Tax	7.7	7.5	8.1	8.2	8.7	8.7	9.1	9.1	9.3	
Non-tax	1.0	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	
Grants	4.3	3.5	3.2	3.1	3.3	3.4	2.9	2.9	3.5	
Budget support	2.1	2.4	1.0	0.9	1.1	1.2	0.6	0.6	0.7	
Project grants	2.1	1.1	2.2	2.2	2.2	2.2	2.3	2.3	2.8	
Expenditure	18.0	16.5	18.9	18.9	18.6	19.5	19.0	20.0	18.7	
Current	13.7	12.0	12.7	12.7	12.4	13.1	12.3	13.3	11.9	
Wages and salaries	7.8	6.4	6.7	6.9	6.4	6.7	6.1	6.4	5.7	
Goods and services	1.8	2.0	2.1	2.0	2.1	1.9	2.3	2.4	2.4	
Transfers and subsidies ²	2.1	2.2	2.5	2.5	2.5	3.3	2.7	3.5	3.4	
Interest	1.9	1.3	1.4	1.3	1.4	1.1	1.2	1.0	1.0	
Domestic	0.7	0.6	0.4	0.4	0.5	0.5	0.5	0.4	0.4	
External	1.2	0.8	0.9	0.8	0.9	0.7	0.7	0.6	0.5	
<i>Memo: Glencore loan (after restructuring)</i>	1.1	0.6	0.7	0.6	0.7	0.5	0.5	0.4	0.4	
Investment	4.4	4.5	6.2	6.3	6.2	6.4	6.7	6.7	6.8	
Domestically financed	0.7	1.7	2.3	2.3	2.2	2.4	2.6	2.5	2.5	
Foreign financed ³	3.6	2.8	3.9	4.0	4.0	4.0	4.2	4.2	4.3	
Overall balance (incl. grants, commitment)	-0.9	1.9	0.0	-0.1	2.3	3.0	2.5	2.5	3.6	
Non-oil primary balance (excl. grants, commitment) ⁴	-3.8	-4.2	-4.8	-4.9	-3.8	-4.9	-3.8	-5.0	-3.5	
Float from previous year ⁵	-1.6	-0.2	-0.9	-1.0	-1.4	-1.5	-1.3	-1.4	-1.5	
Float at end of period ⁵	0.2	1.0	1.4	1.5	1.4	1.5	1.5	1.6	1.3	
Var. of Arrears ⁶	0.1	-0.7	-1.1	-1.2	-0.6	-0.8	-0.7	-0.7	-0.4	
Repayment of other arrears ⁷	-0.3	-1.1	-0.2	0.0	-0.2	-0.2	-0.5	-0.7	-1.0	
Overall balance (incl. grants, cash)	-2.5	0.8	-0.8	-0.6	1.5	2.0	1.5	1.3	2.0	
Non-oil primary balance (excl. grants, cash)	-5.4	-5.3	-5.7	-5.4	-4.6	-5.9	-4.8	-6.1	-5.0	
Financing	2.5	-0.8	0.8	0.6	-1.5	-2.0	-1.5	-1.3	-2.0	
Domestic financing	0.9	-1.5	0.3	0.4	-0.8	-1.4	-0.6	-0.7	-0.9	
Bank financing	0.2	-1.6	2.3	2.4	0.0	0.3	-0.8	-0.7	-1.5	
Central Bank (BEAC)	-0.2	-1.5	2.3	2.4	0.0	0.3	-0.8	-0.7	-1.5	
Deposits	-0.5	-2.6	0.9	1.0	-0.4	0.0	-0.7	-0.6	-0.5	
Advances (net)	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.8	
IMF	0.6	1.1	1.4	1.4	0.4	0.4	-0.1	-0.1	-0.2	
Commercial banks (deposits)	0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other financing (net)	-0.8	0.0	-1.9	-2.0	-0.8	-1.8	0.2	0.0	0.5	
Privatization and other exceptional receipts	1.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Foreign financing	1.6	0.7	0.5	0.2	-0.8	-0.6	-0.9	-0.7	-1.1	
Loans (net)	0.6	0.2	0.0	-0.3	-1.2	-1.1	-1.4	-1.1	-1.5	
Disbursements	3.3	2.2	1.4	1.4	1.2	1.3	1.2	1.2	1.2	
Amortization	-2.7	-2.0	-1.4	-1.7	-2.4	-2.4	-2.6	-2.3	-2.7	
<i>Memo: Glencore loan (after restructuring)</i>	-1.2	-0.8	-0.3	-0.5	-1.2	-1.1	-1.3	-1.1	-1.2	
Debt relief/rescheduling (HIPC)	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	
External arrears ⁸	0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<i>Memorandum items:</i>										
Non-oil GDP	4,830	4,970	5,212	5,166	5,515	5,466	5,900	5,850	6,299	6,249
Poverty-reducing social spending	4.2	3.7	4.6	4.7						
Bank deposits (including BEAC)	2.5	5.1	4.0	4.0	4.1	3.8	4.5	4.1	4.7	4.0
(In months of domestically-financed spending)	2.0	4.5	3.2	3.2	3.4	2.9	3.7	3.1	3.9	3.9
BEAC advances ⁹	9.9	9.7	9.2	9.3	8.7	8.8	8.1	8.2	6.9	5.7

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

¹Net of cash calls and transportation costs linked to the oil public enterprise (SHT) participation in private oil companies.

²Includes subsidies to the electricity company starting from 2020.

³Includes projects financed by the BDEAC, but the corresponding loans (in CFAF) are counted as domestic financing.

⁴Total revenue, less grants and oil revenue, minus total expenditures, less interest payments and foreign financed investment.

⁵Difference between committed and cash expenditure.

⁶Recognized arrears, as registered by the Treasury in the "restes à payer" table.

⁷Other arrears include unrecognized arrears, the total of which will be specified after the audit of arrears, and the clearance in 2018 of CFAF 54 billion of arrears of the then public company Coton Tchad owed to domestic banks.

⁸27 billion in 2016 include arrears to China, cleared through an agreement in April 2017.

⁹All debt to BEAC was consolidated and rescheduled in September 2017 into long term securities.

Table 4. Chad: Balance of Payments, 2017–23

	2017	2018	2019		2020		2021		2022		2023
	Prel.	Prel.	4th Rev.	Proj.	Proj.						
Current account, excl. budget grants	-442	-327	-470	-448	-416	-428	-482	-492	-514	-574	-541
Trade balance	180	585	435	551	569	533	602	620	673	646	767
Exports, f.o.b.	1,436	1,931	1,943	2,101	2,250	2,168	2,371	2,327	2,605	2,551	2,691
<i>Of which: oil</i>	1,048	1,523	1,523	1,686	1,790	1,720	1,887	1,844	2,083	2,021	2,113
Imports, f.o.b.	-1,256	-1,346	-1,507	-1,550	-1,681	-1,635	-1,769	-1,707	-1,933	-1,906	-1,925
Services (net)	-1,037	-1,191	-1,187	-1,286	-1,278	-1,327	-1,360	-1,439	-1,460	-1,543	-1,643
Income (net)	-78	-145	-188	-182	-222	-193	-234	-227	-254	-248	-253
Transfers (net)	493	424	470	469	515	559	511	554	527	572	588
Official (net)	149	108	112	112	160	163	140	141	146	147	153
Private (net)	344	317	358	358	355	396	370	412	381	425	435
Financial and capital account	231	297	470	455	488	506	573	577	550	589	621
Capital transfers	100	49	109	109	117	117	131	131	139	139	156
Foreign direct investment	211	256	397	397	453	453	495	495	537	537	554
Other medium and long term investment	-71	-30	-31	-46	-95	-67	-80	-64	-93	-84	-93
Public sector (excl. budget support loans)	-58	-16	-15	-30	-67	-58	-80	-66	-96	-83	-91
Private sector	-13	-14	-16	-16	-28	-9	0	2	3	-2	-2
Short-term capital	-9	22	-5	-5	13	3	26	14	-33	-3	4
Errors and omissions	0	0	0	0	0	0	0	0	0	0	0
Overall balance	-211	-30	-1	7	72	78	91	85	36	15	80
Financing	-81	-204	-167	-167	-119	-124	-117	-110	-63	-41	-107
Change in official reserves (decrease +)	-81	-204	-167	-167	-119	-124	-117	-110	-63	-41	-107
Exceptional Financing	119	32	27	28	26	26	25	26	26	26	26
Debt relief (HIPC)	30	27	27	28	26	26	25	26	26	26	26
Other Exceptional Receipt	73	9	0	0	0	0	0	0	0	0	0
External arrears accumulation	17	-3	0	0	0	0	0	0	0	0	0
Financing gap	-172	-201	-140	-132	-21	-20	0	1	-2	1	-1
<i>Financing gap (percent of GDP)</i>	-2.9	-3.3	-2.2	-2.1	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Expected financing (excl. IMF; incl. expected budget loans and grants)	145	146	67	59	0	0	0	0	0	0	0
Residual gap/IMF financing, <i>of which</i>	-27	-55	-73	-73	-21	-20	0	1	-2	1	-1
IMF ECF	27	55	73	74	21	21
<i>Memorandum items:</i>											
Current account (incl. expected budget grants; percent of GDP)	-6.6	-3.4	-6.5	-6.2	-5.9	-6.2	-6.4	-6.6	-6.3	-7.1	-6.3
Overall Balance of Payment (incl. expected budget support; percent of GDP)	-1.1	1.9	1.0	1.0	1.0	1.1	1.2	1.1	0.4	0.2	0.9
Exports (percent of GDP)	24.5	31.5	30.1	32.6	32.1	31.5	31.4	31.0	31.8	31.4	31.3
<i>Of which: oil</i>	17.9	24.8	23.6	26.2	25.6	25.0	25.0	24.6	25.5	24.9	24.6
Imports (percent of GDP)	-21.4	-21.9	-23.4	-24.1	-24.0	-23.8	-23.4	-22.7	-23.6	-23.4	-22.4
FDI (percent of GDP)	3.6	4.2	6.2	6.2	6.5	6.6	6.6	6.6	6.6	6.6	6.4
Gross imputed reserves (billions of USD)	-0.2	0.2	0.5	0.4	0.7	0.7	0.9	0.9	1.0	0.9	1.1

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

Table 5. Chad: Monetary Survey, 2017–23
(In billions of CFAF)

	2017	2018	2019	2020				2021	2022	2023
	Prel.	Prel.	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.	Proj.
				Proj.				Proj.	Proj.	Proj.
Net foreign assets	-299.4	-198.5	-90.0	-70.0	-65.0	-45.0	23.5	150.3	214.8	345.9
Central bank	-257.0	-134.0	-40.0	-20.0	-15.0	5.0	63.5	180.3	234.8	365.9
Foreign assets ¹	12.5	92.8	230.0	250.0	265.0	285.0	353.5	465.3	504.8	610.9
Foreign liabilities	-269.6	-226.8	-270.0	-270.0	-280.0	-280.0	-290.0	-285.0	-270.0	-245.0
o/w. IMF financing ¹	-97.3	-183.3	-256.1	-256.1	-277.1	-277.1	-277.1	-270.6	-257.0	-233.3
Commercial banks	-42.3	-64.5	-50.0	-50.0	-50.0	-50.0	-40.0	-30.0	-20.0	-20.0
Net domestic assets	1207.1	1111.0	1103.0	1090.0	1115.0	1115.0	1115.3	1094.5	1123.3	1074.4
Domestic credit	1308.1	1258.6	1323.0	1310.0	1335.0	1335.0	1335.3	1314.5	1343.3	1294.4
Claims on the government (net) ¹	810.9	749.4	811.0	812.0	823.0	803.0	800.0	761.2	770.8	707.6
Treasury (net)	757.2	727.1	781.0	782.0	793.0	773.0	770.0	731.2	700.8	637.6
Banking sector	757.2	727.1	781.0	782.0	793.0	773.0	770.0	731.2	700.8	637.6
Central bank	584.5	542.2	664.3	649.0	660.0	650.0	683.3	644.5	574.1	430.9
Claims on general government	609.5	696.2	769.0	790.0	790.0	790.0	790.0	783.5	721.9	650.2
o/w. Advances ²	479.9	479.9	479.9	479.9	479.9	479.9	479.9	479.9	431.9	383.9
o/w. IMF financing ¹	97.3	183.3	256.1	256.1	277.1	277.1	277.1	270.6	257.0	233.3
Liabilities to general government	-25.0	-154.0	-104.7	-120.0	-130.0	-140.0	-106.7	-139.0	-147.8	-219.3
Commercial banks	172.7	184.9	116.7	133.0	133.0	123.0	86.7	86.7	126.7	206.7
Claims on general government	263.7	298.2	230.0	230.0	230.0	220.0	200.0	200.0	240.0	320.0
Liabilities to general government	-91.0	-113.3	-113.3	-97.0	-97.0	-97.0	-113.3	-113.3	-113.3	-113.3
Other non-treasury	53.7	22.2	30.0	30.0	30.0	30.0	30.0	30.0	70.0	70.0
Credit to the economy	497.1	509.2	512.0	498.0	512.0	532.0	535.3	553.3	572.5	586.8
Other items (net)	-101.0	-147.6	-220.0	-220.0	-220.0	-220.0	-220.0	-220.0	-220.0	-220.0
Money and quasi money	907.7	912.4	1013.0	1020.0	1050.0	1070.0	1138.8	1244.8	1338.1	1420.3
Currency outside banks	406.5	415.2	460.9	464.1	470.2	479.2	518.1	566.4	608.9	646.3
Demand deposits	404.0	396.4	440.1	443.1	467.3	476.2	494.7	540.8	581.3	617.0
Time and savings deposits	97.2	100.9	112.0	112.8	112.5	114.6	125.9	137.6	147.9	157.0
<i>Memorandum items:</i>										
Broad money (annual percentage change)	-4.3	0.5	11.0				12.4	9.3	7.5	6.1
Credit to the economy (annual percentage change)	-3.2	2.4	0.5				4.6	3.4	3.5	2.5
Credit to the economy (percent of GDP)	8.5	8.3	7.9				7.8	7.4	7.0	6.8
Credit to the economy (percent of non-oil GDP)	10.3	10.2	9.9				9.8	9.5	9.2	8.8
Velocity (non-oil GDP)	5.3	5.4	5.1				4.8	4.7	4.7	4.7
Velocity (total GDP)	6.4	6.7	6.4				6.0	6.0	6.1	6.1

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

¹2018 data does not include December 2018 IMF disbursement which showed up in the Treasury account on February 2019.²Include statutory and exceptional advances.**Table 6. Chad: Financial Soundness Indicators, 2011–19**

	2011	2012	2013	2014	2015	2016	2017	2018	2019Q2
Capital Adequacy									
Regulatory capital / Risk-weighted assets	20.0	18.1	22.0	13.4	14.7	13.2	18.0	16.8	16.0
Asset Quality									
Gross credits in arrears/Gross banking loans	7.6	7.4	9.8	11.7	17.0	20.9	25.8	27.6	...
Provisions / Credits in arrears	89.0	64.5	65.3	68.3	56.1	52.4
Net credits in arrears/Gross banking loans	0.8	2.6	3.4	3.7	7.3
Profitability									
Return on Assets (ROA)	2.6	2.2	2.8	2.1	1.6	1.4	0.6	1.6	...
Return on Equity (ROE)	19.2	15.5	21.1	19.4	15.2	14.6	5.3	14.0	...
Liquidity									
Liquid assets / Total assets	29.9	31.8	28.6	30.8	26.0	23.1	27.5	20.2	...
Liquid assets / Short term liabilities	149.3	146.6	139.3	152.9	142.1	155.0	188.9	117.9	118.0

Sources: IMF Financial Soundness Indicators; COBAC.

Table 7. Chad: Quantitative Performance Criteria (QPC) and Indicative Targets (IT)* Under the ECF Arrangement
 (In billions of CFAF, unless otherwise indicated)

	End-Dec 2019 QPC	End-mar 2020 IT
1. Floor on non-oil primary budget balance (NOPB)	-252	-85
2. Floor on customs revenue	130	30
3. Ceiling on net domestic government financing excluding BEAC	-90	-10
4. Ceiling on net government financing from the BEAC	124	50
5. Ceiling on the stock of domestic payment arrears by the government	100	90
6. Ceiling on new external arrears of the government and non-financial public enterprises	0	0
7. Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises	0	0
	IT	IT
8. Floor for poverty-reducing social spending	241	59
<i>Memo item:</i>		
9. Ceiling for the use of emergency spending procedures-DAO (Percent of primary spending)	22	22
10. Floor for regularization of emergency spending procedures-DAO (Percent of total DAO)	80	50
11. External concessional borrowing (US\$ million)	127	0
12. Oil Revenue	359	133
13. Grants	54	35

Sources: Chadian authorities; and IMF Staff.

*The adjustors for the QPCs and IT are defined in paragraph 23 of the TMU.

1. NOPB: Non-oil revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).

2. Customs revenue as given by the Treasury in the Table "Situation des Régies financières".

3. Includes net financing from Treasury bills / bonds and domestic banks direct loans net of amortization, see Technical memorandum of understanding.

4. As given in the PNG.

5. Stock of verified arrears, as given in the Table "Restes à payer".

6. Applies continuously.

7. Applies continuously.

8. Expenditure of Ministries in charge of social sectors, as recommended by the World Bank in the absence of a budgetary functional classification. An adjustor will be defined in case of expenditure cuts, which will ensure an increase of the share of poverty-reducing social spending in the total of primary current expenditure (see TMU for details).

9/10. DAO is defined as all expenditures which do not go through the standard spending procedure. Regularization of DAO consists in recording the expenditure in the correspondent line of the budget. This will be done within 45 days after the end of the quarter.

11. External concessional borrowing (US\$ million)

12. Oil Revenue is the sum of direct receipt and the sale revenue of government oil net of operating and transportation

13. Budget grants.

Table 8. Chad: Structural Benchmarks and Prior Actions for the Program 2019–20

Measures	Due Dates	
Prior actions		
1. Submit a 2020 budget in line with the program to the National Assembly (including a limit on DAO)		Five business days before the Board meeting
2. Based on the conclusion of the audit of BCC and CBT, adopt restructuring and funding plans for CBT and BCC		Five business days before the Board meeting
3. Complete audit of remaining domestic arrears.		Five business days before the Board meeting
Structural Benchmarks		
1. Publication of a quarterly note on the oil sector, in line with the template agreed with the authorities, including detailed information on debt service to Glencore.	Existing	Quarterly, starting end-December 2019
2. Adopt a clearance strategy of domestic arrears based on the audit results	Reset from end-November 2019	End-December 2019
3. Publish a semi-annual note which lists all new exemptions (including renewal and extension of exemptions).	Existing	Semi-annual, starting end-January 2020
4. Complete the implementation of the recommendations of the audit of the 47 exemption agreements with a view to removing or modifying those that do not comply with the legal texts or that have not been correctly executed	Existing	End-February 2020
5. Sign a performance contract with the management of CBT and BCC	New	End-March 2020
6. Allocate by ministerial decree new resources (building and software) to tax directorates in charge of large and medium firms in line with FAD's recommendations.	New	End-April 2020

Table 9. Chad: Schedule of Disbursement Under the ECF Arrangement

Amount (Percent of Quota)	Amount (Million SDR)	Available Date	Conditions for Disbursement
25.0	35.05	Date of Board Approval	Executive Board approval of the three year ECF arrangement
25.0	35.05	August 15, 2017	Observance of the performance criteria for June 30, 2017 and completion of the first review under the arrangement
25.0	35.05	April 15, 2018	Observance of the performance criteria for December 31, 2017 and completion of the second review under the arrangement
25.0	35.05	October 15, 2018	Observance of the performance criteria for June 30, 2018 and completion of the third review under the arrangement
20.0	28.04	April 15, 2019	Observance of the performance criteria for December 31, 2018 and completion of the fourth review under the arrangement
20.0	28.04	October 15, 2019	Observance of the performance criteria for June 30, 2019 and completion of the fifth review under the arrangement
20.0	28.04	April 15, 2020	Observance of the performance criteria for December 31, 2019 and completion of the sixth review under the arrangement
Total	160.0		
Source: IMF Staff estimates and projections.			

Table 10. Chad: Indicators of Capacity to Repay the Fund, 2019–33

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Fund obligations based on existing credit															
(SDR millions)															
Principal	0.0	2.0	8.1	17.0	29.7	47.7	57.1	53.8	44.9	34.4	16.8	2.8	0.0	0.0	0.0
Charges and interest	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Fund obligations based on existing and prospective credit (SDR millions)															
Principal	0.0	2.0	8.1	17.0	29.7	47.7	57.1	53.8	44.9	34.4	16.8	2.8	0.0	0.0	0.0
Charges and interest	0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Total obligations based on existing and prospective credit															
SDR millions	0.1	2.4	8.6	17.4	30.1	48.1	57.5	54.2	45.3	34.8	17.3	3.2	0.4	0.5	0.5
CFAF billions	0.1	2.0	6.9	14.0	24.1	38.4	45.9	43.2	36.1	27.7	13.8	2.6	0.3	0.4	0.4
Percent of exports of goods and services	0.0	0.1	0.3	0.5	0.8	1.3	1.4	1.3	1.0	0.7	0.3	0.1	0.0	0.0	0.0
Percent of debt service ¹	0.1	1.4	4.7	8.2	13.1	20.6	21.1	17.9	23.5	15.2	14.5	3.0	0.4	0.4	0.4
Percent of GDP	0.0	0.0	0.1	0.2	0.3	0.4	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0
Percent of tax revenue	0.0	0.4	1.3	2.4	3.7	5.3	5.7	4.8	3.6	2.5	1.1	0.2	0.0	0.0	0.0
Percent of quota	0.1	1.7	6.1	12.4	21.5	34.3	41.0	38.6	32.3	24.8	12.3	2.3	0.3	0.3	0.3
Outstanding IMF credit based on existing and prospective drawings															
SDR millions	286.1	312.2	304.1	287.0	257.4	209.7	152.6	98.8	54.0	19.6	2.8	0.0	0.0	0.0	0.0
CFAF billions	231.0	251.7	244.1	229.8	205.8	167.3	121.7	78.9	43.1	15.7	2.2	0.0	0.0	0.0	0.0
Percent of exports of goods and services	10.2	10.7	9.7	8.4	7.1	5.5	3.8	2.3	1.2	0.4	0.1	0.0	0.0	0.0	0.0
Percent of debt service ¹	222.0	177.6	166.8	135.5	112.1	89.7	55.9	32.7	28.0	8.6	2.3	0.0	0.0	0.0	0.0
Percent of GDP	3.6	3.7	3.3	2.8	2.4	1.8	1.2	0.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Percent of tax revenue	54.8	52.7	45.7	39.4	31.7	23.1	15.1	8.8	4.3	1.4	0.2	0.0	0.0	0.0	0.0
Percent of quota	204.1	222.7	216.9	204.7	183.6	149.5	108.8	70.5	38.5	14.0	2.0	0.0	0.0	0.0	0.0
Net use of IMF credit (SDR millions)															
Disbursements	56.1	28.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.0	2.0	8.1	17.0	29.7	47.7	57.1	53.8	44.9	34.4	16.8	2.8	0.0	0.0	0.0
Memorandum items:															
Exports of goods and services (CFAF billions)	2,272	2,345	2,512	2,743	2,890	3,029	3,199	3,380	3,560	3,753	3,957	4,063	4,061	4,069	4,057
External Debt service (CFAF billions) ¹	104	142	146	170	184	187	218	242	154	183	95	85	86	92	99
Nominal GDP (CFAF billions)	6,443	6,880	7,502	8,131	8,602	9,178	9,798	10,494	11,202	11,959	12,769	13,484	14,225	15,035	15,853
Tax revenue (CFAF billions)	421	477	534	583	650	724	807	897	994	1,092	1,198	1,314	1,428	1,552	1,687
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

Source: IMF staff estimates and projections.

¹Total external debt service includes IMF repurchases and repayments.

Appendix I. Letter of Intent

N'Djamena, November 26, 2019

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC, USA

Dear Madame Georgieva,

We continue to make progress on a comprehensive economic and financial reform program, supported by an arrangement under the Extended Credit Facility (ECF) approved by the IMF Executive Board on June 30, 2017. We are grateful to the IMF for its continued support.

Despite a still-difficult socio-economic situation and security challenges, our economy continues its recovering trend, albeit at a still-slow pace. Our economic reform strategy remains focused on stabilizing the economy and supporting the resumption of growth, especially in the non-oil sector. The gradual improvement in the fiscal position owing to strengthened non-oil revenue mobilization and greater oil revenue transparency, as well as improved public financial management will create fiscal space for higher investment and social spending, the clearance of domestic arrears, and the repayment of domestic debt. This should help reinforce financial sector stability and boost the non-oil economy, while supporting current improvements in debt dynamics.

Our actions ensured that all end-June quantitative performance criteria (PCs) and the indicative target (IT) on social spending were all met. All ITs for end-September were also met with the exception of the one on social spending, which was missed by a small margin. We remain strongly committed to implementing the structural reforms program, notwithstanding the recorded delays. Of the five structural benchmarks (SBs) for the period through end-September, two were met, and three were not met (one was implemented with delay). Finally, as a result of the delay in completing the audit of domestic arrears, we are requesting to reset the end-November SB regarding the strategy for clearing these arrears to end-December 2019.

We will continue to implement policies that are consistent with maintaining regional external stability. To this end, we will continue to support the efforts of the BEAC and COBAC to improve compliance with the new foreign exchange regulations, which requires notably the repatriation of export proceeds, including oil revenues.

Based on satisfactory implementation of the program, the government requests that the Executive Board of the IMF approves the completion of the fifth review under the ECF-supported program.

We are confident that the policies set out in the attached Memorandum of Economic and Financial

Policies (MEFP) will enable us to achieve the program objectives. We stand ready to take any measure that may prove necessary. We will consult with IMF staff on the adoption of any additional measures in advance of revisions to the policies contained in the MEFP, in accordance with Fund policies on such consultations. To facilitate program monitoring and assessment, the government undertakes to provide all necessary information to IMF staff on a regular basis and in a timely manner, pursuant to the attached Technical Memorandum of Understanding (TMU).

In closing, in keeping with our longstanding commitment to transparency, the government agrees to the publication of the staff report for the fifth review, this letter of intent, as well as the attached MEFP and TMU, on the IMF website.

Very truly yours,

/s/

Tahir Hamid Nguilin
Minister of Finance and Budget

Attachments:

- I. Memorandum of Economic and Financial Policies (MEFP)
- II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

November 2019

- 1.** **This memorandum is an update and supplement to that of June 2019.** It lays out the specific elements of the government's reform strategy under the ECF arrangement. It describes recent economic developments, the government's efforts to implement policies agreed to under the existing program supported by the current arrangement, macroeconomic prospects and the government's policy and reform agenda, particularly for the rest of 2019 and for 2020.

- 2.** **We remain committed to pursuing ambitious reforms of the Chadian economy, notably related to fiscal adjustment and the financial sector.** We will undertake all necessary actions to continue our fiscal consolidation efforts with the aim of reducing public debt to a sustainable level. We will double our efforts to address weaknesses in the banking sector. Finally, we will persevere with structural reforms, notably in information technology (IT) and governance.

RECENT DEVELOPMENTS, OUTLOOKS, AND RISKS

A. Recent Developments

- 3.** **Economic activity has shown signs of a modest recovery since 2018, although at a slower pace than initially anticipated.** After a sharp decline in 2017 due to technical problems in the oil sector, oil production rebounded in 2018 and is expected to expand by 3 percent in 2019. Non-oil economic growth turned positive in 2018, with growth estimated at 0.5 percent. It is projected to grow 2 percent in 2019 - driven by public investment, the clearance of domestic arrears and the recovery of the cotton sector. Reflecting subdued food and transportation prices, average inflation decelerated in 2019 with end-year projected at 1 percent, down from 4 percent in 2018.

- 4.** **Fiscal developments in the first nine months of 2019 have been encouraging.** Non-oil revenue mobilization has been in-line with the budget. Performance of non-oil tax revenue was satisfactory. Despite stronger production than expected, oil revenue was slightly below program projections. Overall, fiscal expenditures were broadly consistent with the budget with two notable exceptions. Social spending fell short of projections in the third quarter. The wage bill, initially budgeted, slightly exceeded projections due to higher security spending, reflecting the restitution of salary to the military.

- 5.** **Net government domestic financing has been broadly in line with program targets.** Net domestic financing from banks was broadly in line with projections, with an average roll-over rate of roughly 87 percent versus the program target of 85 percent for the year as a whole. Government deposits at the BEAC decreased by CFAF 112 billion during the first nine months of the year, in line with projections. The government made additional progress in clearing domestic arrears identified at the Treasury (RAP). During the first nine months of 2019, the stock of domestic arrears was further reduced by CFAF 41 billion.

6. The government made progress in clearing arrears to external creditors and has continued to pay external debt obligations in a timely manner. Obligations are being paid in line with the May 2018 agreement-in-principle with the Libyan Foreign Bank. In mid-July, an agreement was signed with Angola on the repayment of the February 2017 debt. Discussions are underway to address outstanding arrears with Libya, Equatorial Guinea, the Republic of Congo and Mega Bank (an external commercial bank). The government remains confident that measures, including the allocation of funds for external debt payment in an escrow account and monthly meetings of external debt service stakeholders (including the IMF resident representative as an observer), will ensure the nonrecurrence of external arrears.

7. Banking sector activity increased and liquidity and portfolio quality improved, but vulnerabilities persist. Compared to end-2018, bank activity picked up with deposits increasing by 25.7 percent and credit by 4.6 percent through end-August 2019. Nonperforming loans to total loans, while still high, dropped to 27 percent at end-August from 31.4 percent at end-December 2018. Banking sector liquidity continued to improve and BEAC refinancing declined from CFAF 160.0 billion in December 2018 to CFAF 93.7 billion in August 2019.

8. The security situation remains difficult. Boko Haram has continued to launch deadly attacks on the Lake Chad region, both on villagers and military forces. In response, regional forces, including that of Chad, have remained engaged in a strong campaign against the group. The conflict has sent more regional refugees to Chad and aggravated humanitarian needs. In August, to stem insecurity and the circulation of illegal arms and criminals, a state of emergency was declared in three provinces and the borders with Libya, Sudan and Central African Republic were placed under heavy military guard. Security concerns have continued to necessitate an increase in security spending.

9. Social tensions have moderated. The social situation improved thanks to the implementation of the October 2018 agreement with public sector trade unions. Parliamentary elections, which had been announced for 2019, will take place in early 2020.

B. Program Implementation

10. We continue to be determined to implement our program. All performance criteria (PC) and the indicative target for end-June 2019 were met.

- The ceiling on the non-oil primary balance (NOPB) was met as the deficit stood at CFAF 122 billion compared to the quantitative performance criterion of CFAF 125 billion. This result was achieved primarily because of the government's efforts to mobilize government revenue.
- The floor on customs revenue was exceeded (CFAF 72 billion versus a target of CFAF 50 billion). Despite still weak economic activity and imports, the government strengthened its customs collection efforts.

- The criterion on net domestic government financing from the BEAC was met with a large margin. This reflects mainly higher government revenue mobilization.
- The criterion on net domestic government financing excluding the BEAC was met, primarily as the roll-over of T-bills and T-bonds was broadly in line with the program objective of 85 percent.
- The performance criterion on the stock of domestic payment arrears was met. The stock of domestic arrears was reduced to CFAF 130 billion against a target of CFAF 140 billion.
- The continuous zero ceiling on new external arrears of the government and non-financial public enterprises has been met since the third ECF review.
- The zero ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises was met as the government continues to resist pressures to access non-concessional financing.
- The indicative target on poverty-reducing social spending was reached for the first time, after being missed during all previous reviews.

11. While the use of emergency spending procedures (“dépenses avant ordonnancement”, or DAO) was under control, in line with the budget implementation decree of January 2019, the regularization of DAO was low at 20 percent at end-June compared to a target of 70 percent. The authorities are committed to accelerate the regularization speed to meet the end-year target.

12. Performance at end-September 2019 remained broadly in line with the program. The non-oil primary deficit remained below the program ceiling. Custom revenue was met as the government sustained efforts to improve custom administration and limit fraud. The indicative target (IT) on net domestic financing from the BEAC was met as the draw down on government deposits was lower than anticipated. The IT on net domestic financing from banks was also met as the roll-over of securities remained consistent with program objectives. The IT on the stock of domestic payment arrears was met as domestic arrears were reduced by roughly CFAF 41 billion in the first nine months against a program target of CFAF 40 billion. Although the IT on poverty-reducing social spending was missed—CFAF 168 million against CFAF 177 million—the government is committed to increase social spending in the fourth quarter and the committee put in place in June 2019 to monitor social spending will ensure the end-December 2019 target is met. The use of DAO was under control (16 percent), while regularization remained weak despite some improvement in the third quarter.

13. Despite delays, we remain committed to the implementation of the structural reform agenda. Of the five structural benchmarks for the period through end-September, only two were met; and of the rest, one was implemented with delay.

- (i) The structural benchmark on the publication of the oil sector note was met, as the government continues to publish quarterly notes on the oil sector, in line with the template agreed with IMF staff.
- (ii) The publication (measure expected by end-July) of the first semi-annual note which lists all new exemptions (including renewal and extension of exemptions) was met.
- (iii) The creation and publication of the VAT taxpayer list, its integration in the computerized system of the customs department, and the application of a customs penalty rate of 15 percent was met in early October.
- (iv) The restructuring plan was pending adoption by the board of directors of BCC before the end-September target date; its funding plan is under preparation. Restructuring and funding plans have not yet been adopted by the board of directors of CBT.
- (v) The audit of remaining domestic arrears (measure expected for end-September) will be completed at end-November (prior action).

14. We have made good progress on other structural benchmarks. The government has requested technical assistance from a merchant bank to develop an arrears clearance strategy, expected to be adopted by end-December, delayed by a month due to the additional time needed to complete the 'arrears' audit. Furthermore, decree 1607 of September 30th set up a technical committee responsible for tax exemptions, which should help meet the end-February 2020 structural benchmark: "To complete the implementation of the recommendations of the audit of the 47 exemption agreements with a view to removing or modifying those that do not comply with the legal texts or that have not been correctly executed."

15. The BEAC and COBAC have pursued the implementation of their policy commitments. The BEAC continues to implement the remaining recommendations of the 2017 safeguards assessment. BEAC's full transition to IFRS for FY 2019 is progressing broadly as planned, and efforts are being stepped up to accelerate the revisions to the secondary legal instruments for alignment with the BEAC Charter.

ECONOMIC AND FINANCIAL POLICIES FOR THE REMAINDER OF THE PROGRAM

C. Outlook and Risks

16. The medium-term outlook is favorable. Non-oil growth is projected to increase to 4 percent. Oil production is expected to increase as a result of new technologies. Inflation will remain around 3 percent. The fiscal deficit is expected to gradually narrow and help improve the debt position. These positive prospects are dependent on the realization of planned investments, particularly in the oil sector, the maintenance of social peace, as well as security and climate shocks.

D. Fiscal Policy in 2019 and 2020

17. For 2019, we remain committed to a NOPB target of 4.9 percent of non-oil GDP. Policies in the fourth quarter will essentially be geared at mobilizing non-oil revenue and containing spending. On the revenue side, the government will put greater emphasis on strengthening non-oil revenue collection, particularly in the customs and tax area, and reducing smuggling. The new VAT measures are expected to have a positive impact on revenues starting the last quarter of 2019. With regard to expenditure, the wage bill is expected to reach CFAF 357 billion against a budgeted amount of CFAF 350 billion due to security spending (restitution of basic salary to the military) which was partially offset by saving from the rationalization of the payroll, including the removal of ghost workers and undue benefits and the audit of diplomas and lower interest payments, and postponement of some investment projects. In addition, goods and services will be cut to offset the increase in the wage bill. The government is committed to allocate adequate resources to social sectors to meet the end of year target and to limit the use of DAO and increase its regularization in line with the targets. The NOPB will be adjusted to take into account the unused 2019 budget allocations for the legislative elections. The unused balance will be allocated for 2020. On the financing side, an amount of CFAF 60 billion will be cleared.

18. For 2020, we will target a NOPB of 4.9 percent of non-oil GDP to continue our consolidation efforts and to keep the debt level sustainable. The government commits to submit to the National Assembly a projected 2020 budget in line with the parameters of the IMF program (prior action). Oil revenues are expected to significantly increase as the largest oil producer has started to pay corporate tax revenue in 2019, which should increase over the medium-term with the continued pick up in oil production and prices. Strengthening non-oil revenue mobilization remains a major element of the government program. We will aim to increase non-oil tax revenue from 8.2 percent of non-oil GDP in 2019 to 8.7 percent of non-oil GDP in 2020 by implementing the following measures: (i) a better monitoring of VAT taxpayers and the application of a 15 percent penalty on nonregistered importers; (ii) the reduction of tax exemptions; (iii) greater "bancarisation" of revenue mobilization;; (iv) improving the collection of income tax, by widening its base; and (v) allocating new resources (building and software) to tax directorates in charge of large and medium taxpayers.

19. We will maintain control of the wage bill by improving payroll management. The Government intends to keep the wage bill at a sustainable level to meet the country's large development and social spending needs. The 2019 wage bill mandated the recruitment of civil servants, including customs agents, teachers, judges, and doctors. This will increase the wage bill to CFAF 368 billion. The government commits to taking corrective measures to control the wage bill should it exceed the budgeted amount.

20. We will exert all our efforts to increase social spending and priority investment. In view of the large spending needs, the budget builds on a stronger prioritization of spending, with particular emphasis placed on ensuring that allocations to the social sectors reach at least 34 percent of total primary spending (excluding transfers to the electricity company), and that investment increases by 10 percent relative to the expected outcome in 2019 in line with the National Development Plan (PND).

21. For the 2020 budget, domestic bank financing will be based on reduced rolling over of maturing treasury bills and bonds. The government intends to help improve the liquidity situation of local banks, in support of the restructuring and financing plans for the two public banks. The roll-over rate will be capped at 85 percent on average for the year, or a net repayment of at least 15 percent of maturing treasuries. Additional resources will also be used to further reduce domestic debt consistent with the program. In view of the improved government repayment record, the government will negotiate with banks an increase of treasury maturities to reduce the cost of domestic financing. The government plans to participate in the recapitalization of the two public banks under their restructuring and financing plans, including with CFAF 3 billion allocated to CBT through the issuance of Treasury bills and bonds.

22. Domestic arrears clearance remains a high priority under our program. The government firmly believes that the payment of audited arrears is key to the recovery of the non-oil sector. The payment of domestic arrears planned for 2020 and the medium term will be in line with the forthcoming arrears' clearance strategy, based on the independent audit to be completed shortly, including the finalization of the second stage initiated in early July 2019 (prior action). More domestic arrears payments than programmed will be possible if additional resources allow to do so.

23. The government is committed to refrain from contracting or guaranteeing new non-concessional external loans. To avoid the heavy burden of non-concessional external borrowing, the government will continue to ensure that all external financing agreements, both for project and budget support, are concessional (have at least 35 percent grant element, see TMU) and are consistent with debt sustainability. All draft loan agreements will continue to be submitted for prior approval to the National Commission for Debt Analysis (CONAD), which is supported by the technical and financial analysis of the Technical Team for Debt Sustainability Analysis (ETAVID). In this context, the government will continue efforts to strengthen debt management with donor assistance and will initiate a review of the IMF and World Bank debt sustainability analysis.

E. Regional Context

24. The BEAC has provided an updated policy assurance on end-December 2019 and end-June 2020 NFAs in support of CEMAC countries' Fund-supported programs. In its updated letter of policy support, the BEAC presented a revised NFA projection reflecting in part the strong performance through mid-2019. BEAC also reiterated its commitment to implement an adequately tight monetary policy, together with member states implementing fiscal adjustment agreed in the context of IMF-supported programs, to achieve the NFA projections. The regional assurances on regional NFAs are critical for the success of Chad's program and will help bolster the region's external sustainability.

F. Tax and Customs Reforms and Policies

25. We will continue to improve the base and structure of oil and non-oil tax revenues.

- **Tax and customs exemptions.** The government is determined not to automatically renew expiring exemptions on existing activities nor to extend existing exemptions particularly in the oil sector (including oil refining), but also in construction and hospitality industries. This will ensure a reliable source of income for the government. In addition, the government is committed to assess systematically the fiscal impact of all new requests for exemptions through a technical commission set up to that effect. The government will publish on a semiannual basis a list of all new exemptions (including renewal and extension of exemptions) on the Ministry of Finance website (existing structural benchmark) and will aim to start publishing its analysis of the fiscal impact of these exemptions in early 2020. The government continues to follow up on the recommendations of the audit of 47 tax conventions. It will complete the implementation of the recommendations made by the auditors by end-February 2020 to remove or amend exemptions not in line with legal texts or that have not been implemented correctly (existing structural benchmark). In early October, tax payers benefitting from tax exemptions were given up to end-December 2019 to confirm with the technical committee on tax exemptions that they are in line with requirements under the 2019 budget law.
- **Non-oil revenues.** The government understands that revenue from the VAT, which stands at about 1 percent of non-oil GDP are critical to the improvement of revenue mobilization. The time-bound plan to strengthen the VAT regime adopted in December 2018 includes among others measures to set-up a VAT refund mechanism and reduce VAT exemptions. The government has published the list of companies allowed to withhold VAT, a measure that is expected to make VAT collection transparent and increase revenues. Measures implemented in January 2018 requiring taxes to be paid through the banking system ("*bancarisation des recettes*") have demonstrated promise in reducing leakages. The government is committed to allocate 5% of VAT revenue to the dedicated account with the BEAC for VAT refunds.

26. We will also take administrative measures to improve tax and customs collection performance.

- **Customs revenues.** We aim to increase efficiency and improve compliance through greater computerization of customs operations. The expected migration to new software (ASYCUDA World) will improve customs procedures and in particular will (i) allow more accurate application of duties; (ii) shrink the abuse of customs exemptions; (iii) strengthen integration of customs and taxation departments to improve VAT collection; (iv) facilitate the interconnections with the custom offices in Cameroon, Niger and Sudan; and (v) set the stage for transition to a single window system.
- **Non-oil taxes.** We also plan to re-organize key elements of the tax directorate drawing on IMF TA recommendations to strengthen tax and customs administrations. In addition, the Directorate in charge of land and property tax has begun a new survey of potentially taxable properties, starting in N'Djamena, which will improve the ability to apply the taxes effectively. To support reforms in the tax administration, new resources (building and software) will be allocated to tax directorates in charge of large and medium firms, in line with the recommendation of the July IMF technical assistance report on tax administration (structural benchmark, April 2020). Tax and customs reforms will benefit from the assistance of the recently posted IMF resident advisor for revenue administration.

G. Structural Reforms on Public Financial Management

27. The government reaffirms that achieving the objectives of its economic program depends on sound and transparent public financial management (PFM). The government emphasizes the recent progress made in terms of budget execution, monitoring, and reporting, as well as the integration of CEMAC directives within the Chadian legislation. The government intends to continue the strong collaboration with its development partners to further improve PFM under the new PFM reform strategy developed in May 2019 with the assistance of the IMF and the World Bank. The government looks for further TA missions and long-term resident experts within the Ministry of Finance and Budget. The government will seek to establish a policy dialogue framework with donors providing budget support, to harmonize conditionality for the release of budget support and improve the effectiveness of technical assistance.

28. We renew our determination to improve the expenditure chain.

- The government is committed to reducing the use of emergency spending procedures DAO, which intensified in the past two years. The government will also regularize DAO as soon as possible after they occur to limit the risks of over-spending and the accumulation of arrears. For 2020, the limit on the DAO rate will be reduced to 20 percent.
- More broadly, the expenditure chain should be better applied under a secure information system. The four phases of the expenditure chain (commitment, validation, authorization of payment order, and cash payment) are now implemented and monitored through the computerized system (CID). The CID has, however, shown weaknesses, while the payroll information system (SIGASPE) and the manual treatment of information at the Treasury, entail great risks. Moreover, accounting statements continue to be issued with delays, which hinders proper expenditure monitoring. The Ministry of Finance and Budget has therefore decided to

revamp the information system by acquiring and implementing the integrated financial management system (IFMS) used in Rwanda. The IFMS aims at achieving effective, accountable and transparent Public Finance Management, through an integrated computerization of government-wide financial transactions by various entities. The system will be operational in 2020 with the help of Rwandan experts. Under this framework, the government aims to more consistently implement the expenditure chain with a view to improving effective absorption of budgeted allocations, particularly for social sectors.

29. We will implement the new PFM strategy to modernize the management of public finances. The new strategy takes account of the 2017 PEFA conclusions, CEMAC reforms and recommendations of various TA missions by donors. Following a validation workshop by all concerned government bodies, the strategy will be adopted by the government and monitoring bodies will be established by decree, before it can be implemented starting from 2020. The new strategy should help improve budgeting procedures and strengthen forecasting and coordination between agencies.

30. We will adopt a clearance strategy for the entire stock of verified arrears (Reset structural benchmark, end-December 2019). The strategy will explicitly explain the factors for prioritizing the clearance of arrears. The government is committed to prioritize the payments on the basis of their economic and social impact, and the expected effect on the banking sector. It will establish clear modalities for repayment. It will also include a credible plan to finance the clearance including external and domestic financing consistent with reducing debt vulnerabilities and improving financial stability. A key component of the strategy is public communication and outreach, which will help the strategy succeed in rebuilding confidence of the private sector by reducing key sources of uncertainty regarding the repayment of arrears. The government believes that support from Chad's external development partners will be critical to clear the arrears.

31. We continue to work towards a more efficient cash management system to avoid the emergence of new arrears. The Cash Plan Committee is in charge of cash flow forecasts and management, monitoring the current Treasury account at the BEAC, and centralizing public accounting operations, cash flow and public debt. A cash management plan, including monthly forecasts of revenue and main expenditure (notably the wage bill, and domestic and external debt service) has been developed. Moving forward, efforts would focus on refining the monthly cash flow plan—which would be included within the budget (in line with the CEMAC Directive) and updated on a semi-annual basis—and on strengthening the responsiveness of the Committee to update revenue and expenditure forecasts. Steps will also be taken to establish a single treasury account (TSA), starting with a census of all accounts in commercial banks that could be covered by the TSA.

32. Strengthening public debt reporting and monitoring capacity remains an important objective of our reform agenda. The government is aware of the need to update the debt management information technology (IT) system. To further improve public debt management, the government intends to adopt a medium-term debt strategy and strengthen debt monitoring. The Minister of Finance and Budget will issue an order to facilitate the functioning of CONAD and remains committed to providing resources to facilitate execution of CONAD's functions. It will also

seek follow-up TA support to improve debt management, including strengthening debt management institutions and providing adequate human and material resources. Meanwhile, the government will continue to publish the annual public debt management report and will incorporate a section to elaborate on the short- to medium-term debt management strategy and a risk analysis. In addition, with a view to ensure that external debt service is paid on time, the Ministry of Finance and Budget will ensure that payments are in line with the mechanism under the escrow account and all the relevant officials meet on a monthly basis to take stock of previous payments and plan for forthcoming ones.

33. We intend to improve the efficiency of public procurement management. To this end, it plans to strengthen the capacity of the Public Procurement Regulatory Authority. The current procurement code will be revised by May 2020 to remove constraints that have limited absorption, including raising the threshold and simplifying the approval process. The General Directorate of Control of Public Procurement will continue to publish a quarterly bulletin.

34. Starting 2020, we will be reflecting in the budget the transfers to the National Electricity Company (SNE). The state transfer to SNE in terms of supply of diesel and electricity produced by SRN (up to 10 MW) is provided through SHT. In particular, SHT sells up to 4 million barrels of crude oil a year to SRN from the royalties-in-kind of the State at the selling price of \$46.85 / barrel. SRN then provides a portion of the refined product to SNE. In 2018, the state transfer to SNE amounted to CFAF 47 billion, and CFAF 52 billion in 2020.

H. Banking Sector Reforms

35. Despite the registered delays, we are committed to strengthen the financial position of the two large public banks. Efforts to address arrears, along with more payment of debt owed to national banks on due dates, are expected to help ease pressures on the banking sector. Concerning the two large public banks, the government began to implement the needed reforms to address vulnerabilities. Based on the audit reports for CBT and BCC by external consultants completed at end-June, restructuring and funding plans were shared with the BEAC, COBAC and IMF staff. While those plans were adopted by the board of directors of BCC, they were subject to review for CBT at COBAC's request. Updated plans are expected to be adopted by end-November 2019 (prior action). In the 2020 budget, the government will allocate amounts of CFAF 3 billion (CFAF 250 million per month) and CFAF 6 billion (CFAF 500 million per month) to repay outstanding credits for BCC and CBT, respectively. In addition, the government is committed to address all weaknesses identified, in particular improving the governance structure of the two public banks. To ensure the banks implement the restructuring and funding plans approved by their boards of directors, the goals of the restructuring plans will feed into performance-based contracts in consultation with IMF staff which will be signed with the management of CBT and BCC (structural benchmark, March 2020). In the interim, banks will continue to properly classify their loans and provision adequately in line with existing banking regulations. They will also work to improve their liquidity positions.

36. We believe that financial inclusion is an important multipronged initiative. The government is aware of the importance of access of Chadians to financial services and will

strengthen financial inclusion by encouraging the creation of microfinance institutions, "bancarisation" of state operations, the opening of accounts by greater numbers, and promoting the use of modern payment methods through mobile money. The government is also committed to mitigating inefficiencies of existing initiatives.

I. Improving Governance and Transparency

37. Improving governance is a key element of our strategy to revive the private sector. In this regard, the government is committed to implementing the United Nations Convention against Corruption (UNCAC), which was ratified by the National Assembly in 2017. The government will seek support from the UN to assess the extent to which its present penal code is in line with the convention and seek to strengthen it where necessary to advance the fight against corruption. Notably, the government is committed to identifying areas to improve the effective implementation of the legislation criminalizing acts of corruption in line with the UNCAC. The constitution includes a requirement for the President of the Republic, ministers, along with certain "public figures" and "agents of the state" to declare their assets, but the rate of compliance is very low. This is partly due to the absence of the implementing legislation necessary to define all aspects of the asset declaration. The government is preparing legislation that aims for strong implementation of the asset declaration obligations set forth in the Constitution, but the drafting is facing capacity constraints. Responsibilities of anti-corruption bodies (IGF, IGE and the Chamber of Accounts) will be clearly delineated, adequate resources will be provided to anti-corruption activity, and anti-corruption staff will be selected under a merit-based system and will need to meet stringent ethics standards or face stiff penalties. The government is committed to supporting the activities of the National Agency for Financial Investigation (ANIF), including by augmenting its human resources.

38. We are committed to continue its effort to improve transparency and oversight of the oil sector. In early May, the EITI completed Chad's assessment under the 2016 standards. The EITI board's recommendations will be implemented. The government has made significant progress in disclosing contracts and licenses in the petroleum sector with support from the World Bank. It has published certified and verified annual financial reports for 2017-2018 for the SHT (*Société des Hydrocarbures du Tchad*) holding and its subsidiaries.

39. Improving the business environment is of critical importance to revive private sector activity. The government recognizes that a stable regulatory environment, even-handed and consistent rule of law and efficient government services provide the backbone of Chad's business environment. A regional business climate conference hosted by the government and the World Bank expected at the end of November 2019 will help develop successful ideas for improving the business climate.

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

CHAD

of Finance and Budget. The Committee is in constant communication with IMF staff in Washington and its Resident Representative in Chad.

41. The program will be monitored through bi-annual reviews by the IMF Executive Board on the basis of performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2 attached). The indicators are outlined in the attached Technical Memorandum of Understanding (TMU). The sixth review will be completed on or after April 15, 2020. 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. Chad: Quantitative Performance Criteria (QPC) and Indicative Targets (IT)* Under the ECF Arrangement
 (In billions of CFAF, unless otherwise indicated)

	End-Dec 2019 QPC	End-mar 2020 IT
	IT	IT
1. Floor on non-oil primary budget balance (NOPB)	-252	-85
2. Floor on customs revenue	130	30
3. Ceiling on net domestic government financing excluding BEAC	-90	-10
4. Ceiling on net government financing from the BEAC	124	50
5. Ceiling on the stock of domestic payment arrears by the government	100	90
6. Ceiling on new external arrears of the government and non-financial public enterprises	0	0
7. Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises	0	0
8. Floor for poverty-reducing social spending	241	59
<i>Memo item:</i>		
9. Ceiling for the use of emergency spending procedures-DAO (Percent of primary spending)	22	22
10. Floor for regularization of emergency spending procedures-DAO (Percent of total DAO)	80	50
11. External concessional borrowing (US\$ million)	127	0
12. Oil Revenue	359	133
13. Grants	54	35

Sources: Chadian authorities; and IMF Staff.

*The adjustors for the QPCs and IT are defined in paragraph 23 of the TMU.

1. NOPB: Non-oil revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).

2. Customs revenue as given by the Treasury in the Table "Situation des Régies financières".

3. Includes net financing from Treasury bills / bonds and domestic banks direct loans net of amortization, see Technical memorandum of understanding.

4. As given in the PNG.

5. Stock of verified arrears, as given in the Table "Restes à payer".

6. Applies continuously.

7. Applies continuously.

8. Expenditure of Ministries in charge of social sectors, as recommended by the World Bank in the absence of a budgetary functional classification. An adjustor will be defined in case of expenditure cuts, which will ensure an increase of the share of poverty-reducing social spending in the total of primary current expenditure (see TMU for details).

9/10. DAO is defined as all expenditures which do not go through the standard spending procedure. Regularization of DAO consists in recording the expenditure in the correspondent line of the budget. This will be done within 45 days after the end of the quarter.

11. External concessional borrowing (US\$ million)

12. Oil Revenue is the sum of direct receipt and the sale revenue of government oil net of operating and transportation

13. Budget grants.

Table 2. Chad: Prior Actions and Structural Benchmarks for the Program, 2019–20

Measures	Due Dates	
Prior actions		
1. Submit a 2020 budget in line with the program to the National Assembly (including a limit on DAO)	Five business days before the Board meeting	
2. Based on the conclusion of the audit of BCC and CBT, adopt restructuring and funding plans for CBT and BCC	Five business days before the Board meeting	
3. Complete audit of remaining domestic arrears.	Five business days before the Board meeting	
Structural Benchmarks		
1. Publication of a quarterly note on the oil sector, in line with the template agreed with the authorities, including detailed information on debt service to Glencore.	Existing Reset from end-November 2019	Quarterly, starting end-December 2019
2. Adopt a clearance strategy of domestic arrears based on the audit results	Existing	End-December 2019
3. Publish a semi-annual note which lists all new exemptions (including renewal and extension of exemptions).	Existing	Semi-annual, starting end-January 2020
4. Complete the implementation of the recommendations of the audit of the 47 exemption agreements with a view to removing or modifying those that do not comply with the legal texts or that have not been correctly executed	Existing	End-February 2020
5. Sign a performance contract with the management of CBT and BCC	New	End-March 2020
6. Allocate by ministerial decree new resources (building and software) to tax directorates in charge of large and medium firms in line with FAD's recommendations.	New	End-April 2020

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) of November 26, 2019. It describes the information requirements to monitor performance under the ECF arrangement. The authorities will consult with the IMF before modifying measures contained in this TMU or adopting new measures that would deviate from the goals of the program. It describes more specifically:

- a) reporting procedures;
- b) definitions and computation methods;
- c) quantitative performance criteria;
- d) indicative targets;
- e) adjusters to the quantitative performance criteria and indicative targets; and
- f) structural benchmarks

A. Reporting Procedures to the IMF

2. Data on all the variables subject to quantitative performance criteria (QPC) and indicative targets (ITs) and information on the progress towards meeting structural benchmarks will be transmitted regularly to the IMF in accordance with the table shown in Attachment 1 herewith. With respect to continuous QPCs, the authorities will report any non-observance to the IMF promptly. For the purpose of this TMU, **days** refer to calendar days unless otherwise specified. Revisions to data will also be forwarded to the IMF within 14 days after being made. In addition, the authorities will transmit to IMF staff any information or data not defined in this TMU but pertinent for assessing or monitoring performance relative to 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 government as defined in the Government Finance Statistics Manual of 2014 (GFSM 2014), paragraphs 2.85 – 2.89.

4. A public nonfinancial enterprise is a government-controlled corporation¹ whose principal activity is the production of goods or nonfinancial services. For the purpose of the program monitoring, these include: Société Tchadienne des Eaux (STE), Société Nationale d'Electricité

¹ Control of a corporation is defined as the ability to make key financial and operating decisions (see GFSM 2014 paragraph 2.104–2.114).

(SNE), Société des télécommunications du Tchad (SOTEL), Société Tchadienne des Postes et de l'Epargne (STPE), Société des Hydrocarbures du Tchad (SHT), Compagnie Tchadienne de Textiles (COTEX), Société Nationale de Ciment (SONACIM Tchad), CimenTchad, Société Industrielle de Materiels Agricoles et d'Assemblage des Tracteurs (SIMATRAC), Société Tchadienne d'Hydraulique (STH), Fonds d'Entretien Routier (FER).

5. **Oil revenue** is defined as the sum of (i) the gross sales revenue of government's crude oils obtained through government's equity participation in oil companies minus all costs incurred due to the equity participation (*cash-call*) and transportation cost associated with the sales of government's crude oils, (ii) royalties, (iii) statistical fees, (iv) profit tax, (v) dividends, (vi) bonuses, (vii) revenues from exploration duties, (viii) surface tax, (ix) access rights to the pipe and (x) any other flows of revenue paid by oil companies (settled *in-kind* and *in-cash*), except indirect duty and taxes. The authorities will notify IMF staff of changes in the oil taxation systems and laws that may impact revenue flows. **Exceptional receipts** paid by oil companies, whose definition is given in Paragraph 7 below, are excluded from oil revenue.

6. **Customs revenue** is defined as the revenue generated from all levies and duties payable on goods of a particular kind because they are entering the country or services because they are delivered by nonresidents to residents (as defined in GFSM 2014, paragraph 5.84). Customs revenue is recorded on a cash basis. For the purpose of the program monitoring, customs revenues are those recorded in the table "*Situation des régies financières*" of the Treasury.

7. **Exceptional receipts** are defined as payments to the government that include:

- Payments from resolution of protracted disputes between foreign companies operating in Chad and the Government in connection with their tax obligations or potential violations to laws and standards or any other legal obligations.
- Payments from the sale or placement or privatization of Government's assets, granting or renewal of licenses.

8. **Total government revenue** is the sum of tax revenue and non-tax revenue (as defined in GFSM 2014, Chapter 5). Oil revenue, as defined in paragraph 5 and custom revenue as defined in paragraph 6, and exceptional receipts as defined in paragraph 7. These items will be shown in the breakdown of total government revenue report.

9. **Total government expenditure** is understood to be the sum of expenditure on wages and salaries of government employees (as provided in the document "*Masse salariale*", see Paragraph 11 for details), 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. Except for capital expenditure, which is defined as

shown in the Government Finance Statistics Manual 1986 (GFSM 1986),² all other spending items are defined as in GFSM 2014 (Chapter 6). Total government expenditure also includes "*dépenses avant ordonnancement*" (DAO) which are not yet regularized (see paragraph 10 for details).

10. *Dépenses avant ordonnancement (DAO)* is defined as all expenditures which do not go through the standard spending procedure. A standard procedure entails a chain which includes the commitment, validation, authorization, and cash payment. There are two categories of DAOs:

- The first category consists of DAOs which are made relative to a credit line in the budget. These DAOs can be regularized (i.e., recorded in the correspondent line of the budget) without difficulties.
- The second category consists of DAOs which are made regardless of the existence of a credit line in the budget. Their regularization requires either an adjustment in the revised budget, i.e., Amended Financial Law (LFR), or a ministerial order to transfer credit allocation within the budget.

11. *Wages and salaries* correspond to the compensation of all government employees, 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. For the purpose of program monitoring, data are computed from the document "Masse salariale", which excludes compensations to staff under certain contracts that are classified as Transfers (see Paragraph 13 for details).

12. *Subsidies* are defined as government current expenditure that are made, via ordinary or in-kind payment, to enterprises, on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import. For the purpose of program monitoring, subsidies refer to those reported in "Tableau de 4 Phases".

13. *Transfers* are defined as government current expenditure to individuals, private nonprofit institutions, nongovernmental foundations, corporations, or government units, including SNE that are not included in other categories of transfers. For the purpose of program monitoring, transfers refer to those reported in "Tableau de 4 Phases".

14. *For the purposes of this TMU:*

- The term "debt" is as defined in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107) but also includes contracted or guaranteed commitments for which values have not been received. For purposes

² Capital Expenditure - expenditure for acquisition of land, intangible assets, government stocks, and nonmilitary, nonfinancial assets, of more than a minimum value and to be used for more than one year in the process of production. Capital expenditure is frequently separated (in some cases along with certain revenue) into a separate section or capital account of the budget or into an entirely separate budget for expenditure, i.e., the capital budget. This separation may sometimes follow different criteria, however.

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.
 - **Domestic debt** is any debt as defined in above, which is denominated in Central African Franc (CFAF).
 - **External debt** is any debt as defined in above, which is denominated in a foreign currency, i.e., a currency other than CFAF.
 - Debt is considered **concessional** if it includes a **grant element** of at least 35 percent³ and **non-concessional** if otherwise. The grant element is defined as the difference between the nominal value of the loan and its present value, expressed as a percentage of the nominal value of the loan. The present value of the debt at the date on which it is contracted is calculated as the

³ 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>.

discounted sum of all future debt service payments at the time of the contracting of the debt⁴. The discount rate used for this purpose is **5 percent per annum**.

15. Domestic payment arrears are defined as the sum of (i) recognized expenditure payment arrears, and (ii) domestic debt payment arrears, which are defined below:

- The outstanding amount in a payment order, to a private or public company, for an expenditure incurred, validated and certified by the financial controller and then created by the "*Direction of Ordonnancement*", is defined as a **float** after the payment authorization is issued by the Treasury. The outstanding amount of a float is classified as a **recognized expenditure payment arrear** 90 days after the issuance of the payment authorization. The recognized expenditure payment arrears so defined do not include domestic debt payment arrear and arrears on wage and salaries. **Unrecognized expenditure payment arrears** are defined as any potential expenditure payment arrears which have not gone through that standard spending procedure. The nature and the amount of those potential arrears will be determined by an audit of domestic arrears (see paragraphs 24 and 25).
- **Domestic debt payment arrears** 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.

16. External debt payment arrears are defined as external debt obligations of the government and public, non-financial enterprises that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). This concept excludes arrears on external financial obligations of the government for which the creditor has accepted in writing to negotiate alternative payment schedules before the relevant payment due and excludes technical arrears that are less than six weeks.

17. The non-oil primary balance (NOPB) is defined as the difference between (i) total government revenue (not including grants, oil revenue and exceptional receipts), and (ii) primary expenditure on a commitment basis, which is defined as the total government expenditure minus interest payments on domestic and external debt, SNE transfers and foreign-financed capital expenditure.

18. Poverty-reducing social spending, according to the latest general structure of Government, comprises public spending by the following ministries: (i) National Education and Civic Promotion, (ii) Public Health, (iii) Women, Early Childhood Protection and National Solidarity, (iv) Production, Irrigation and Agricultural Equipment, (v) Livestock and Animal Production, (vi) Environment Water and Sanitation, and (viii) Professional Training and Small Job Promotion. It

⁴ 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 IMF.

also includes education spending in the benefit of the ministry of health in the amount of 7 CFAF billion.

19. Domestic currency government financing is defined as the issuance of any instrument in CFAF to creditors; loans from BEAC (including support from the IMF), BDEAC, and CEMAC Member States, or any other debt contracted in CFAF. Net domestic currency financing to the government is subdivided into net bank financing, net securitized financing, net government financing from BEAC, and other non-bank financing. Net bank financing is defined as the change in the net government position towards the domestic commercial banks and includes prepaid interest. Net government financing from BEAC is defined as the change in net government position towards the BEAC.⁵ Net securitized financing includes the issuance of securitized government bonds and loans in CFAF to domestic and regional banks net of related amortizations since the end of the previous year.

20. “Program reference rate”, is based on staff’s “average projected rate” for the six-month USD LIBOR over the following 10 years and is identified as 3.22 percent for the duration of the program. The present value of loans with flexible interest rate will be calculated using the program reference rate plus the fixed spread (in basis points) specified in the loan contract. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 basis points) will be added.

C. Quantitative Performance Criteria

21. The quantitative performance criteria and indicative targets listed below are those specified in Table 1 of the MEFP. Continuous Quantitative Performance Criteria (QPC) require that at no point in time it will be non-observed. Should any non-observance occur, the authorities would inform the IMF promptly. Adjusters for the QPCs are specified in Section E below. Unless stated otherwise, all quantitative performance criteria will be assessed cumulatively from the beginning of the calendar year to the applicable test-dates (**the assessment period**) specified in Table 1 of the MEFP. The quantitative performance criteria 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 17 above.
- **A floor on custom revenue.** The custom revenue is defined in paragraph 6 above.
- **A ceiling on the net domestic government financing (excluding BEAC). This is the sum of net bank financing and net securitized financing as defined in para 19.**

⁵ Net claims of the BEAC and domestic commercial banks 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.

- **A ceiling on net government financing from BEAC** (as defined in para 19). The ceiling includes support from the IMF.
- **A ceiling on the stock of domestic recognized expenditure payment arrears.** Domestic recognized expenditure payment arrears are defined in paragraph 15. As of end-December 2018, the stock of recognized expenditure payment arrears was at CFAF 160 billion based on information in the Table "Reste à Payer" (prepared by the Treasury). The ceiling set for end-March 2020 would be adjusted to reflect the end-December 2019 actual stock of arrears when final data is available.
- **A zero ceiling on the accumulation of any new external payment arrears by the government and public non-financial enterprises.** This ceiling applies continuously. Any non-observance to the ceiling will be reported promptly to the IMF with information regarding the date of the non-observance, amount of the missed payment and the creditor involved.
- **A zero ceiling on new non-concessional external debt contracted or guaranteed by the government and non-financial public enterprises, with a maturity of more than one year.** This ceiling applies continuously and does not include IMF financing. Debt is non-concessional if it includes a grant element of less than 35 percent, as described in Paragraph 14. 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 the rescheduling is assessed to improve the overall public debt profile.

D. Indicative Targets and Memo Items

22. The indicative targets and memo items listed below are those specified in Table 1 of the MEFP. Adjusters of them are specified in Section E below. Unless stated otherwise, all indicative targets will be assessed cumulatively from the beginning of the calendar year to the applicable test-dates (**the assessment period**) specified in Table 1 of the MEFP. The indicative targets and details on their assessment are as follows:

- A floor on poverty-reducing social spending equivalent to 34 percent of domestically financed primary spending in 2019 and 2020. Poverty-reducing social spending is defined in paragraph 18.
- A ceiling (22 percent in 2019 and 20 percent in 2020) on the use of emergency spending procedures (DAO) excluding the wage bill, military spending and debt service as a percent of primary spending excluding the wage bill and military spending (memo item). Military spending is spending by the Ministry of Defense.
- A floor on the regularization of spending executed through DAO (memo item). Regularization of DAO (as defined in paragraph 10) will be done within 45 days after the end of the quarter and as follows: 70 percent after the second quarter, 75 percent after the third quarter, and 80 percent after the fourth quarter.

E. Adjustors to Performance Criteria and Indicative Targets

23. To take into account factors or changes beyond the government's control, the following quantitative performance criteria during the assessment period will be adjusted as follows:

- If the total budgetary receipts and loans are **lower** than the programmed amount, because of lower oil revenue or budget support, then the ceiling on the stock of domestic payment arrears can be adjusted **upward** up to the planned arrears repayment amount. An increase in net domestic financing (either net domestic government financing excluding BEAC or net government financing from BEAC) could be envisaged up to 25 percent of the shortfall not compensated for through reduction in arrears payment.
- Twenty percent of total surplus oil revenue—as defined in the Oil Price and Production Smoothing Law—will be deposited at the end of the year in the Special Account of the Treasury for Oil Price and Production Smoothing, up to CFAF 10 billion.
- If the total budgetary receipts and loans are larger than the programmed amount, because of higher oil revenue, additional budget support excluding grants to finance the parliamentary elections, or exceptional receipt, the amounts—excluding amounts placed in the Special Account of the Treasury for Oil Price and Production Smoothing—must be used through adjustment of a combination of the following elements:
 - the floor for the non-oil primary balance can be adjusted down by up to 25 percent of the excess amount;
 - the ceiling on net financing from the BEAC can be adjusted down by 25 percent of the excess amount; and
 - the ceiling on the stock of domestic recognized expenditure payment arrears can be adjusted down by 50 percent of the excess amount.
- The non-oil primary balance can be adjusted downward by the same amount of budget grants provided to finance the parliamentary elections. Accordingly, the non-oil primary balance will be adjusted downward by any amount budgeted for elections in 2019 that remains unspent in 2019. For the purpose of the TMU, baseline oil revenue, budget support and exceptional receipts are shown in the text table below.
- Should primary expenditure compression be needed, poverty-reducing social spending would be adjusted to the extent that it is reduced proportionally less than other domestically financed primary spending such that its ratio does not decline below 34 percent.

**Table 1. Baseline Projections of Selected Variables
(Cumulative on annual basis)**

	2019	2020
	End-Dec.	End-Mar.
(in CFAF Billion)		
Net Oil Revenue ¹	359	133
Budget Grants	50	35
Budget Loans	13	0
Exceptional Receipt	0	0
Total	422	168

¹ Net Oil Revenue is the sum of (i) the sale revenue of government oil net of operating and transportation cost and (ii) oil tax revenues.

F. Structural Benchmarks

24. Prior Actions are specified in Table 2 of the MEFP

- Submit the 2020 budget to the National Assembly for approval in line with the program parameter.
- Based on the conclusion of the audit of BCC and CBT, adopt restructuring and funding plans for CBT and BCC in coordination with the BEAC, COBAC and IMF staff.
- Complete audit of remaining domestic arrears. Coverage of the audit should include at least i) all remaining “Grand Travaux Presidentiels” and ii) all potential arrears not yet reviewed from the Infrastructure ministry.

25. Structural benchmarks are specified in Table 2 of the MEFP. Outstanding SBs are governed by the previous TMU.

- Publication of a quarterly note on the oil sector, in line with the template agreed with the IMF staff, including detailed information on debt service to Glencore, quarterly, starting end-December 2019 (Table 2). The note issued at end-December will cover developments up to the end of the previous quarter (June 2019).
 - i. The note will comment on the recent development in the oil sector, including information related to production, export, and new exploration over the previous quarter, and expectation and forecast for the next 6 months.
 - ii. The note will also provide a detailed account of the flow of oil revenue. Oil revenue will be reported by categories and the corresponding types of payments, in-cash (payment made in cash by oil companies) and in-kind (payment made in crude oil by oil companies). Other information will include information on the sale of government-owned crude oils, such as gross sales revenue, volume sold, transaction prices, operating costs (“Cash-call”) to oil

companies, transportation cost, interest payments, principal repayment, other related fees paid to service the Glencore loan and the final amount of sales revenue accrued to the Treasury.

- In consultation with IMF staff, adopt a clearance strategy of domestic arrears based on the completed results of both audits by end-December 2019.
 - The clearance strategy should include transparent and objective factors for prioritization, including economic and social impact, and the effect payment is expected to have on the banking sector. It should address clearance modalities, notably whether and how much the government will pay in cash, restructure and securitize.
 - The strategy should also indicate the plan to finance clearance.
- Complete the implementation of the recommendations of the audit of the 47 exemption conventions with a view to removing or modifying those that do not comply with the legal texts or that have not been correctly executed, by end-February 2020.
- Publication every six months of a list of all new, renewed or extended tax and customs exemptions during the previous six months. The first list should be published at end-January and should cover the period July to December 2019.
- Sign performance contracts with the management of CBT and BCC, by end March 2020.
- Allocate new resources (building and software) to tax directorates in charge of large and medium firms in line with FAD's recommendations, by end April 2020.

Table 2. Chad: Summary of Data to be Reported		
Data	Provider	Periodicity and Target Date¹
Oil and Non-oil revenue, by category <i>Collection situation</i> <i>Revenue position of the revenue-collecting agencies</i>	Ministry of Finance and Budget (Treasury)	Monthly, within 45 days of month-end
Quarterly Oil Sector Note	Ministry of Finance and Budget	Quarterly
Budget execution data, including on poverty-reducing social spending, showing commitments, validations, authorizations of payment order, and cash payments <i>Table showing the four phases; payroll table, including benefits</i>	Ministry of Finance and Budget General Budget Directorate DGB	Monthly, within 45 days after month-end.
<i>Table of expenditure before payment authorization; TOFE, on a cash basis;</i> <i>Comparative table on budget execution, consolidated balance tables (changes in debts, claims, etc.); and consolidated Treasury balance</i>	Ministry of Finance and Budget General Budget Directorate DGB DGTCP DGTCP	Monthly, within 45 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 45 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 45 days of the end of the quarter.

Table 2. Chad: Summary of Data to be Reported (continued)

Information on DAO regularization	Ministry of Finance and Budget.	Quarterly, within 60 days after 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 45 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 45 days of month-end
Table on external debt (including those in local currency). The table should include previous month's due payments, payments made, and projected payments due for the next 3 months broken down by creditors.	Ministry of Finance and Budget	Monthly, within 45 days of month-end
Information on external debt arrears (including those in local currency): i) updated list of stock of arrears broken down by creditors (which incorporates any rescheduling agreement with creditors); ii) information on repayment of arrears including amount paid and date on which payments were made; iii) information on any rescheduling agreement on the stock of external arrears at the beginning of the program period.	Ministry of Finance and Budget	Monthly, within 45 days of month-end
In case of missed external debt service payment the following information will be needed: i) the date of the missed payment; ii) amount of the missed payment and iii) creditor involved.	Ministry of Finance and Budget	Within 14 days of occurrence

Table 2. Chad: Summary of Data to be Reported (continued)

Details on the servicing of the domestic debt and payment arrears of the government ²	Ministry of Finance and Budget (Debt Directorate, DCP)	Quarterly, within 45 days of the end of the quarter.
Details on the servicing of the external debt of the government ³	Ministry of Finance and Budget DGTCP (Debt Directorate)	Quarterly, within 45 days of the end of the quarter.
Details on new loans contracted or guaranteed by the government and public non-financial companies	Ministry of Finance and Budget (Debt Directorate) Ministry of Plan and International Cooperation (DGCI)	Within 45 days of transaction completion.
Monetary survey	BEAC	Monthly, within 45 days of month-end.
Provisional monetary data from the BEAC (<i>Exchange rates, foreign reserves, assets and liabilities of the monetary authorities, base money, broad money, central bank balance sheet, consolidated balance sheet of the banking system, interest rates</i> ⁴)	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 45 days of month-end.
Gross domestic product and gross national product	Macroeconomic Framework Committee (SG MFB)	Annually, within 180 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).

Table 2. Chad: Summary of Data to be Reported (concluded)

Gross external debt	Ministry of Finance and Budget DGT (Debt Directorate)	Annually, within 90 days of year end.
¹ For end-December fiscal data, data should be reported 45 days after the end of the complementary period.		
² Including maturities.		
³ Including the breakdown by currency and maturity.		
⁴ Both market-based and officially determined, including discounts, money market rates, and rates on treasury bills, and bonds and other securities.		

Table 3. Chad: Summary of Oil Revenue

CFAF Million	2017		2018	2019	2020	Unit
	Actual	Projection	Projection			
Production and Export Overview						
Production Volume						Barrel
Export Volume						Barrel
Export Value						CFAF
Crude Oil supplied to SRN						Barrel
Crude Oil Received						
By the Government						Barrel
By SHT						Barrel
Total						Barrel
Total Oil Revenue						
Direct Receipt						CFAF
Net Sales Revenue						CFAF
						CFAF
Direct Receipt						
Profit Tax (in Cash)						CFAF
Statistical Fee						CFAF
Surface Fee						CFAF
Dividend						CFAF
Bonus						CFAF
Other Receipt in cash						CFAF
Total						CFAF
Gross Government Crude Oil Sales Revenue						
Government						CFAF
SHT						CFAF
Net Sales Revenue						
Average Selling Price						CFAF
in FCFA						US Dollar
in USD						
Doba Discount						US Dollar
Oil sales until March 2017						
<i>Government</i>						
Export Volume						Barrel
Export Value						CFAF
Average Selling Price						CFAF
Transportation Cost						CFAF
<i>SHT</i>						
Export Volume						Barrel
Export Value						CFAF
Average Selling Price						CFAF
Transportation Cost						CFAF
SHT participation cost (Cash-call)						CFAF
Glencore Debt						
Interest Payment						CFAF
Principal Repayment						CFAF
Restructuring Fee						CFAF
Net Sales Revenue						CFAF
Memorandum Item						
Exchange Rate						CFAF/USD



CHAD

December 11, 2019

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW— SUPPLEMENTARY INFORMATION

Approved By

David Owen (AFR) and Martin
Sommer (SPR)

Prepared by the African Department in consultation
with SPR and LEG

1. This supplement provides an update on the status of the prior actions for the fifth review of the arrangement under the extended credit facility ("ECF arrangement") since the issuance of the staff report (EBS/19/104) on December 2, 2019.
2. Following the issuance of the staff report, the authorities submitted a 2020 budget law in line with the ECF arrangement to the National Assembly on December 9, 2019 and completed the audit of the remaining domestic arrears on November 25, 2019. The executive boards of the two public banks CBT and BCC adopted restructuring and funding plans based on the conclusion of their audits on November 21, 2019 and November 26, 2019, respectively. With these measures, all prior actions for this review have been met.

Table 8. Chad: Structural Benchmarks and Prior Actions for the Program 2019–20

Measures	Due Dates	
Prior Actions		
1. Submit a 2020 budget in line with the program to the National Assembly (including a limit on DAO)		met
2. Based on the conclusion of the audit of BCC and CBT, adopt restructuring and funding plans for CBT and BCC		met
3. Complete audit of remaining domestic arrears.		met
Structural Benchmarks		
1. Publication of a quarterly note on the oil sector, in line with the template agreed with the authorities, including detailed information on debt service to Glencore.	Existing	Quarterly, starting end-December 2019
2. Adopt a clearance strategy of domestic arrears based on the audit results	Reset from end-November 2019	End-December 2019
3. Publish a semi-annual note which lists all new exemptions (including renewal and extension of exemptions).	Existing	Semi-annual, starting end-January 2020
4. Complete the implementation of the recommendations of the audit of the 47 exemption agreements with a view to removing or modifying those that do not comply with the legal texts or that have not been correctly executed	Existing	End-February 2020
5. Sign a performance contract with the management of CBT and BCC	New	End-March 2020
6. Allocate by ministerial decree new resources (building and software) to tax directorates in charge of large and medium firms in line with FAD's recommendations.	New	End-April 2020

Statement by Mr. Raghani, Executive Director for Chad; Mr. Sylla, Alternate Executive Director and Mr. Bangrim Kibassim, Advisor to the Executive Director

December 13, 2019

1. On behalf of the Chadian authorities, we thank staff for their well-written report and for the constructive discussions held in N'Djamena last October in the context of the fifth review of the ECF arrangement. We also would like to reiterate our authorities' deep appreciation to the Executive Board and Management for their continued support to the ECF arrangement aimed at enhancing macroeconomic stability and spurring higher and inclusive growth.

2. The program implementation has been broadly satisfactory. Despite the difficult environment facing Chad due in particular to challenging humanitarian, security and capacity constraints, our authorities remain fully committed to pursuing their program objectives. They are encouraged by the support of CEMAC institutions to Chad and other member countries in line with the regional strategy.

RECENT DEVELOPMENTS AND OUTLOOK

3. The economy is gradually recovering, supported by reinvigorated oil and cotton sectors as well as the settlement of domestic arrears. In 2019, overall growth is projected to pick up to 3.0 percent from 2.4 percent in 2018 while non-oil economic growth will reach 2.0 percent owing mainly to increase in public investment and cotton production. Meanwhile, inflation is expected to remain below the CEMAC's 3.0 percent convergence threshold. The overall fiscal balance is projected to attain -0.1 percent in 2019 against a surplus of 1.9 percent of GDP in 2018. This evolution resulted from higher-than-anticipated wage expenses to address security concerns, which offset the improvement in revenue mobilization. The public debt is anticipated to decrease from 48.3 percent in 2018 to 44.4 percent of GDP in 2019.

4. The medium-term outlook remains favorable on the back of higher oil production and a rebound in the non-oil sector. Growth is expected to exceed 4 percent throughout the 2020- 2023 horizon while inflation would remain subdued. On the fiscal front, the non-oil primary fiscal deficit is projected to decrease while the overall balance would remain in surplus, thanks in part to continued fiscal consolidation. As a result, the public debt-to-GDP ratio will gradually decline. Regarding the external sector, the current account deficit should remain in deficit owing mainly to FDI-related imports. The authorities are mindful of risks stemming from the security context in the region and global oil prices volatility.

PROGRAM PERFORMANCE

5. The authorities' ownership of the program and determination to pursue its implementation resulted in a satisfactory performance. At end-June, all quantitative performance criteria (QPC) and the indicative target (IT) on social spending have been met. Out of five structural benchmarks (SB) under the review, two have been met, one implemented with delay while continued progress was made toward the remaining SBs, notably the audit of arrears and the restructuring and financing plans for the two largest public banks, *Commercial Bank Tchad* (CBT) and *Banque Commerciale du Chari* (BCC). The SB on the domestic arrears clearance strategy is reset to end-December 2019.

POLICY AND REFORM AGENDA GOING FORWARD

6. The government's strategy for promoting fiscal sustainability, economic stabilization, and growth remains anchored by non-oil fiscal consolidation, notably increased revenue mobilization while pursuing the structural reform agenda. As a major constraint, the Chadian authorities would like to emphasize the fiscal burden that results from peacekeeping operations in the region and from addressing the ongoing humanitarian crisis. This situation shall draw partners' attention and represents a challenge for the recovery in the non-oil sector and a drying up of resources designed to priority sectors.

Fiscal Policy

7. The authorities' fiscal policy for the remainder of 2019 will be oriented towards maintaining fiscal consolidation by achieving a non-oil primary balance (NOPB) of 4.2 percent by end-year. Domestic revenue mobilization (DRM) will be focused on non-oil revenue, based on measures undertaken in customs administration to fight fraudulent activities and the improvements recently introduced in the VAT mechanism. Furthermore, the government will make necessary efforts to comply with its spending commitments, including on social targets. To accommodate the increase in the wage bill, the authorities stand ready to adjust expenditures on goods and services.

8. The 2020 budget will give priority to achieving a NOPB of 4.9 percent. On the revenue side, emphasis will be put on increasing the share of the non-oil sector by streamlining exemptions and further improving the VAT system. As for expenditures, the authorities are committed to containing spending by restructuring the wage bill while preserving key infrastructure and social spending. On public financial management, the authorities aim to enhance transparency and modernize public finances. To this end, they will step up their efforts to strengthen cash management through the establishment of a Treasury Single Account (TSA), reinforce the public procurement system and budgeting procedures while limiting recourse to exceptional spending procedures (DAO).

9. Debt sustainability ranks high in the authorities' agenda. In this regard, they are determined to continue the strengthening of debt management through the adoption a Medium-Term Debt Strategy (MTDS) which will prioritize concessional loans and reinforce the clearance of domestic arrears to boost the non-oil sector while limiting government borrowing from the banking system.

Financial Sector

10. The authorities are aware of the pivotal role of the financial system for supporting inclusive growth and are committed to enhancing the solidity of the banking system and promoting financial inclusion. In close collaboration with the regional banking supervisory body COBAC, the government is stepping up efforts to restructure the two public banks, CBT and BCC, and has completed related prior actions, including the issuance of financing and restructuring plans. These measures also encompass a recapitalization of CBT and improvements in the banks' governance by requiring more accountability and performance-based contracts. In addition, the authorities place a high value in deepening access to financial services through mobile banking and the promotion of microfinance institutions.

Capacity Development

11. The authorities recognize that limited capacity is a constraint for the program and reform agenda. They welcome the technical assistance (TA) and capacity building programs provided by the Fund and other development partners. They intend to implement a consultation framework for partners to improve coordination and effectiveness of TA.

Structural Reforms

12. The Government is dedicated to promoting a conducive business climate supported by efficient public services and judiciary system. To enhance governance and foster private sector development, the authorities will strengthen the capacity and resources of the National Agency for Financial Investigation, the Inspectorate General of State and the Inspectorate General of Finance.

13. Concerning the AML/CFT and anti-corruption frameworks, the authorities plan to enforce the United Nations Convention Against Corruption. Moreover, in addition to the publication of the annual financial reports of *Société des Hydrocarbures du Tchad* and the disclosure of contracts and licenses in the oil sector, steps will be taken to buttress transparency in oil and mining sectors through the implementation of the Extractive Industries Transparency Initiative (EITI) recommendations.

CONCLUSION

14. The Chadian authorities have made encouraging progress in implementing their Fund-supported program. In face of the daunting challenges facing the country, they continue to attach great importance to the reform agenda envisaged under this arrangement to sustain their recovery efforts while contributing to the success of the regional strategy. Against this backdrop, we seek Directors' support to the completion of the Fifth Review under the ECF arrangement.