INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/267

CHAD

December 2021

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHAD

In the context of the REQUEST FOR A THREE- YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 10, 2021, following discussions that ended on October 9, 2021, 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 November 29, 2021.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Chad.

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

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PRESS RELEASE

PR21/377

IMF Executive Board Approves New Extended Credit Facility (ECF) Arrangement for Chad

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved a new 36-month arrangement under the Extended Credit Facility, in an amount equivalent to SDR 392.56 million (about US$570.75 million or 280 percent of quota). The Executive Board's decision will enable an immediate disbursement equivalent to SDR 56.08 million.
- The combined shocks of the COVID-19 pandemic, volatility in oil prices, heightened insecurity, climate change and a looming food crisis have severely stressed Chad's already vulnerable economy.
- Chad is the first country to request a debt treatment under the G20 Common Framework for countries beyond the DSSI. Securing restructuring agreements with key official and private creditors by end-March 2022 is essential for a successful start to the new ECF arrangement.

Washington, DC – December 10, 2021: The Executive Board of the International Monetary Fund (IMF) approved a 36-month arrangement under the Extended Credit Facility (ECF) in an amount equivalent to SDR 392.56 million (about US$570.75 million or 280 percent of quota), to help meet Chad's large balance-of-payments and budgetary needs, including by catalyzing financial support from official donors.

Over the longer term, policies under Chad's ECF-supported program will help put the economy on a balanced and sustainable path towards inclusive green growth and poverty reduction. It will also contribute to the regional effort to restore and preserve external stability for the Central African Economic and Monetary Union (CEMAC). The Executive Board's decision will enable an immediate disbursement equivalent to SDR 56.08 million (about US$78.28 million).

At the conclusion of the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair, made the following statement:

``The combined shocks of the COVID-19 pandemic, the volatility in oil prices, the heightened insecurity, and a looming food crisis due to climate change have severely stressed Chad's already vulnerable economy. The macroeconomic outlook has further deteriorated, with greater macroeconomic weaknesses than previously envisaged as well as more acute liquidity needs. As a result, Chad's public debt has become unsustainable.

``The Chadian economy continues to face significant humanitarian and social demands, including expected increase in food insecurity and poverty, given cuts in priority spending and inadequate rain. In addition, increased number of refugees fleeing social conflicts in neighboring countries complicates the humanitarian situation.

``The authorities' program, supported by a new three-year Extended Credit Facility arrangement, aims to address these challenges by supporting the recovery from the pandemic, promoting poverty reduction, advancing the authorities' structural reform agenda, and restoring debt sustainability.

``Restoring debt sustainability is based on a three-pronged strategy, underpinned by a multi-year fiscal consolidation program, significant donor support, and deep debt restructuring under the G20 Common Framework. In this respect, finalizing a possible debt workout with all creditors as soon as possible will be critical. The debt operation should be accompanied by a growth-friendly fiscal consolidation, based on a balanced mix of revenue mobilization and expenditure rationalization.

``Adoption of structural reforms in a timely manner to support inclusive green growth and poverty reduction remains essential. In this respect, reforms should focus on improving the business climate, enhancing governance and tackling corruption, strengthening revenue mobilization and public financial management. Efforts to address weaknesses in the banking sector and promote financial inclusion will also be necessary.''

INTERNATIONAL MONETARY FUND

CHAD

REQUEST FOR A THREE- YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

November 29, 2021

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic, the volatility in oil prices, heightened insecurity, and a looming food crisis due to climate change have severely stressed an already vulnerable Chadian economy. The two Rapid Credit Facility (RCF) disbursements in April and July 2020 allowed Chad to meet its immediate financing and urgent balance of payment needs in the early stages of the pandemic. The authorities have requested Fund assistance under the ECF to support their post-COVID recovery and their plan to reduce debt vulnerabilities through a combination of a debt workout and a multi-year fiscal consolidation program. However, due to the death of the president following a resurgence of fighting with rebel groups in April and the delayed delivery of donor support, the treasury situation has become extremely tight, threatening social stability.

Program request. Against this backdrop, the authorities are requesting a 36-month arrangement under the Extended Credit Facility (ECF) resulting in exceptional access under the PGRT. Access is proposed at SDR 392.56 million (about US$571 million or 280 percent of quota), to help meet Chad's large balance-of-payments and budget-support needs, including by catalyzing financial support from official donors. Over the longer term, policies under the ECF program will help put the economy on a balanced and sustainable path to growth and poverty reduction.

Program pillars. The proposed economic program draws from the government's priorities and provides a policy anchor in a challenging and uncertain environment. The objectives will be to: (i) support the recovery from the COVID-19 shock, while securing macroeconomic stability; (ii) advance the authorities' structural reform agenda, including to strengthen governance and tackle corruption, to support inclusive green growth and poverty reduction, as well as address fragilities; and (iii) restore debt sustainability via growth-friendly fiscal consolidation and an ambitious debt restructuring.

Risks. Key near-term risks to the outlook include a possible deterioration in the pandemic and the related slowdown in GDP growth and reform implementation, serious security incidents, social unrest, delays in the implementation of debt restructuring, reform fatigue, and shortfalls in donor financing. Upside risks include higher-than-expected international oil prices.

Approved By
Vitaliy Kramarenko and Gavin Gray

Prepared by the Chad team, comprising Mr. Edward Gemayel (head), Mrs. Sherifa AbdelRazek and Ljubica Dordevic, Messers Magdi Ahmed, Moez Ben Hassine and Marwan Mikhael (all AFR), Ms. Qiaoe Chen (FAD), Ms. Pilar Garcia Martinez and Mr. Rodrigo Garcia-Verdu (both SPR), Mr. Yongquan Cao (STA), Mr. David Blache (MCM), Mr. Joseph Ntamatungiro (Resident Representative) and Mr. Beguerang Topeur (local economist). Mr. Fulbert Tchana Tchana (WB) joined the mission. Discussions took place during December 3-14, 2020 and January 25, 2021 through video and teleconference, and in person to confirm the discussions during October 5-9, 2021. Meetings were held with Mr. Tahir Hamid Nguilin, Minister of Finance and Budget, Mr. Idriss Ahmed Idriss, National Director of the BEAC, Mr. Annour Mahamat Hassan, Former National Director of the BEAC, and senior officials from the Ministries of Finance, Planning, Oil, Justice, Agriculture and the Secretary General of the Government. The Mission also had exchanges with representatives of the oil sector and Chad's technical and financial partners. Messrs. Andrianarivelo and Bangrim Kibassim (OED) participated in some policy meetings. Messes. G. Badkoubi and M. Perera provided technical support for the virtual meetings. Messrs. Jean-Baptiste Hatche Loy Akoi and Juste Blaise Konan provided interpretation services. Miss. V. Pilouzoue supported the preparation of the staff report.

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CONTEXT

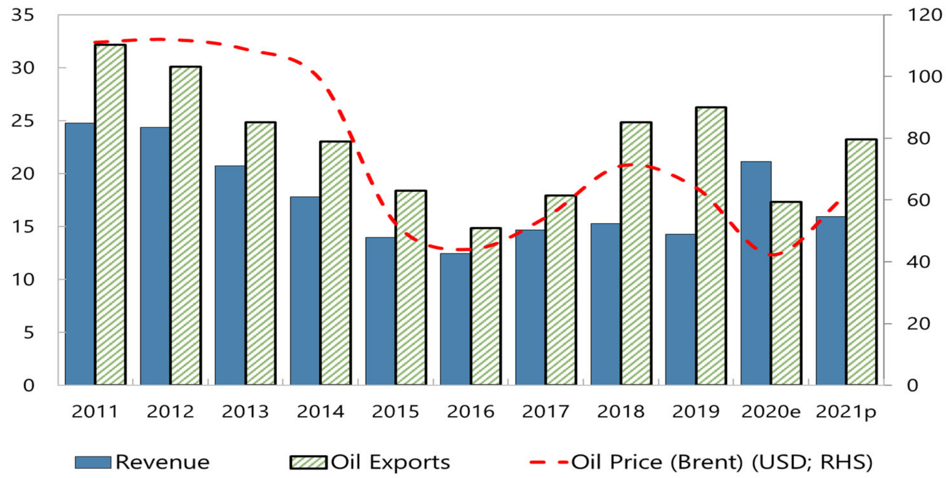
1. **Chad is a low-income country with significant development challenges and multi-dimensional fragilities, including insecurity, weak governance and corruption risks, climate change, and a difficult socio-political environment.** Chad lags behind peer countries in a range of development indicators, ranking 187th out of 189 on the 2020 Human Development Index and scoring among the last two countries on the 2020 World Bank's Human Capital Index. Chad also obtained low scores, including among CEMAC countries, on the 2020 Transparency International Corruption Perception Index. Although Chad made modest improvements in health, education, and poverty reduction, progress has stalled following the oil price shock in 2014-15. Weak capacity and governance remain persistent issues and the high turnover of mid- and high-level officials has complicated reform implementation and limited absorption capacity. The effects of climate change in the Lake Chad Basin on water resources and ecosystems have exacerbated food insecurity and conflicts. The security situation remains vulnerable. Boko Haram has continued deadly attacks in the Lake Chad area, requiring substantial military and humanitarian resources.

2. **Chad is facing daunting humanitarian challenges.** Food insecurity and poverty are expected to increase given recent cuts in priority spending and low seasonal rainfall. Refugees continue to flee social conflicts in neighboring countries, which complicates an already difficult humanitarian situation with 520 thousand refugees and 400 thousand internally displaced (IDPs). The role of humanitarian agencies, such as the World Food Program, is limited by Chad's institutional fragilities and resource constraints.

3. **On April 20, 2021, President Déby passed away from wounds sustained during renewed fighting with rebel groups.** A day earlier, the National Independent Electoral Commission (CENI) had declared him the winner of the presidential election with 79 percent of the vote. An 18-month transitional government was installed, under the leadership of a 15-member Transition Military Council and a broad-based civilian government under a civilian Prime Minister. A National Transition Council installed on October 5 will serve as parliament during the transition. An inclusive national dialogue is being prepared, with the participation of various groups. A "social pact" was signed with public sector unions to preserve social peace. Presidential and legislative elections are expected to be organized during this transition period.

4. **Chad's dependence on the oil sector represents a significant challenge for sustained and inclusive growth.** The pandemic has shed the light again on the resource curse phenomenon that is characterizing the Chadian economy with its low growth, high unemployment, high poverty rate, frail human capital, and weak governance and transparency. The oil sector represents 80 percent of exports and almost 40 percent of government revenues, which makes the economy vulnerable to oil prices shocks. More recently, the oil production outlook was revised down due to interruption from strikes and lower investments by oil companies over the medium term. The poverty rate remains high (48 percent at end 2020), with inadequate social safety nets and economic infrastructure, and have been worsened by the pandemic. Institutions continue to be weak, and the contribution of the private sector has been subdued, despite a young and fast-growing population.

Text Figure 1. Chad: Oil Price Effects on the Economy
(percent of GDP, unless otherwise indicated)



Sources: Chadian Authorities & IMF Staff Estimates

5. Performance under the 2017-20 ECF-supported program was satisfactory (Text Table 1, MEFP ¶3-5). Reviews were completed on time, and only one waiver was requested.[1] Macroeconomic stability and debt sustainability were restored, and growth picked up. Inflation was kept broadly below 3 percent throughout the program. The current account deficit significantly narrowed. Debt and debt service were reduced as a result of a debt workout with the largest creditor, higher non-oil revenue mobilization, and fiscal restraint. Progress was made in addressing systemic public banks vulnerabilities. Transparency improved in the oil sector. An audit of domestic arrears was completed, and a repayment plan was being implemented.

Text Table 1. Chad: Performance Under the 2017-19 ECF
(percentage change, year/year, unless otherwise indicated)

	2016	2017	2018	2019
Real GDP	-5.6	-2.4	2.3	3.0
Non-oil GDP	-6.0	-0.5	0.3	2.0
Oil GDP	-3.4	-11.2	12.7	7.6
Inflation	-1.6	-0.9	4.0	-1.0
Non-oil Revenue (percent of non-oil GDP)	8.4	8.7	8.1	9.4
Current Expenditure (percent of non-oil GDP)	18.0	18.0	16.5	18.0
Capital Expenditure (percent of non-oil GDP)	3.7	4.4	4.5	5.6
Fiscal Balance (percent of non-oil GDP)				
Overall Balance (incl. grants, commitment)	-3.0	-0.9	1.9	-0.8
Non-oil Primary Balance (excl. grants)	-4.4	-3.8	-4.2	-4.8
Current Account Deficit (percent of GDP)	-10.4	-7.1	-1.4	-4.9
Public Debt (percent of GDP)	51.3	50.3	49.1	44.3

Sources: Chadian Authorities and IMF Staff Estimates

[1] Given the high degree of uncertainty regarding the duration and scale of the pandemic, the ECF arrangement was cancelled last July and the 6th and final review was not completed.

6. However, vulnerabilities were exacerbated by the COVID pandemic and key reforms have yet to be completed (MEFP ¶6-10). Progress has been made in increasing non-oil revenue and controlling expenditure. However, allocations to key social sectors are inadequate, and the domestic revenue base remains low. The DSA shows a significant deterioration of debt vulnerabilities, with public debt now assessed to be unsustainable.[2] Additional efforts are needed in the areas in which progress has been limited, including putting public finances on a more sustainable footing, improving governance, tackling corruption, better addressing the sources of fragilities (inequalities, social spending weaknesses, regional disparities), promoting a friendly business environment, building a strong financial sector, and restructuring public debt.

7. The pandemic has severely stressed an already vulnerable economy (MEFP ¶6-10). It has put pressure on an already fragile health sector[3], disrupted domestic activities and generated significant financing needs. Swift and forceful measures were taken to contain the pandemic and to prevent and mitigate its social impact. The donor community offered needed technical and financial support, and the Fund provided emergency support through two Rapid Credit Facilities (RCFs) in April and July 2020, as well as debt relief through the Catastrophe Containment and Relief Trust (CCRT).[4] Fiscal measures were also implemented to mitigate the impact on businesses and households. In return, the authorities committed to adopt measures that would ensure the transparent use of these resources.

Text Table 2. Chad: Government Commitments to Transparency

	Commitments made by the Authorities	Comment/Outcome
RCF-1	Create a special allocation account entitled "Special Fund for the fight against the Coronavirus" to keep separate accounts for COVID-19 expenses.	Authorities have opened a dedicated treasury account to manage COVID-related expenses and a committee has been established, headed by the Ministry of Finance and Budget for this purpose.
	Provide separate reporting for the transparent management and in accordance with good budget management practices.	COVID expenditures are earmarked in the budget.
RCF-2	Emergency spending for urgently needed supplies is being committed according to the provisions of Decree No. 1025/PR/MFB/2020 of May 29, 2020, derogating from public procurement rules concluded in the context of the fight against the coronavirus and subjected to an ex-post compliance audit by a reputable international auditing firm, which will be completed with the support of the Inspectorate of Public Finances within six months of the end of the fiscal year.	The audit report for year 2020 is to be finalized before end-2021.
	Auditing reports, also including analysis of compliance with procedures, in particular with regards to regulated agreements, will be published within a month upon completion on the website of the Ministry of Finance and Budget.	The publication on-line is expected by end-2021.
	The full text of procurement contracts, along with the names of the beneficial owners of awarded legal persons, will be published on the website of the Ministry of Finance and Budget within 30 days of the award of any contract concluded under the fight against the coronavirus. *Ex-post* delivery reports for goods and services, including the list of suppliers and contractors, will be published on the website of the Ministry of Finance and Budget within three months of the end of the execution period for each contract.	On-line publication of the full text of all COVID-19-related procurement contracts awarded through May 31, 2021 is a prior action. Going forward, the on-line publication of the full text of all procurement contracts, along with the names and nationalities of the beneficial owners of the awarded legal entities, is an SB (March 2022).

Sources: Chadian Authorities

[2] In the DSA, the external debt service-to-revenue ratio exceeds its high-risk threshold of 14 percent in 2021-27 under the baseline, all external debt thresholds are breached under the most extreme shock, and the PV of public debt to GDP threshold is breached during 2021-26 under the baseline.

[3] Preventive care was most affected, with significant delays in the measles and poliomyelitis vaccination programs.

[4] IMF Country Reports No. 20/134 and No. 20/231.

Text Table 3. Chad: Government Response Measures to Covid-19

	CFAF (Billions)	Percent of Non-oil GDP
Measures to Support SMEs:	**131.0**	**2.5**
50 percent reduction of business license fees	4.0	0.1
Deferral of all tax controls for 3 months		
Clearance of domestic arrears owed to suppliers	110.0	2.1
Subsidy to Agricultural Sector	17.0	0.3
Measures to Support Households:	**175.2**	**3.4**
Temporary provisions of water & electricity	7.7	0.1
Payment of the death benefits	5.0	0.1
Replenishment of the National Food Distribution Program	25.0	0.5
Hiring of additional health workers	7.5	0.1
Establishment of Solidarity Fund	100.0	1.9
Establishment of Youth Entrepreneurship Fund	30.0	0.6
Total Cost of Measures	**306.2**	**5.9**

Sources: Chadian Authorities and IMF Staff estimates and Projections

8. **A national plan for vaccination was adopted in March 2021 but its implementation was delayed.** Given funding constraints, the plan aims to vaccinate about 6 million people (34 percent of the population) in four phases, focusing on vaccination of front-line workers and vulnerable groups[5]. The plan includes a vaccination campaign and a communication plan for community engagement and maximum acceptance. After months of delay due to supply constraints, vaccination kicked off in June with 200,000 doses of Sinopharm later followed by 100,000 doses of Pfizer vaccine, which were delivered under the COVAX facility. The plan's total cost is estimated at US$76 million and will be funded by COVAX (73 percent) and the government (0.4 percent). The remaining financing gap (about US$20 million) will be covered by the World Bank.

RECENT ECONOMIC DEVELOPMENTS

9. **Prior to the pandemic economic conditions were improving[6] (MEFP ¶3-4).** Non-oil growth was projected to gradually increase and plateau at 4 percent starting 2021. Oil production was expected to increase as a result of new extraction technologies. Inflation was projected to remain below 3 percent. Continuing fiscal consolidation would have resulted in steady narrowing of the non-oil primary balance (NOPB) and a gradual reduction in public debt. The current account deficit was forecasted to remain broadly above 6 percent of GDP through 2024, driven by FDI-related imports.

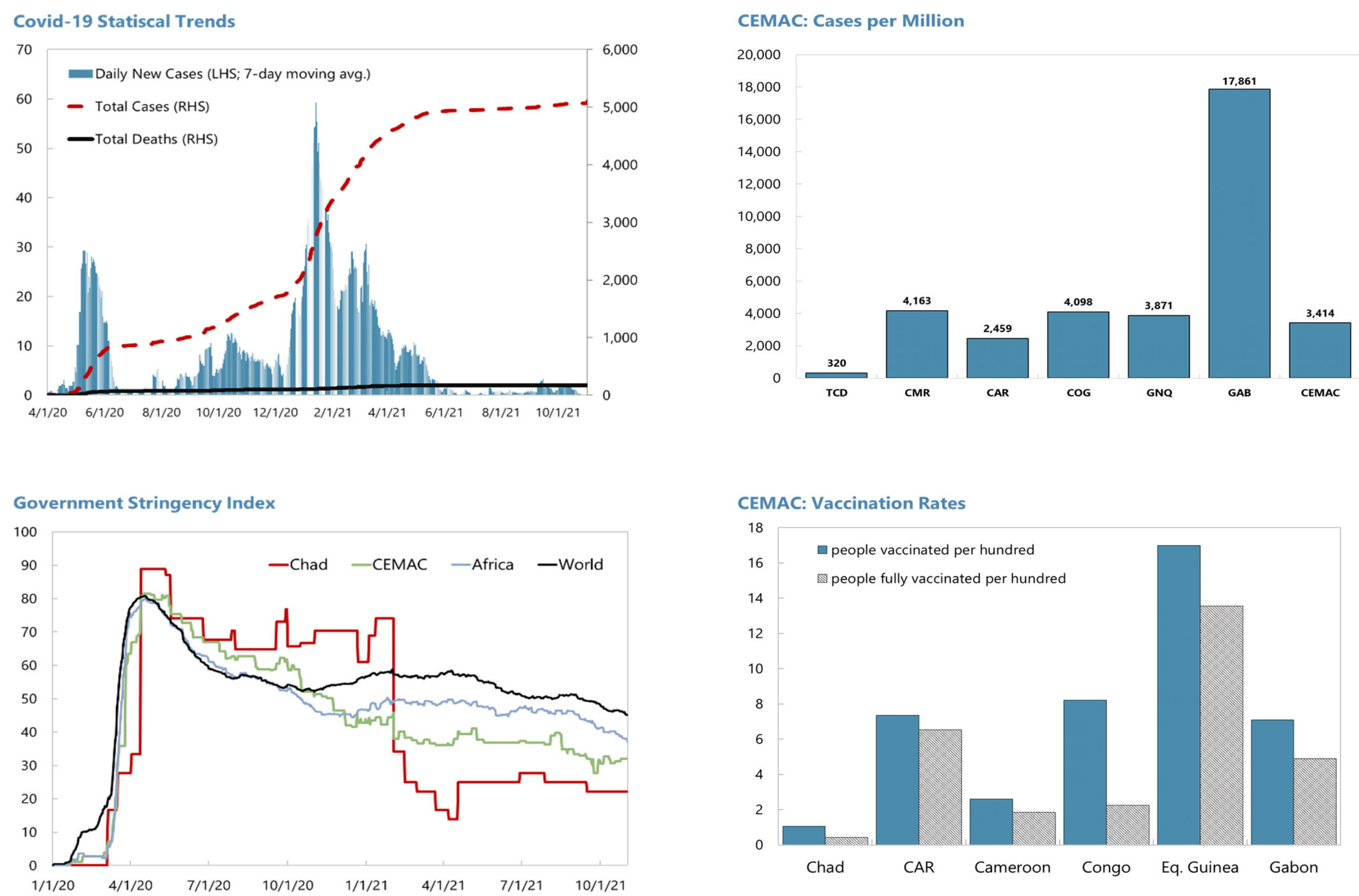
10. **The COVID-19 pandemic, the volatility in oil prices, heightened insecurity, and a series of floods followed by historically low seasonal rainfall have strained an already vulnerable**

[5] In line with WHO guidelines, the plan targets vulnerable populations, including health workers, people over the age of 50 (phase 1), the chronically ill persons (phase 2), teachers, defense and security forces, as well as refugees and internally displaced persons (phase 3). Phase 4 will entail mass vaccination in the 10 most affected cities.

[6] IMF Country Report No. 19/399, December 2019.

economy (MEFP ¶6-10). The drop in international oil prices in 2020 took its toll on the oil sector, resulting in large fiscal and external financing needs. As a result, oil production growth contracted by 1.5 percent compared to 7.6 percent in 2019, due to the temporary interruption in activity of the third largest oil company and weaker production by other oil companies. Non-oil activity in key service sectors, including retail trade, transport, and tourism, were adversely impacted as a result of the containment measures, leading to a contraction of non-oil output by 1.6 percent in 2020 compared to a growth of 2.0 percent in 2019. Meanwhile, agriculture and telecommunication sectors remained relatively resilient. The disruption in the distribution channels resulted in an increase in food prices, leading to a spike in average annual inflation to 4.5 percent in 2020 compared to -1.0 percent in 2019. However, due to weak demand and easing of food inflation, average annual inflation recorded 1 percent in August 2021.

Text Figure 2. Chad: Global Covid-19 Pandemic[1]



Sources: World Health Organization; John Hopkins Coronavirus Resource Center; Oxford COVID-19 Government Response Tracker.

1/ As of November 15, 2021

11. The authorities allowed a widening of the fiscal deficit in 2020 to accommodate the implementation of support measures and the recession-induced loss of tax revenues ((MEFP ¶7). Non-oil revenues dropped by 0.3 percentage points to 9.1 percent of non-oil GDP, while oil revenues increased by 4.2 percentage points to 10.6 percent of non-oil GDP thanks to a large tax payment from the largest oil company.[7] On the spending side, current and capital spending increased by 2.7 and 1.5 percentage points to 15.2 percent and 7.1 percent of non-oil GDP, respectively. The monthly wage bill continued to increase due to the restoration of benefits, which were cut during the 2015/16 crisis, the deterioration in the security situation, and new hires in the heath sector. Transfers and subsidies increased due to the higher-than-expected subsidy to the electricity company and COVID-19 related spending. Domestically financed investments increased by 0.2 percentage points of non-oil GDP. As a result, the NOPB widened by 3.3 percentage points to -8.1 percent of non-oil GDP.

12. Preliminary data suggests that the government faced a tight liquidity situation during the first half of 2021 resulting in spending cuts (MEFP ¶19). Despite the good performance in non-oil revenues, the large drop in oil revenues and delays in donor support led the government to slash spending, mainly in transfers and subsidies as well as domestically financed investment. Security spending and the wage bill increased, especially after the deterioration in the security situation while social spending was under executed. To satisfy its large financing needs, the government almost depleted its deposits at the BEAC and relied on domestic borrowing.

Text Table 4. Chad: Fiscal Developments
(percent of non-oil GDP)

	2019	2020 Est.
Oil Revenue	**6.4**	**10.6**
Non-oil Revenue	**9.4**	**9.1**
Tax Revenue	9.0	8.6
Non-tax Revenue	0.4	0.5
Current Expenditure	**12.5**	**15.2**
Wages and Salaries	7.0	8.2
Goods and Services	1.6	2.2
Transfers and Subsidies	2.6	3.7
Investment	**5.6**	**7.1**
Domestically Financed	3.0	3.2
Foreign financed	2.6	3.9
Overall Balance (incl. grants, commitment)	**-0.8**	**1.9**
Non-oil primary balance (excl. grants, commitment)	**-4.8**	**-8.1**

Sources: Chadian Authorities and IMF Staff Estimates

[7] Corporate income tax for oil companies is based on the previous year's profits.

Text Table 5. Chad: Medium-term Outlook Before and After the Shock

	2019	2020	2021	2022	2023	2024
			(percentage change, year/year)			
Real GDP						
5th Review under previous ECF	3.0	3.9	5.8	5.4	4.0	3.7
Current Projections	3.0	-1.6	0.6	2.2	3.1	3.6
Non-oil GDP						
5th Review under previous ECF	2.0	3.0	4.0	4.0	3.9	3.9
Current Projections	2.0	-1.6	0.2	2.1	3.3	3.9
Oil GDP						
5th Review under previous ECF	7.6	7.5	13.4	10.6	4.4	2.8
Current Projections	7.6	-1.5	2.3	2.3	2.0	2.4
Export of Goods						
5th Review under previous ECF	8.8	3.2	7.3	9.7	5.5	4.8
Current Projections	9.1	-26.9	31.9	-0.4	0.0	2.1
Import of Goods						
5th Review under previous ECF	15.1	5.5	4.4	11.7	1.0	3.9
Current Projections	12.1	-3.9	7.0	5.0	3.8	3.9
			(percent of non-oil GDP)			
Total Revenue						
5th Review under previous ECF	15.8	19.1	19.5	19.6	20.3	19.4
Current Projections	15.7	19.8	16.3	18.9	18.1	17.5
Total Expenditure						
5th Review under previous ECF	18.9	19.5	20.0	19.4	18.9	18.9
Current Projections	18.0	22.3	22.6	21.2	21.1	20.6
Overall Balance (incl. grants, commitment)						
5th Review under previous ECF	-0.1	3.0	2.5	3.0	4.3	3.4
Current Projections	-0.8	1.9	-3.4	0.8	0.2	0.0
Non-oil primary balance (excl. grants, commitment)						
5th Review under previous ECF	-4.9	-4.9	-5.0	-4.3	-3.3	-2.9
Current Projections	-4.8	-8.1	-7.7	-5.9	-5.2	-4.1
			(percent of GDP)			
Current Account Balance (incl. official transfers)						
5th Review under previous ECF	-6.2	-6.2	-6.6	-7.1	-6.3	-5.9
Current Projections	-4.8	-8.4	-6.5	-5.8	-7.3	-7.9
Public Debt						
5th Review under previous ECF	44.4	39.7	35.1	30.9	27.6	25.1
Current Projections	53.0	52.5	49.1	50.6	48.9	47.7
External Debt						
5th Review under previous ECF	25.1	23.2	20.5	18.2	16.3	14.5
Current Projections	24.6	26.3	26.1	27.7	28.3	28.2
Memorandum items:						
Nominal GDP (Billions CFAF)						
5th Review under previous ECF	6443	6880	7502	8131	8602	9178
Current Projections	6406	6170	6593	6826	7163	7580
Nominal Non-oil GDP (Billions CFAF)						
5th Review under previous ECF	5166	5466	5850	6249	6675	7134
Current Projections	5130	5271	5337	5603	5953	6363

Sources: Chadian Authorities and IMF Staff Estimates

13. Chad's public external debt increased. Outstanding public and-publicly guaranteed (PPG) external debt stood at about US$3.0 billion at end-2020, increasing from US$2.7 billion in 2019. This increase was the result of an increase in external debt disbursements as well as the reclassification of debt owed to Angola, which is being repaid in kind. Chad is in arrears to the Republic of Congo, as well as to Libya. The authorities also have arrears with BDEAC and have engaged with this creditor to seek an agreement to resolve these arrears and restructure this debt.

14. The banking sector became more vulnerable as a result of the various shocks (MEFP ¶13). Available data for 2020 reflect a deterioration in the banking sector: (i) the sector's capital adequacy ratio (CAR) fell to about 4.5 percent in mid-2020, remaining below the CAR threshold (9.5 percent), compared to 6.7 percent in December 2019, partly reflecting the changes in COBAC's reporting requirements to Basel II standards; (ii) the liquidity ratio (measured by liquid assets to short-term liabilities) remained broadly stable at 120 percent, compared to 124 percent in December 2019; and (iii) the non-performing loan ratio remained elevated at 25 percent by mid-2020. Meanwhile, deposits and credit increased annually in December 2020, due to the rise in both, public and private sectors.

15. BEAC and COBAC eased monetary and macro-prudential policies, in order to cushion the banking sector during the pandemic, but policies are now being tightened again. Since March 2020, BEAC had eased monetary policy, including a decrease in policy rates and an increase in liquidity provision and reduced haircuts applicable to private instruments accepted as collateral for refinancing operations until 2021: Q1. It also decided to resume liquidity injections with longer maturity, of up to one year. BEAC announced in July 2020 a public securities' program on the secondary market, in line with its statutes which prohibits direct monetary financing. The program was initially for 6 months, then it was extended for an additional 6 months (starting March 1st, 2021) and ended in September 2021. Chad was initially unable to benefit from this program given the rollover mechanism in place. However, after BEAC had agreed to terminate the rollover mechanism in end-March, the Treasury issued 5-year securities and 2-year securities for an amount of CFAF 50 billion and CFAF 20.9 billion, respectively, under this program[8]. COBAC informed banks to utilize a capital conservation buffers of 2.5 percent, in order to absorb pandemic-related losses, while requesting that banks adopt a restrictive policy for dividend distribution and has also put in place ad-hoc reporting to closely monitor financial stability developments following the COVID-19 crisis[9].

16. The external position weakened significantly in 2020. The current account deficit almost doubled to 8.4 percent of GDP. Export declined by about 7.8 percentage points of GDP due to the decline in oil prices of nearly 35 percent (y/y), while imports in percentage of GDP remained stable despite additional imports of medical and capital equipment to address the COVID-19 pandemic. As a result, the trade surplus narrowed to 3 percent of GDP, down from 10.7 percent of GDP in 2019. With the services and income balances largely unchanged, the increase in net transfers was insufficient to offset the narrowing of the trade surplus. The current account deficit was largely financed through an increase in public sector borrowing, including the two RCF disbursements.

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[8] Between April and September 2021, market appetite was weak, due to uncertainties, and the treasury was mainly able to issue securities with 1-year maturities.

[9] Other measures also include: (a) removing the thresholds for the immediate classification of restructured loans, (b) extending from 90 to 180 days the period for the reclassification of sound loans to bad loans, and (c) raising buffer by only 1 percent and maintain a buffer minimum of 9.5 percent for the risk coverage ratio.

Text Table 6. Chad: Financial Soundness Indicators, 2016–20
(Percent)

	2016	2017	2018	2019	2020 [1] May
Capital adequacy					
Total bank regulatory capital to risk-weighted assets [2,3]	13.2	18.0	16.8	6.7	4.5
Total capital (net worth) to assets	10.6	11.7	11.3	9.7	10.0
Asset quality					
Non-performing loans to total loans	20.9	25.8	28.6	22.9	25.3
Non-performing loans net of provision to capital	53.2	63.6	70.1	50.8	59.7
Earnings and profitability					
Net income to average capital (ROE)	14.6	5.3	14.0	3.4	...
Net income to average assets (ROA) [4]	1.4	0.6	1.6	0.3	...
Non interest expense to gross income	61.4	72.2	79.9	77.7	...
Liquidity					
Liquid assets to total assets	23.1	27.5	20.2	26.8	23.4
Liquid assets to short-term liabilities	155.0	188.9	117.9	124.9	120.4

Sources: Chadian authorities and le Banque des Etats de l'Afrique Centrale (BEAC)
1/ Provisional Data
2/ Current year profits are excluded from the definition of regulatory capital, following the Basel I capital accord guidelines. General provisions are included in Tier 2 capital up to an amount equal to 1.25% of risk-weighted assets. Regulatory capital is the sum of Tier 1 capital, and the minimum of Tier 1 and Tier 2 capital.
3/ The risk-weighted assets are estimated using the following risk weights: 0% - cash reserves in domestic and foreign currency and claims on the central bank; 100% - all other assets.
4/ The ratio of after-tax profits to the average of beginning and end-period total assets.

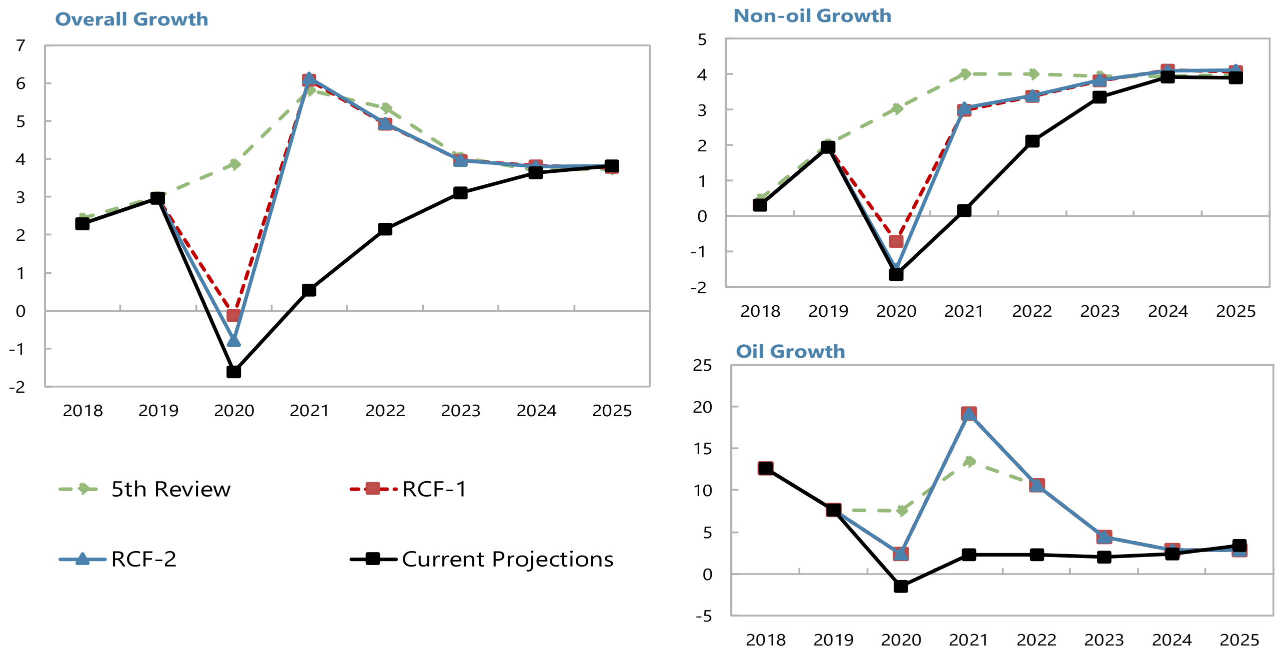
A NEW 36 MONTH ECF ARRANGEMENT: RATIONALE, OBJECTIVES, AND POLICIES

A. Outlook and Risks

17. Economic developments in 2021 have been influenced by the uncertainty surrounding the recovery and financing constraints (MEFP ¶16-17). Output is expected to grow by 0.6 percent, down from 6.1 percent projected at the time of RCF-2 due to a more protracted recovery and a downward revision in oil production by oil operators. Inflation is expected to weaken to 1 percent. The NOPB is expected to narrow to 7.7 percent of non-oil GDP, mainly due to expenditure cuts.

18. The pandemic will likely leave long-lasting scars (Text Figure 3 and Box 1). The current projections show substantial downward revisions to the pre-pandemic growth trend, whereby growth is now expected to take a longer period to revert back to its non-oil potential growth rate of about 4 percent. This mainly reflects the severity of the pandemic, which resulted in (i) lower investments (especially in the oil sector), (ii) significant economic disruptions (e.g., firm shutdowns, unemployment hikes, lost schooling, and deteriorated health outcomes), which have disproportionately affected women, children, and other vulnerable segments of the population, and (iii) significant delays in preventive care administered by the WHO, particularly with respect to the vaccination program.

Text Figure 3. Chad: Evolution of the Medium-term Growth Forecast, 2018-25
(constant prices, percent change year/year)



Sources: Chadian Authorities and IMF Staff Estimates

19. Accordingly, the Chadian economy is projected to remain weak in the near term before gradually rebounding over the medium term. Growth is expected to gradually pick up to reach 3.6 percent by 2024, provided adequate reforms focused on inclusive growth, poverty reduction, and containment of fragilities are implemented. Inflation is expected to weaken slightly in the medium term, remaining around its 3 percent target. The NOPB is expected to narrow gradually by 4.0 percent of non-oil GDP to -4.1 percent in 2024, backed by the increase in non-oil revenue and a streamlining of current expenditures, including the wage bill. Notwithstanding the recovery in oil prices the current account deficit is expected to widen to 7.9 percent of GDP by 2024. Additionally, Chad is projected to continue registering large external financing gaps averaging nearly 2.9 percent of non-oil GDP per year.

20. This outlook is based on conservative oil price assumptions and subject to considerable uncertainty and significant downside risks. The oil price assumptions are those underlying the financing assurances provided by the official creditors in June 2021[10] and the information shared with the private creditors. They will be updated prior to the discussions on the terms of the debt restructuring by the time of the first review. Currently, the oil market is characterized by elevated uncertainty and while oil prices picked up in 2021, future prices indicate they may decline over the medium term.[11] Key near-term risks to the outlook include a more severe and/or protracted COVID-19 pandemic, including delays in rolling out the vaccine, which could

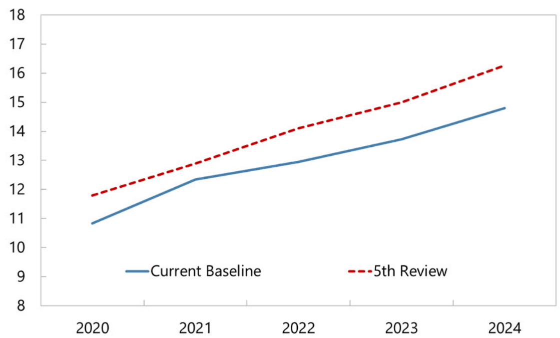
[10] See the statement of the 4th meeting of the Creditor Committee for Chad under the Common Framework

[11] The Chadian oil is sold at a discount to international benchmarks so prices may not reflect those of the international market.

result in higher fiscal costs. In medium-term, risks to the outlook include a drop in oil prices; a deterioration in the security situation or political disruptions; a weak fiscal discipline, including overshooting in the wage bill during an election year; reform fatigue; delays in the delivery of promised debt relief assurances from private creditors; and further delays in donors support disbursements. Upside risks include the possibility that oil prices are sustained at higher-than-expected levels over the medium term.

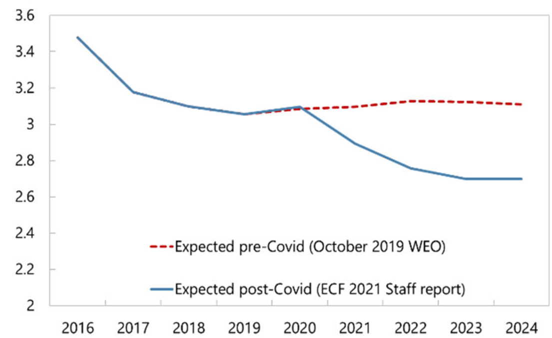
Box 1. Chad: Economic Scarring from Covid-19 Pandemic

Nominal GDP
(billions of US$)



Source: IMF Staff Estimates

Ratio of Chad to AEs' PPP GDP per capita
(percent)



Source: IMF Staff Estimates

Chad is likely to suffer a protracted and sizeable loss of income, erasing some of the hard-won development gains. Chad's pandemic-induced nominal GDP cumulative loss between 2020 and 2024 is estimated at US$5.4 billion (7.7 percent of cumulative nominal GDP). Given a diverging recovery between the advanced economies (AEs) and the rest of the world, Chad is also likely to experience a widening gap in PPP adjusted GDP per capita income with respect to AEs. The projected ratio drops from a meager 3 percent in 2020 to as low as 2.7 percent by 2023, and without improvement until the end of the projection period. Furthermore, there is evidence by several multilateral agencies[1/]in Chad that the pandemic has aggravated existing income and gender inequalities, while the World Bank highlights that some of these effects may persist several years.

According to the World Bank report[2/], the survey data from May-June 2020 and January-February 2021 show that over a six-month period, the share of households in the lowest quintile had increased by 10 percentage points against 3 percentage points increase for households in the highest quintile. This disparity can be partly explained by a reduction in family business income, wages and the frequency and size of remittances from abroad especially for the poorest (with risk of keeping/pushing more people in poverty), unlike those relying on agriculture or other sources of income which was slightly affected by the pandemic. Thus, income inequalities between rich and poor households are likely to continue to widen.

[1/]Multilateral agencies include Lake Chad Basin Commission, UN Chad and the World Bank.
[2/]Chad 2021 Economic Update: Recovering from Shocks – Improving Macro-Fiscal Sustainability to Rebuild Better (2021).

21. **The government's economic program to be supported by the proposed ECF arrangement would draw from its priorities and provide a policy anchor in a challenging and uncertain environment**. The broad objectives will be to: (i) advance the authorities' structural reform agenda, including strengthening governance, to support growth and poverty reduction, as well as address fragilities; and (ii) reduce debt vulnerabilities via growth-friendly fiscal consolidation

and an ambitious public debt restructuring. Structural benchmarks have been specified through end-2022 and additional reforms and conditionality, in line with the MEFP, will be detailed on a rolling basis at reviews.

B. Supporting the Economic Recovery While Restoring Debt Sustainability

Fiscal and Debt Sustainability

Text Table 7. Chad: Fiscal Developments in 2021
(percent of Non-oil GDP)

	2020 Est.	2021 Budget	2021 Current Estimate
Oil Revenue	**10.6**	**8.2**	**7.0**
Non-oil Revenue	**9.1**	**9.1**	**9.3**
Tax Revenue	8.6	8.8	8.9
Non-tax Revenue	0.5	0.3	0.3
Current Expenditure	**15.2**	**14.5**	**15.4**
Wages and Salaries	8.2	7.8	8.0
Goods and Services	2.2	1.8	2.5
Transfers and Subsidies	3.7	3.8	3.9
Investment	**7.1**	**7.1**	**7.2**
Domestically Financed	3.2	2.6	2.6
Foreign financed	3.9	4.5	4.6
Overall Balance (incl. grants, commitment)	**1.9**	**-1.3**	**-3.4**
Non-oil primary balance (excl. grants, commitment)	**-8.1**	**-6.9**	**-7.7**
Memorandum items:			
Nominal non-oil GDP (billion CFA francs)	5271	5420	5337
CPI (annual average)	4.5	2.6	1.1

Sources: Chadian Authorities and IMF Staff Estimates

22. The program will aim to restore debt sustainability, support a green and inclusive recovery, and build resilience (MEFP ¶18-28). The program envisages a cumulative fiscal consolidation of 4.0 percentage points of non-oil GDP through mobilization of domestic tax revenues combined with expenditure restraint, which should reduce the budget dependence on oil revenues and free up some resources that will be allocated to pandemic-related needs in 2021 as well as priority investment and social spending, while accommodating pressing security spending needs. Such composition would mitigate the negative growth impact of fiscal consolidation while protecting the poor.

23. For 2021, the overall balance and NOPB outturns are expected to be worse than the authorities' initial budget. This reflects: (i) lower than expected oil revenue, mainly due to weaker corporate taxes paid by oil companies;[12] and (ii) an increase in expenditure items to mitigate the impact of an unfolding food crisis. Additionally, as a result of weaker inflation and output growth, the nominal GDP shrank, thereby significantly worsening the fiscal ratios in percent of non-oil GDP. Accordingly, the NOPB and overall balance are expected to significantly deteriorate to -7.7 percent of non-oil GDP and -3.4 percent of non-oil GDP, respectively. The share of primary expenditure approved outside the standard spending procedure (*Dépenses avant ordonnancement* or "DAO") is estimated to have dipped to 20 percent, compared with 21 percent in 2020.

24. Chad received an SDR allocation equivalent of US$193 million (MEFP ¶10). Given the liquidity squeeze since the beginning of the year, the authorities mostly used this allocation in 2021 to address urgent social needs, including food insecurity.

[12] Oil taxes are based on the previous year's profits.

Text Table 8: Chad: Utilization of the 2021 SDR Allocation

	CFAF (Billions)	$US (Millions)
2021 SDR Allocation	**106**	**193**
Payments of arrears to retirees	14	25
Payments to retirees due in H2 2021	12	22
Payments of arrears to hospitals	15	27
Payments of technical external debt arrears	15	27
Clearance of arrears to small suppliers	15	27
Reconstitution of food stock managed by ONASA	36	66

Sources: Chadian Authorities and IMF Staff Estimates

25. **The 2022 budget is predicated on strengthening non-oil revenues and improving fiscal discipline, while efficiently allocating available resources to support economic recovery.** The budget will aim to strengthen tax collection and unwind the remaining COVID-19-related emergency measures as the crisis abates. These steps, coupled with better control of current spending particularly the wage bill, should make room for higher social spending, while allocating enough resource for the upcoming elections and security spending. The NOPB is projected to improve by 1.2 percentage points of non-oil GDP whereas the overall balance would deteriorate by 1.9. percentage points of non-oil GDP to -1.3 percent of non-oil GDP, as a result of projected lower oil prices.

26. **Significant fiscal adjustment is expected during 2022-24. (MEFP ¶18-28)** Over the three years, the program targets an additional consolidation of the NOPB of 3.6 percentage points of non-oil GDP through the mobilization of non-oil revenues, streamlining of expenditures, while promoting social spending. Tax revenues would be targeted to increase by 1.8 percentage points of non-oil GDP. The program strategy of domestic revenue mobilization is appropriate, but is critically dependent on implementation of tax administration reforms. Current expenditures would drop by 1.7 percentage points of non-oil GDP by gradually reducing the wage bill and subsidies to the electricity company. Capital expenditures are expected to remain on average at 7 percent of non-oil GDP, but still above pre-pandemic levels. Social spending will be preserved over the program at 34 percent of current spending.

Text Table 9. Chad: Fiscal Adjustment Measures
(percent of non-oil GDP)

	Adjustment (2022-24)
Revenue Measures	**1.8**
Strengthening VAT Collection	0.8
Streamlining Exemptions	0.5
Improving Customs Revenues	0.5
Expenditure Measures	**1.8**
Containing Current Spending	1.7
Wage Bill Control	0.7
Transfers and Subsidies	1.0
Prioritizing Capital Spending	0.1
Protecting Social Spending	....

Sources: Chadian Authorities and IMF Staff Estimates

Text Table 10. Chad: Wage Bill in Selected Countries
(Percent of Non-oil GDP)

	2018	2019	2020	2021	2022	2023	2024	2025
Chad	6.4	7.0	8.2	8.0	7.8	7.6	7.3	7.1
Cameroon	4.9	4.6	4.5	4.5	4.5	4.5	4.5	4.4
Central African Republic	4.8	4.9	5.8	5.1	5.0	4.8	4.8	4.8
Congo, Republic of	8.1	7.7	8.3	8.5	8.2	8.0	8.0	8.0
Equatorial Guinea	3.2	3.7	4.2	3.6	3.7	3.6	3.5	3.4
Gabon	11.1	10.3	10.3	9.5	9.1	9.1	9.1	9.1
CEMAC Average	**6.4**	**6.4**	**6.9**	**6.5**	**6.4**	**6.3**	**6.2**	**6.1**
SSA Average	**7.4**	**7.6**	**8.1**	**8.3**	**7.8**	**7.4**	**7.3**	**7.2**

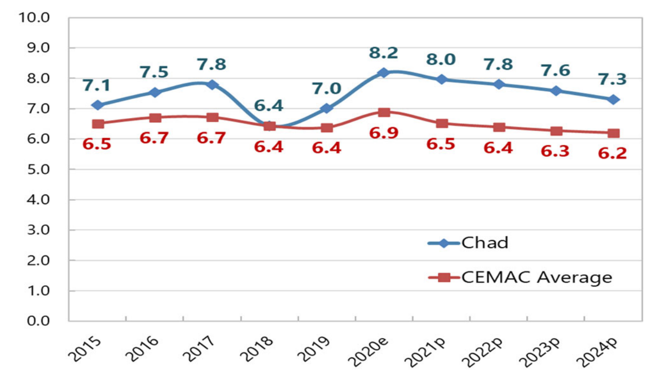
Sources: Country Authorities; IMF Staff Estimates

27. The wage bill is weighing considerably on public finances. Large cuts were implemented in 2016 and in early 2018, which resulted in a 50 percent reduction in wages and benefits. However, these benefits were reinstated by early 2020. In October 2021, given the increased social tension, the Government and the labor union signed a three-year Social Pact, whereby the government will pay by July 2022 arrears accumulated between 2016 and 2020. In 2021, the additional spending is estimated at CFA13.3 billion (about 0.2 percent of non-oil GDP). Given the importance of containing the wage bill, staff and the authorities agreed on the following reforms, which would yield an adjustment of about one percent of non-oil GDP: (i) set up and operationalize a civil service employees' number and salary steering committee; (ii) define and implement a wage bill control action plan, helped by the Integrated Financial Information Management System (IFIMS); (iii) clean up the payroll database; (iv) implement employment ceilings, in accordance with the provisions of the 2014 organic law on public finance, for the preparation of the 2023 budget (SB for end August 2022); and (v) conduct a functional review, which would allow for better control of the wage bill. In 2021, the authorities have completed a biometric registration of civil servants in order to better manage the payroll database, a critical step to control the wage bill.

28. Efforts to clear domestic arrears should continue (MEFP ¶24). An audit completed in December 2019 estimated arrears at about CFAF 515 billion (or 9.7 percent of non-oil GDP). As part of the government's clearance strategy adopted in January 2020, the authorities cleared CFAF 149 billion in domestic arrears (2.8 percent of non-oil GDP) as follows: (i) an agreement with banks was reached which led to the clearance of CFAF 70 billion through bank loans, and (ii) CFAF 79 billion were paid using Treasury resources. For 2021, the authorities are expected to clear CFAF 85 billion in domestic arrears as follows; (i) CFAF 25 billion through the issuance of T-bonds following the exit from the rollover mechanism, and (ii) CFAF 60 billion using Treasury resources, CFAF 17 billion of which via the SDR allocation. The success of the arrears clearance strategy should help reduce vulnerabilities in the banking system and support economic recovery. Part of the SDR allocation will also be used to clear other arrears owed to pensioners.

29. The authorities and BEAC reached an agreement to terminate the rollover mechanism for domestic debt (Box 2, MEFP ¶25). Under this mechanism, which was put in place in 2018, the government was not able to issue new securities, instead only to rollover the maturing securities—initially 100 percent, which was then progressively reduced to 85 percent in 2020. The new agreement will allow Chad to issue new securities (with maturities ranging between one to five years) to help ease liquidity pressures on the treasury, supported also by BEAC's purchasing program of government securities on the secondary market until it was brought to a close in September.

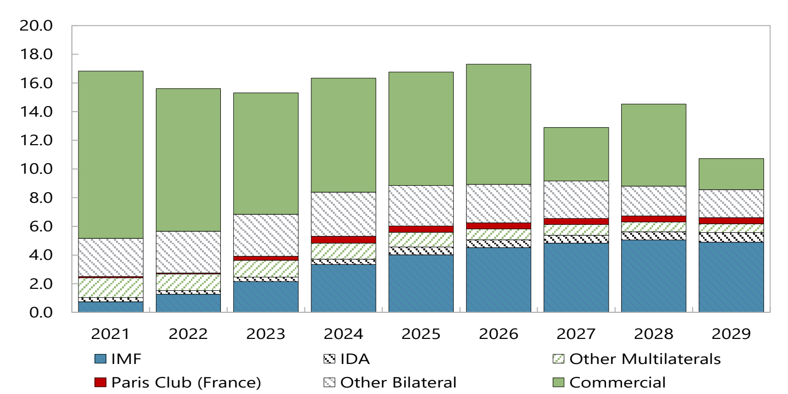
Text Figure 4. Chad: Evolution of the Wage Bill
(Percent of Non-oil GDP)



Sources: Chadian Authorities; IMF Staff Estimates

30. The debt sustainability analysis (DSA) shows that in a pre-restructuring baseline, Chad's public debt has become unsustainable. In particular, the debt service-to-revenue ratio and the PV of public debt to GDP indicators are projected to remain above their respective high-risk thresholds during 2021-28 and 2020-26, respectively under the baseline, reflecting the front-loaded repayment schedule for its largest private commercial creditor. In addition, all external debt risk indicators exceed their thresholds under the most extreme shock scenarios. Public debt is now classified as in distress, and the authorities decided in December 2020 to seek a restructuring of its external debt through the G20 Common Framework. Given the difficulties to mobilize donor financing, the large financing gaps will persist over the medium term, and therefore meeting all financial obligations without a debt restructuring would entail unrealistic adjustments and sacrifices on social and development needs that are not compatible with the Fund's debt sustainability definition for LICs.

Text Figure 5. Chad: External Debt Service by Creditor Group
(percent of government revenue, excluding grants)



Sources: Country authorities, IMF and World Bank staff estimates.
In line with the LIC DSF Guidance Note, future IDA disbursements are assumed in the form of concessional loans.

31. Restoring debt sustainability will depend in large part on reducing the burden of debt service (MEFP ¶26). The Debt Service Suspension Initiative (DSSI), to a lesser-than-anticipated extent, and the Catastrophe Containment Relief Trust (CCRT) have contributed to closing the financing gap in 2020-21 but are insufficient. The external financing needs are projected to be met through additional financing from the Fund, the World Bank and other MDBs, as well as official bilateral partners. In addition, a debt restructuring of part of Chad's external debt obligations will be necessary to bring its external and overall risk of debt distress from in debt distress to moderate risk of debt distress before the end of the program period. To enhance debt transparency, the authorities have agreed to publish new debt contracts.

32. The government is gradually rolling over the existing stock of domestic debt into longer maturities. The stock of existing government securities (CFAF 333 billion at end-2020 or 6.3 percent of non-oil GDP), consists mostly of 6-month T-bills. The authorities have started converting them into T-bonds with maturities ranging between two and five years. Chad benefitted from BEAC's public securities' program on the secondary market with an amount of CFA 145 billion until September, when the program came to an end.[13]

Strengthening the Resilience of the Banking Sector

33. Some progress has been made in addressing systemic public banks vulnerabilities, however, additional efforts are needed (MEFP ¶53-54). The last ECF-supported program set up roadmaps for addressing public banks' vulnerabilities, which were successfully adopted, including restructuring and funding plans for the two systemic public banks, as well as the signature of performance contracts. The first two reports were completed by the two large public banks and showed some progress especially in one of the banks, which comes despite the pandemic. Monthly repayments of arrears owed to the two large public banks (CFAF 250 million to BCC and CFAF 500 million to CBT per month) have continued. Despite these efforts, domestic banks remain weak, with liquidity constraints and a weak capital position. The follow-up report on the performance contracts for 2021 of the two systemic public banks has shown some progress in one bank while the other remained somewhat weak. Meanwhile, the partial recapitalization of CBT (CFAF 4.5 billion—prior action for program approval) will help address the bank's weak capital position.

34. The development and soundness of the financial sector is crucial for economic diversification and inclusiveness (MEFP ¶53-54). The stability of the banking sector would increase if higher resources were mobilized, reflected in higher deposits and lower NPLs.[14] Efforts to further develop mobile money[15] and microfinance will also enhance financial inclusion. As such, the authorities intend to improve access to financial services by encouraging the creation of strong and secure microfinance institutions, and by channeling through banks government transactions

[13] The program expired in September 2021 and consisted of CFAF 600 billion on the secondary market, it was initiated in July 2020.

[14] Only nine percent of the Chadian population has a bank account.

[15] For 13 customs offices with no banking coverage, an agreement has been signed with a local telecommunication company to facilitate payments through mobile phones. Also, an agreement was signed with a local telecommunication company for the payment of wages through mobile money in areas that are not covered by banks.

(*bancarisation*). The "*bancarisation*" will allow the opening of accounts by a large number of users, while the payments of wages, taxes and customs duties through mobile money will promote the use of modern payment methods.

Supporting Green and Inclusive Growth

35. The structural reform agenda will focus on policies that will address fragilities, strengthen governance and reduce corruption, support green and inclusive growth, and reduce poverty. The agenda will build on key efforts made under the previous ECF arrangement, including domestic revenue mobilization, including VAT collection and tax administration, as well as public financial management. This is in addition to growth-enhancing reforms notably by improving SOEs governance, promoting investment in the electricity sector and strengthening the anti-corruption framework and the rule of law to improve the business environment and enhance the governance agenda.

36. Strengthening domestic revenue mobilization will remain a priority under the program. The prevalence of tax exemptions, the proliferation of ad-hoc taxes, and weaknesses in tax and custom administration have created large distortions and weakened tax collection. The authorities are committed to finalize the implementation of the recommendations of the audit of the 47 exemption agreements. They will also publish a semi-annual note (SB for end January 2022, which lists all new tax exemptions (including renewal and extension of tax exemptions). Over the medium term, the exemption system will be reformed by (i) strengthening the institutional capacity for granting new tax exemptions; and (ii) removing tax exemptions from specific codes and streamlining them in the tax and customs code. The authorities will also implement the ASYCUDA Exemption Module to process all customs exemptions requests and authorizations (end-November 2022 Structural Benchmark).

37. Efforts to bolster VAT collection and tax administration are critical (MEFP ¶30-31). VAT revenues stood at around 1.5 percent of GDP in 2020, the lowest in Africa. Accordingly, the authorities are planning to: (i) acquire a new IT system; (ii) finalize the relocation of the large- and medium-sized firms directorates; and (iii) introduce a VAT refund system, which would require that VAT revenues be adequate to allow for a smooth refund (SB for end-February 2022). The establishment of a VAT mechanism should strengthen confidence and improve revenue collection. Over the medium term, the authorities will complete the transfer of the revenue collection function from the treasury to a revenue administration body. They are also committed to continue to strengthen core tax and customs administrations' functions, such as tax registration and identification of new taxpayers, tax audit, import valuation, and control of transit goods.

38. PFM reforms need to advance at a faster pace (MEFP ¶32-40). A PEFA assessment was conducted in 2017, which showed a serious deterioration in PFM capacity due to economic and security shocks. The IMF staff and the authorities reached understandings with the authorities to: (i) implement a PFM strategy based on Fund TA recommendations (SB for end June 2022); (ii) adopt an integrated financial management system; (iii) prepare cashflow projections and treasury plans to improve treasury management and prevent the accumulation of new arrears; and (iv) gradually reduce the use of expenditure outside the standard spending procedure (Dépenses avant ordonnancement or "DAO") to 18 percent of spending in 2022 and then to 15 percent by 2024. Over the medium term, they will: (i) adopt a Treasury Single Account; (ii) rationalize transfers and subsidies; and (iii) conduct a PIMA evaluation of public investment taking into account the objective of boosting climate-smart infrastructure.[16]

39. Improving the business climate will help tackle impediments to private sector development and generate employment and inclusive growth (MEFP ¶48-49). The business climate in Chad is poor relative to other countries in sub-Saharan Africa and is constrained by weak access to electricity, a burdensome and inefficient regulatory environment, insufficient access to finance, and governance, corruption, and transparency issues. Diagnostic work conducted in early 2020 by the United Nations Economic Commission for Africa (UNECA) identified strong potential for economic diversification in Chad, however reaching this potential and increasing the attractiveness of private sector will require substantial reforms. To strengthen the business environment, the authorities envisage reforms, including (i) regulations to facilitate investment in the electricity sector and restructure the national electricity company; and (ii) modernization of the tax administration and the allocation of increased resources to tax agencies. Over the medium term, they intend to (i) adopt and implement a reform strategy for SOEs, including a framework to reduce transfers; (ii) streamline procedures for the creation of SMEs; (iii) improve access to finance through microfinance and mobile money initiatives; and (vi) continue to build on progress in transparency, including the continuation of the regular publication of notes on the oil sector and of all tax exemptions (SB for end December 2021 and January 2022, respectively). To increase economic engagement among women and the youth, the authorities have established a National Youth Entrepreneurship Fund and will seek technical assistance and financing from the World Bank and AfDB to help meet this objective.

40. Further efforts are needed to buttress the anti-corruption strategy (MEFP ¶50-52). The authorities are committed to addressing governance weaknesses and strengthening transparency, which they hope will help reduce the scope for corruption. To this end, they intend to: (i) seek support from the UN to align the present penal code with the United Nations Convention against Corruption (UNCAC); (ii) engage with IMF staff to design an asset declaration regime in line with the applicable international good practices, including in the context of upcoming constitutional reforms; and (iii) support the activities of the National Agency for Financial Investigation (ANIF), including by augmenting its human resources. In addition, to address structural vulnerabilities in the public procurement system, they will institute a requirement to publish online the full text of all procurement contracts along with the names and nationalities of the beneficial owners of the awarded legal entities (SB for end March 2022), with technical assistance from the Fund, and complete and publish an ex-post audit of COVID-19 related expenses by a reputable international auditing firm (SB for end-December 2021). The authorities are set to publish on-line on an easily

[16] These include renewable energy, modernizing the electric grid, public transport, and improving digital infrastructure to build on the global teleworking experience.

accessible governmental website with the full text of all COVID-19-related procurement contracts awarded as of May 31, 2021 (prior action).

PROGRAM DESIGN, FINANCING, AND RISKS

41. **Staff estimates a cumulative financing gap of US$1.662 billion during 2021-24.** This estimate is based on projected external financing flows, a medium-term fiscal consolidation path and a debt restructuring. Chad is facing an exceptionally large balance of payments need, given the multiplicity and size of the shocks it is facing, that cannot be solved solely with domestic policies. Given the nature of Chad's balance of payments needs, it is proposed that financing from the ECF be used for budget support. Regional assurances have been provided as these assurances are macro critical for the success of the program given that actions undertaken by the authorities would not be sufficient to ensure the success of the program. The program would help resolve a protracted balance of payment problem, buffeted by underlying structural impediments, which prevents pursuit of an active development policy in an economy characterized by slow growth. A poverty reduction strategy is expected to be finalized by the second review.

42. **The 36-month arrangement under the Extended Credit Facility (ECF), with access set at SDR 392.56 million (280 percent of quota) will fill around a third of the estimated financing gap.** The PRGT cumulative access will peak at 505 percent of quota, resulting in exceptional access under the PRGT. The entire amount will be provided to the budget as Chad has both fiscal and balance of payments needs. Exceptional access under the PRGT is predicated on: (i) the authorities' commitment to reforms; (ii) the satisfactory policy implementation under the previous ECF; and (iii) an expected debt restructuring, which will help bring down the debt risk from in debt distress to moderate risk of debt distress by the end of the program. The proposed access triggers the set of safeguards related to PRGT exceptional access criteria.

43. **The exceptional access criteria under the PRGT, which need to be met for access above 435 percent of quota under the PRGT, are assessed to be met:**

- **Criterion 1**: "The member is experiencing or has the potential to experience exceptional balance of payment pressures on the current account or capital account, resulting in a need for resources under the Trust that cannot be met within the normal limits." Chad is experiencing an exceptionally large balance of payments need that cannot be met within the normal limits, given the multiplicity and size of the shocks it has experienced, and since its outstanding credit to the Fund under the PRGT is at 291.9 percent of quota.
- **Criterion 2**: "Risks to the sustainability of public debt are adequately contained. Where the member's debt is assessed to be unsustainable ex ante, access to resources in excess of the normal limits will only be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, restores public debt sustainability with high probability (i.e., to a point where application of the LIC-DSF would yield a rating of low or moderate overall risk of public debt distress) within 36 months from Board approval." The debt restructuring operation and related assurances (¶46), the

proposed fiscal adjustment, and structural reforms are projected to reduce the risk of external and overall debt distress from in debt distress to moderate risk within the program period. The authorities' program involves structural fiscal reforms to mobilize non-oil revenues and streamline expenditure with the aim of achieving a 4 percentage points of non-oil GDP adjustment.

- **Criterion 3**: "The member does not meet the income criterion for presumed blending at the time of making a request for resources under this Trust in excess of the access limits". Chad has an income below the prevailing operational cutoff for assistance from IDA.
- **Criterion 4.** "The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment". Notwithstanding the risks, staff estimates that the program has a reasonably strong prospect of success for several reasons, including (i) the commitment of the authorities' to the program; (ii) the updated policy assurances provided by the BEAC (¶49); (iii) the authorities' satisfactory performance under the previous program, and their continued strong commitment to reforms; (iv) Chad has received extensive TA in the past and has been able to build capacity on the fiscal and debt management fronts; (v) official creditors have already provided assurances for a debt restructuring and there is a credible process in place with respect to the restructuring of liabilities to external private creditors; and (vi) the program will be supported by extensive TA to continue the buildup of capacity in the Chadian administration.

44. Development partners, including the World Bank, have also provided financing assurances. In addition to Fund support, other donors' engagement will help close the financing gap. With these commitments, as well as the progress towards debt restructuring, there are firm commitments of financing for the next 12 months and good prospects of financing for the remainder of the program, which is fully financed.

45. The authorities are seeking a debt restructuring that would place debt service on a firm downward path, bring the external risk rating to "moderate," and ensure the program is fully financed. Chad faces large liquidity needs during the Fund-supported program, which will need to be addressed through a debt workout. The expected debt restructuring would significantly reduce the external debt service, which implies generating about US$658 million in financing during 2021-24. Additionally, given Chad's vulnerability to shocks, restoring a "moderate" rating within the program period and preserving it on a durable basis will require achieving a debt service-to-revenue ratio below 12.3 percent by the end of the ECF arrangement and maintaining this level for the remainder of the horizon in line with the LIC DSF's criteria for a moderate rating "with some space".[17]

[17] This space is important due to uncertainties around oil production and prices.

Text Table 11. Chad: Financing Gap 2021-24
($US, millions)

	2021	2022	2023	2024	Total
Financing Gap	**245**	**537**	**461**	**419**	**1662**
IMF ECF	**80**	**162**	**164**	**165**	**571**
Budget Support from other Donors	**42**	**123**	**128**	**128**	**421**
World Bank[1]	0	75	75	75	225
African Development Bank	0	0	10	10	20
European Union	30	30	31	31	122
France	12	18	12	12	55
Debt Relief	**14**	**0**	**-1**	**-1**	**11**
CCRT	12	0	0	0	12
DSSI (Net)[2]	2	0	-1	-1	0
Residual Gap	**109**	**252**	**171**	**126**	**658**
Memorandum items:					
Residual Gap (adj. for additional domestic financing) for 2021	**0**	-	-	-	-
External debt service subject to treatment[3]	**228**	**251**	**231**	**236**	**945**
Debt service to private creditors	**184**	**194**	**171**	**168**	**717**

Sources: IMF staff estimates and projections.
1/ From 2022-24, budget support is comprised of loans.
2/ Includes full-year extension in 2021. Negative values indicate repayments of deferred debt service
3/ Excludes all non-restructurable debt (i.e. multilateral debt including IMF, WB, and AfDB)

46. Staff's assessment is that there are sufficient assurances regarding the debt restructuring needed to establish debt sustainability. Official bilateral creditors are being engaged through a Creditor Committee formed under the G20 Common Framework and have provided financing assurances through a joint statement (published on June 16) and committee discussions. The main private creditor has established a creditor committee and hired its own advisors and has committed to negotiate in good faith with the Chadian government. The authorities are committed to finalizing the MOUs with official creditors, and to reaching an agreement on comparable terms with the largest private creditor, by the time of the first review (MEFP¶27). The authorities have also reached out to the other private creditors to reach an agreement over time on comparable terms. Chad has arrears to Libya and Republic of Congo, which are deemed away under the policy on arrears to official bilateral creditors, as the underlying G20/Paris Club agreement is adequately representative, the authorities are making best effort to resolve the arrears, and financing assurances have been received from the G20/Paris Club creditors.[18] Negotiations to reach a restructuring agreement with BDEAC are also ongoing.

47. Program performance will be monitored through semi-annual quantitative performance criteria (QPCs) and indicative targets (ITs), as well as structural benchmarks (SBs) (Tables 6 and 7). QPCs will be set on new external arrears of the government and non-financial public enterprises, the contracting or guaranteeing of non-concessional external debt and the non-oil primary fiscal balance.[19] ITs will be set on the wage bill, net domestic government financing, tax revenues, stock of domestic arrears, and social spending. With effect from the second review, QPCs will be set on domestic arrears. Starting from the third review, QPCs will be set on net domestic government financing. Adjustors are included to address fluctuations in oil revenue and budget support.

[18] The government is representing a dispute as to the validity of a claim held by Belgium.

[19] In addition to QPCs enumerated above, the standard continuous performance criteria will also apply: (i) not to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions; (ii) not to introduce new or intensify existing multiple currency practices; (iii) not to conclude bilateral payments agreement that are inconsistent with the IMF's Articles of Agreement (Article III); and (iv) not to impose new or intensify existing import restrictions for balance of payments reasons

48. Program success will hinge on the provision of adequate capacity development. The capacity development plan envisaged for Chad during the new program will continue to mainly support efforts initiated under the previous ECF program. It is expected to contribute to building a policy framework that is capable of responding to large external volatility and to creating fiscal space to sustainably address Chad's large development needs. It contains the following priorities: (i) non-oil revenue mobilization, which includes a better VAT management and tax exemptions, and improved oil revenue forecasting and management; (ii) PFM reform, focused on improving budgeting procedures, this also includes forecasting and coordination between agencies, rationalizing the wage bill, containing emergency spending procedures, strengthening treasury management, and setting up social protection; (iii) improving statistics, particularly national accounts statistics, BOP, and public finance; (iv) supporting Climate Change Policy Assessment (CCPA) in analyzing and developing policy responses to the economic impact of climate change; and (v) debt management and restructuring of systemic public banks.

49. BEAC has provided updated policy assurances in support of CEMAC countries' Fund-supported programs. In its follow-up letter of policy support of December 2021, BEAC reiterated its commitment to maintaining an appropriate monetary policy stance, together with member states implementing fiscal adjustment in the context of Fund-supported programs, to support external reserves build-up. As part of corrective actions to support the reserve position and address the non-implementation of the end-June 2021 policy assurance, it has (i) raised the policy rate (TIAO) by 25 basis points at an extraordinary MPC meeting in late November; and (ii) agreed to increase the interest rate of liquidity absorptions to reduce the excess liquidity, stimulate the interbank market, and improve monetary policy transmission. BEAC will also continue to work towards effective application of the foreign exchange regulation, including by implementing the recently agreed adaptations for the extractive sector from January 2022. The regional assurances on regional NFA are critical for the success of Chad's Fund-supported program and will help bolster the region's external sustainability.

50. Program risks are high. They include a possible deterioration in the pandemic and the related slowdown in GDP growth and reform implementation, serious security incidents, election-related expenditure over-runs, imperfect implementation of agreed debt restructuring, reform fatigue, and shortfalls in donor financing. These risks will be mitigated by close engagement with the authorities and donors, as well as a comprehensive CD program. It is expected that the program would help address the sources of fragilities, thereby contributing to the domestic and regional security.

51. Chad's capacity to repay the Fund is currently assessed as adequate, contingent on successful implementation of key program measures, including the envisaged debt restructuring (Figure 6; Table 9). Capacity to repay is subject to risks. Outstanding obligations to the Fund based on existing and prospective drawings would peak at over 7 percent of GDP in 2024, while annual repayments will peak at 5 percent of tax revenues excluding grants in 2028 (Figure 6). Outstanding obligations to the Fund as a share of quota and as a share of GDP are both well above the median of PRGT UCT-quality arrangements occurring between 2010 and 2020. Debt service to the Fund is currently close to median values but will rise steeply as repayments of emergency financing come due. Risks would be mitigated by strong and sustained political assurances of support for the objectives of the program, as well success at leveraging the Fund's' catalytic financing role. Given Chad's share of BEAC reserves, its capacity to repay the Fund is also affected by the capacity to repay the Fund of other CEMAC countries.

52. Safeguards Assessments. The BEAC has implemented the priority recommendations from the 2017 safeguards assessment. In particular, the alignment of the BEAC's secondary legal instruments with its Charter was concluded, and BEAC has issued its FY 2019 and FY 2020 audited financial statements in compliance with IFRS. An updated safeguards assessment has been initiated, under the four-year cycle for safeguards assessments of regional central banks.

STAFF APPRAISAL

53. Chad's economic situation has steadily worsened since the beginning of the pandemic. The combined and long-lasting shocks of the COVID-19 pandemic, oil price volatility, climate change and its impact on food security, terrorist attacks, and delays in donor support continue to buffet the Chadian economy. These shocks have exacerbated existing vulnerabilities, put pressure on an already fragile health sector, disrupted domestic economic activities, and generated significant financing needs. Given this large permanent shock, adjustment is essential. There is a strong risk that these shocks could contribute to wiping out the gains achieved under the previous ECF arrangement and leaving long-lasting scars.

54. The authorities' commitment to take the necessary measures to stabilize the economy, minimize scarring, and lay the foundation for a sustainable and green recovery is welcome. The authorities' home-grown economic program aims at (i) supporting the COVID recovery, while securing macroeconomic stability; (ii) restoring debt sustainability via a multi-year fiscal consolidation program and an ambitious debt restructuring; and (iii) advancing an ambitious structural reform agenda, particularly by strengthening governance, tackling corruption, and addressing fragilities. The success of this strategy will hinge on political ownership, fiscal restraint, and assistance from the international community.

55. The authorities' fiscal program, which is based on a balanced mix of revenue mobilization and expenditure rationalization, is appropriate. Continued mobilization of domestic revenues combined with fiscal discipline, especially with regard to the wage bill, will help reduce the budget dependence on oil revenue. It will also free up resources that will be allocated to pandemic-related needs in 2021, as well as efficient investment and social spending while accommodating pressing security spending needs. Staff believes that this composition of fiscal adjustment would mitigate the negative effects of consolidation on growth while protecting the vulnerable and poor. Non-priority spending should be contained in the run-up to the elections and oil windfalls, if they were to materialize, should be saved.

56. The debt restructuring is expected to restore debt sustainability with a moderate risk of debt distress and provide the necessary financing for the program. Official bilateral creditors, engaged through a creditor committee formed under the G20 Common Framework, have provided financing assurances through a joint statement and committee discussions. Staff assesses that there is a credible process towards a restructuring of liabilities to private creditors. Staff welcomes the authorities' commitment to finalizing the MOUs with official creditors and reaching an agreement with the largest private creditor by the time of the first review. In parallel, Chad will need substantial grants from the international community to support its development and poverty reduction strategy while preserving debt sustainability.

57. Despite some progress, remaining banking sector vulnerabilities should be addressed to foster financial stability and inclusion. Vigilance should continue in addressing the vulnerabilities stemming from the two large public banks. Further recapitalization would be needed for the CBT. Stability of the financial sector is a precondition for financial inclusion, which would be promoted through mobile money, microfinance, and the digitalization of the economy.

58. Staff welcomes the authorities' reform agenda geared towards addressing pre-existing structural challenges, which were exacerbated by the pandemic. The agenda namely focuses on improving domestic revenue mobilization, strengthening tax and customs administrations, and improving public financial management. In addition, envisaged growth-enhancing green reforms, notably by rationalizing subsidies and promoting investment in the electricity sector, would help make further progress toward sustainable development.

59. Strengthening the rule of law and anti-corruption framework to promote a friendly business environment and enhancing the governance agenda will be critical. Staff welcomes progress made in implementing commitments at the time of RCF-2 to strengthen transparency around all COVID-related expenditures. Looking forward, the authorities will rightly focus on strengthening the anti-corruption framework by (i) aligning domestic legislation with UNCAC; (ii) addressing the poor implementation of anti-corruption laws by strengthening key institutions; (iii) bringing the asset declaration regime into alignment with the applicable international good practices; (iv) supporting the activities of the ANIF, including by increasing its human resources; and lastly by (v) addressing the weaknesses in the public procurement system.

60. Based on the strength of the program, corrective action taken by BEAC, and regional policy assurances established in the December 2021 union-wide paper, staff supports the authorities' request for assistance under an ECF arrangement. The program will help the authorities respond to the pandemic and its aftermath while strongly engaging them on an ambitious structural reform agenda and catalyzing donors' support to fill the large financing needs. Staff proposes that completion of the first review under the ECF arrangement be conditional on the implementation of critical policy assurances at the union level, as established in the December 2021 union-wide background paper.

Box 2. Chad's Climate Vulnerabilities' and its Green Recovery

Chad is a Sahelian country that is very vulnerable to climate risks (droughts, floods, high winds, desertification), making the conditions of production and life extremely difficult. The effects of climate change on ecosystems have led to tensions over access to natural resources. The quasi-disappearance of Lake Chad threatens the livelihood of some 40 million people from four bordering countries, exacerbating food insecurity and conflicts. Like the Covid-19 pandemic, the climate change has a disproportionate impact on already disadvantaged population (including the poor and women). At this juncture, the Chadian authorities are faced with the challenge of preserving environmental resources, while adapting to climate change and mitigating its effects. This is not easily achievable in view of the country's fragilities, the limited resources, and the lack of legal, regulatory, and institutional frameworks to address climate change.

Accordingly, the new National Development Plan (2022-2026) built on the authorities' "Vision 2030" will aim to support a green and inclusive recovery, and foster resilience, among other things. This is in line with the new ECF program and includes:

(i) **Focusing on the restructuring of SNE (national electricity company) is essential to help attract investment in renewable energy.** The current system of transfers to SNE is expected to be replaced in the medium term: from diesel for electricity generation to monetary transfers that will be made in the context of the performance contract. The performance contract will be based on improving the SNE's financial position, including improved revenue collection, reduction of production cost and tariffs adjustment. Additionally, to help create conditions for cost-effective electricity access extension in a financially sustainable manner, the World Bank plans sector reforms under a technical assistance project before end-2021.

(ii) **Increasing access to electricity, which is currently weak.** The Government amended the legal framework to liberalize the production and distribution of electricity and the 2020 budget law provided tax incentives for investment in green energy. They are expected to streamline their subsidies and tax exemptions system for companies, taking into account encouraging green projects by the private sector.

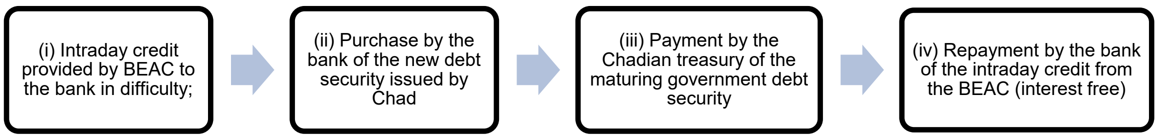
(iii) **With the support of IMF technical assistance**: (1) Chad is planning to conduct a PIMA evaluation of public investment taking into account the objective of boosting climate-smart infrastructure. These include renewable energy, modernizing the electric grid, public transport, and improving digital infrastructure to build on the global teleworking experience. (2) The authorities are planning to conduct Climate Change Policy Assessment (CCPA), which supports analyzing and developing policy responses to the economic impact of climate change.

(iv) Finally, for **supporting a green recovery via financial inclusion**, Chad authorities are planning to improve access to finance through microfinance and mobile money initiatives.

Box 3. Chad: Rollover Mechanism for Chadian Government Securities

The rollover mechanism was established in mid-2017. The mechanism has allowed banks suffering from liquidity stress to rollover maturing Chadian government securities, mainly backed by intraday credits from BEAC, which has helped avoid a sovereign default. This was during a time of strong reluctance of some holders of Chadian government securities to renew their maturities during mid-2017, mainly reflecting high perceived risks for Chadian securities.

The rollover mechanism consists of the following stages:

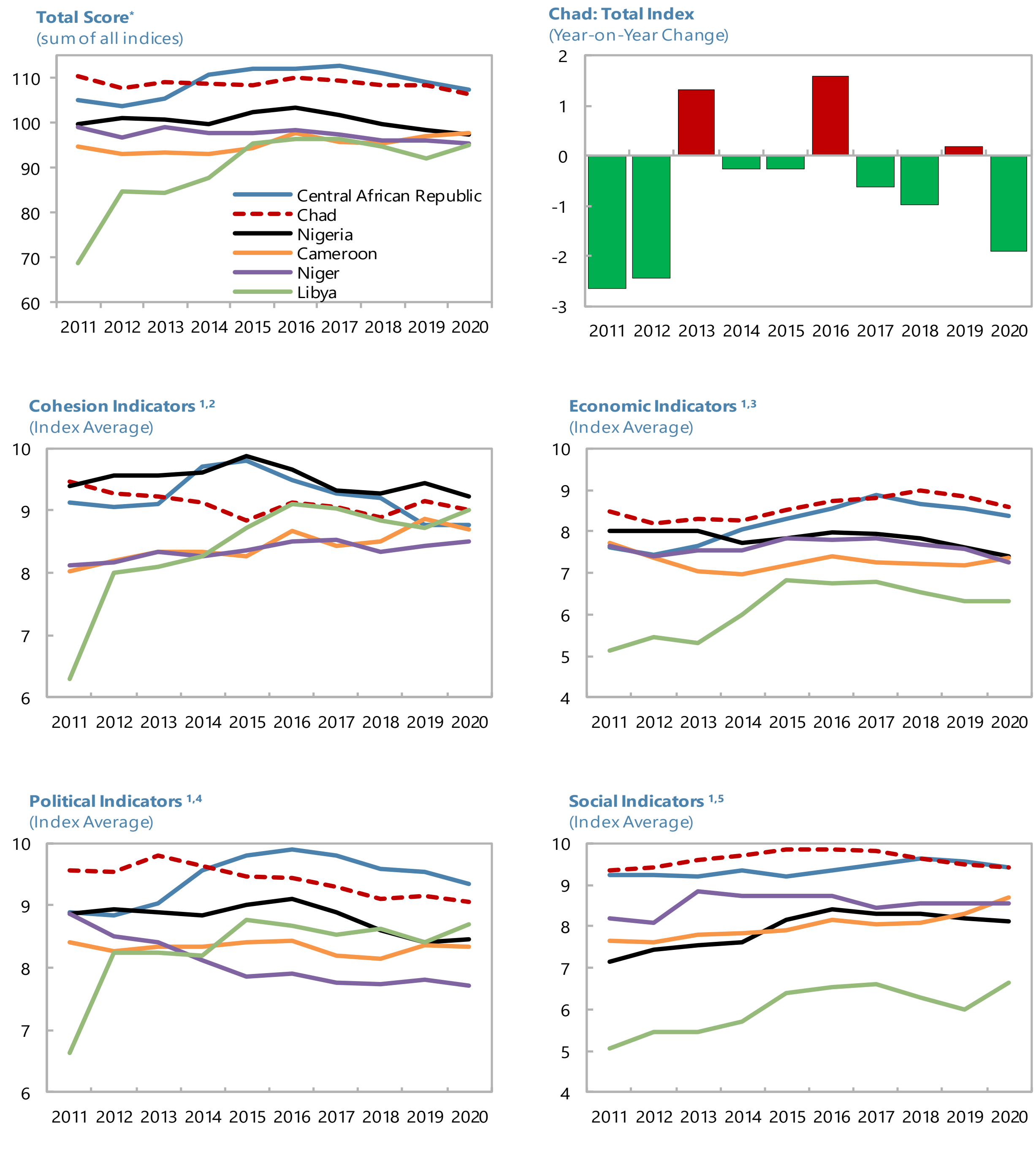


. **During the transition period (2017-2020), BEAC retained its role as lender of last resort with the technical tool of intraday credits.** Reflecting improvements in the government's financial position, the 2017-19 ECF-supported program targeted a progressive reduction in the average rollover rate from 100 percent in 2017 to 85 percent in 2020. This helped strengthen bank liquidity, particularly for the weak public banks and reduced banks' exposure to BEAC financing

Assessing the arrangement under the rollover mechanism since 2017. The mechanism had excluded Chad from issuing new government securities on the regional financial market, despite signals that the demand for Chadian securities improved, given the strengthening of the country's public finances. Chad was the only CEMAC country to reduce its stock of securities and the mechanism was costly, as the Treasury did not benefit from the fall in the regional market interest rates; it was unable to issue new securities at lower cost, and continued rolling over its maturities with weak banks subject to higher BEAC refinancing costs.

Exiting the rollover mechanism with caution. Under a February 2021 memorandum of understanding with BEAC, the Government decided to exit the rollover mechanism for domestic bank debt. The exit of the rollover mechanism allowed Chad's Treasury to access the CEMAC securities market and to mobilize more than the CFAF 100 billion proposed by BEAC (estimated at CFA 145 billion), under the CFAF 600 billion bond purchase program in the secondary market. The phasing-out of the rollover mechanism will however be done with caution, including a restructuring of the current stock of short-term securities into longer-term maturity instruments, secured by the opening of an escrow account with BEAC. The new arrangement satisfies the conditions necessary to cancel the risk weighting on government securities issued by Chad.

Figure 1. Chad and Neighboring Countries: Fragility Indicators, 2011-20



Sources: Fragile States Index (Fund for Peace)

1/ Index from 1 – 10 where 10 represents most fragility and 1 represents least fragility.

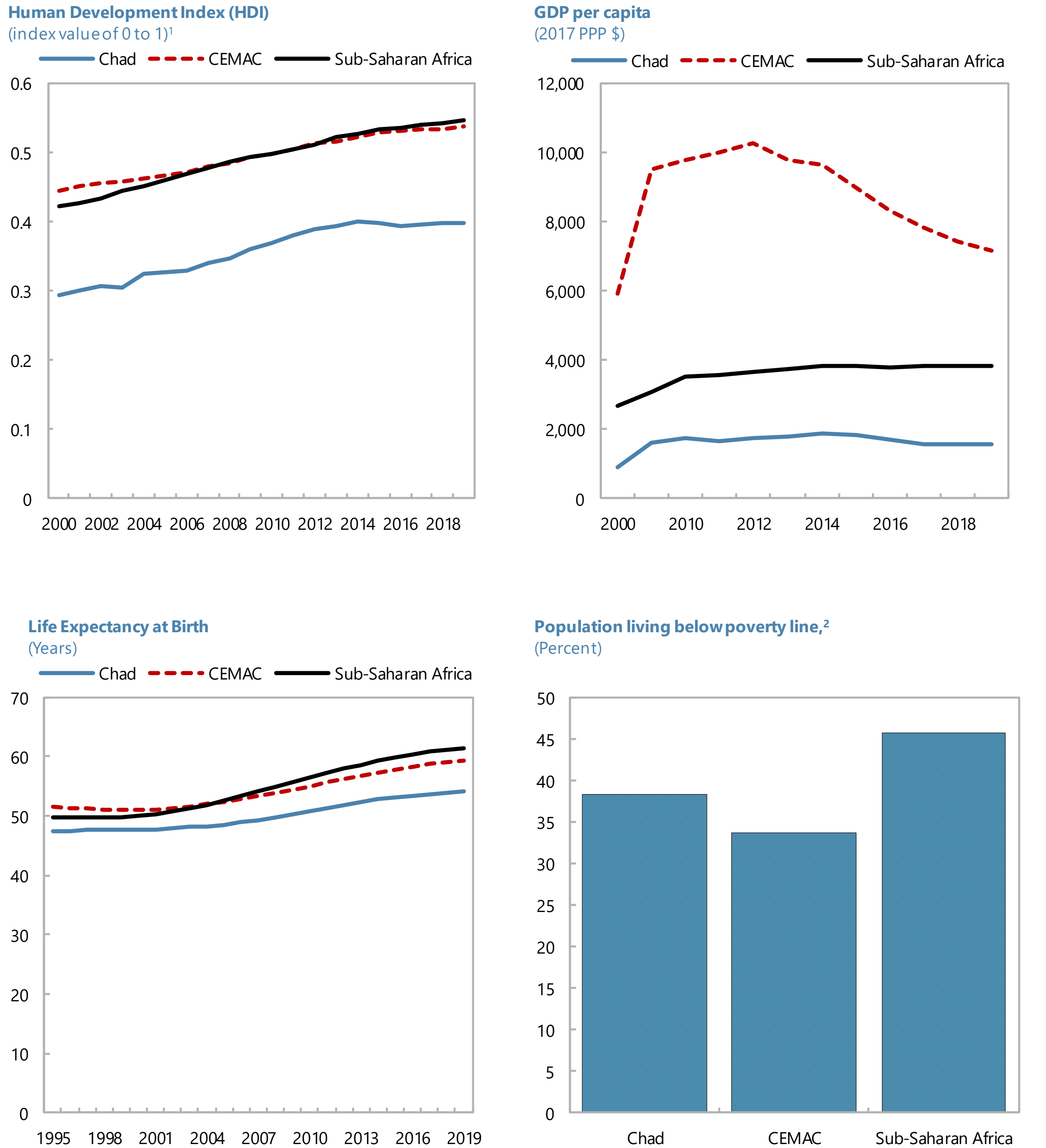
2/ Cohesion Indicators include Security Apparatus, Factionalized Elites, and Group Grievance.

3/ Economic Indicators include Economic Decline, Inequality, and Human Flight/Brain Drain.

4/ Political Indicators include State Legitimacy, Public Services, and Human Rights.

5/ Social Indicators include Demographic Pressures and Refugees and Internally Displaced Persons.

Figure 2. Chad: Selected Development Indicators, 1995-2019

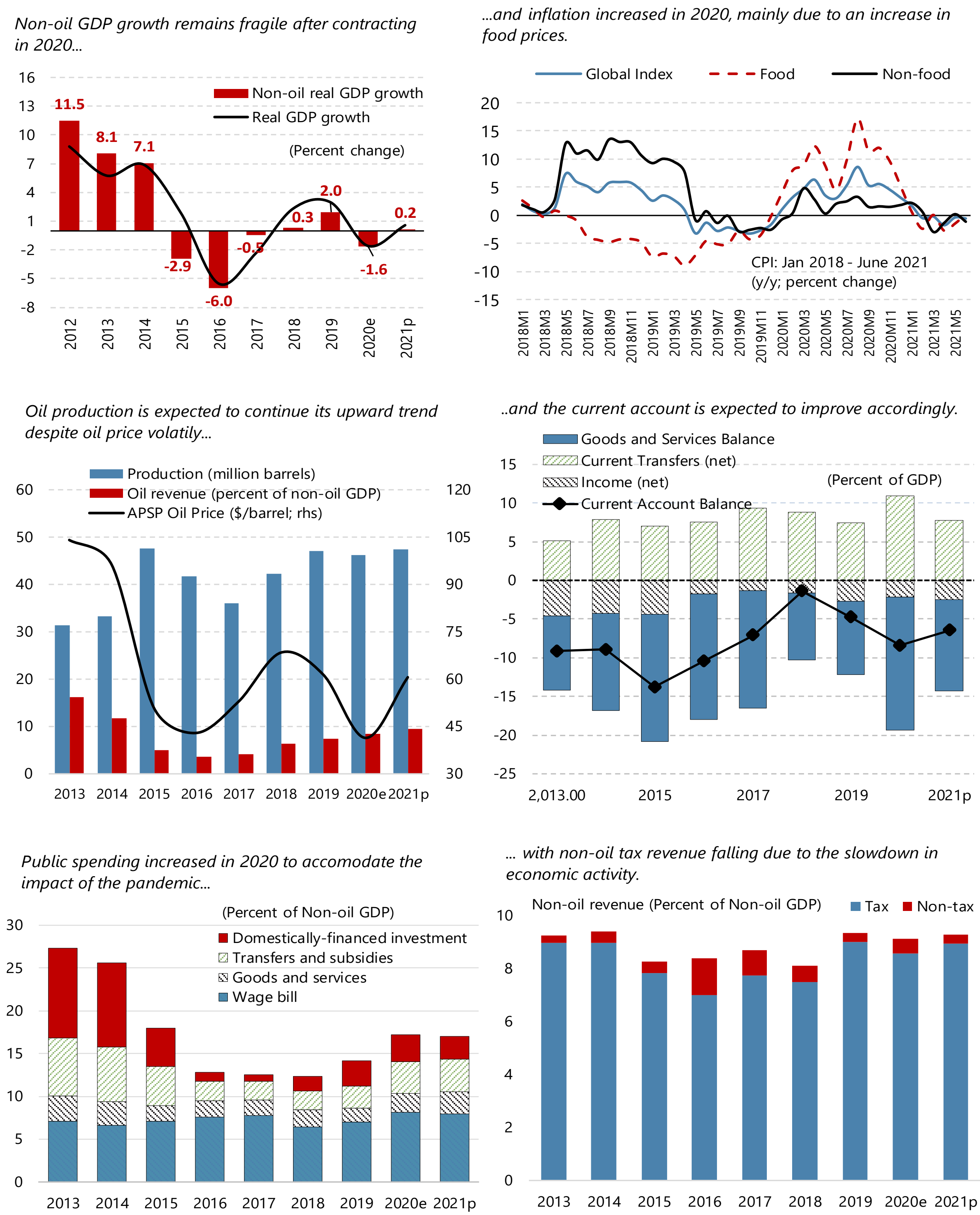


Sources: Human Development Report (2020) - calculations based on data from UNDESA (2019a), UNESCO Institute for Statistics (2020), United Nations Statistics Division (2020b), World Bank (2020a), Barro and Lee (2018) and IMF (2020).

1/ HDI is calculated as the geometric mean (equally-weighted) of life expectancy, education, and GNI per capita,

2/ Definition: Percentage of the population living below the international poverty line of $1.90 (in purchasing power parity terms (PPP]) a day. Latest available data for each country.

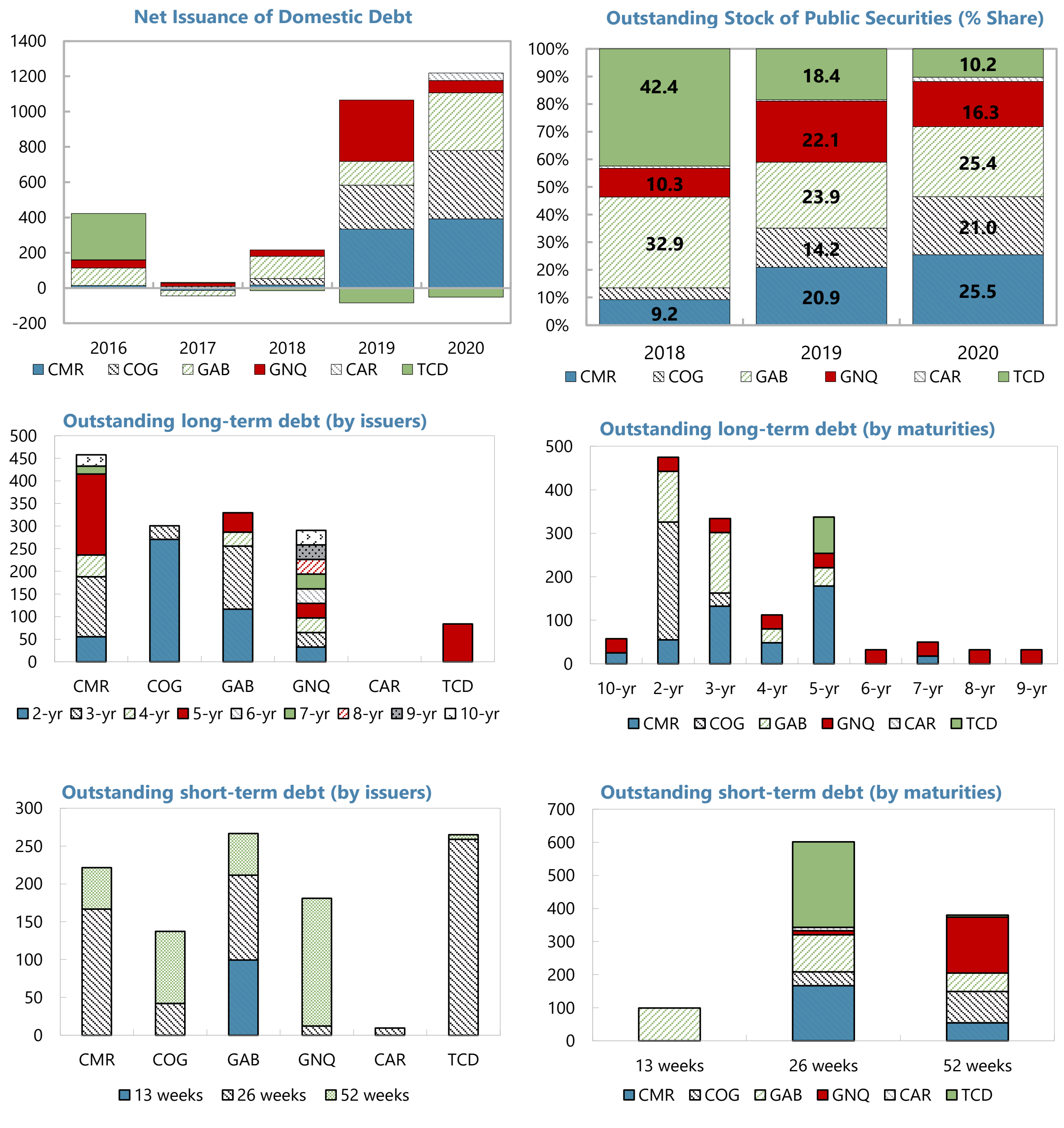
Figure 3. Chad: Recent Economic Developments, 2012-21



Sources: Chadian Authorities and IMF Staff Estimates

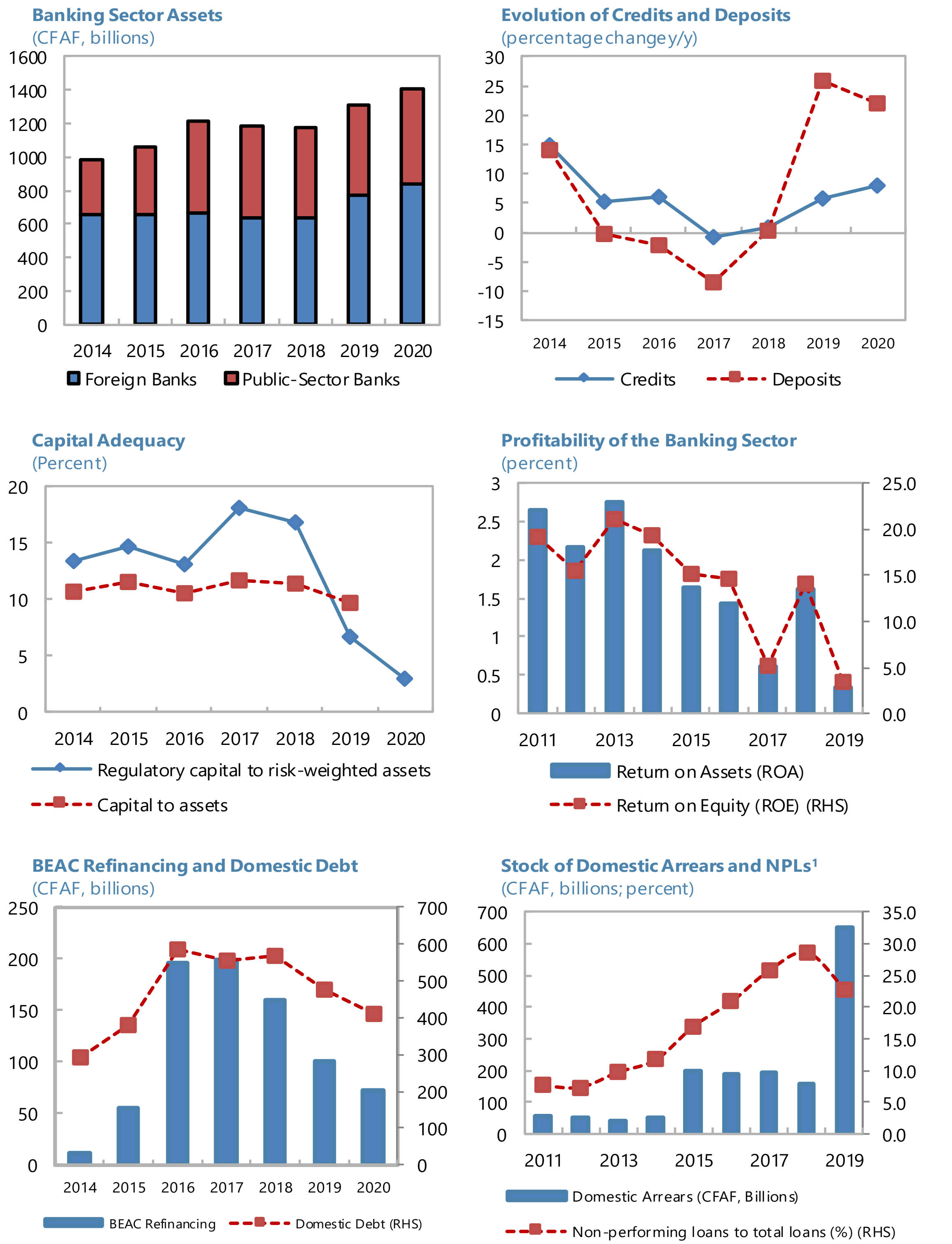
Figure 4. Chad: Evolution of Domestic Debt in CEMAC, 2016-20

(Billions of CFAF)



Sources: BEAC and IMF Staff Estimates

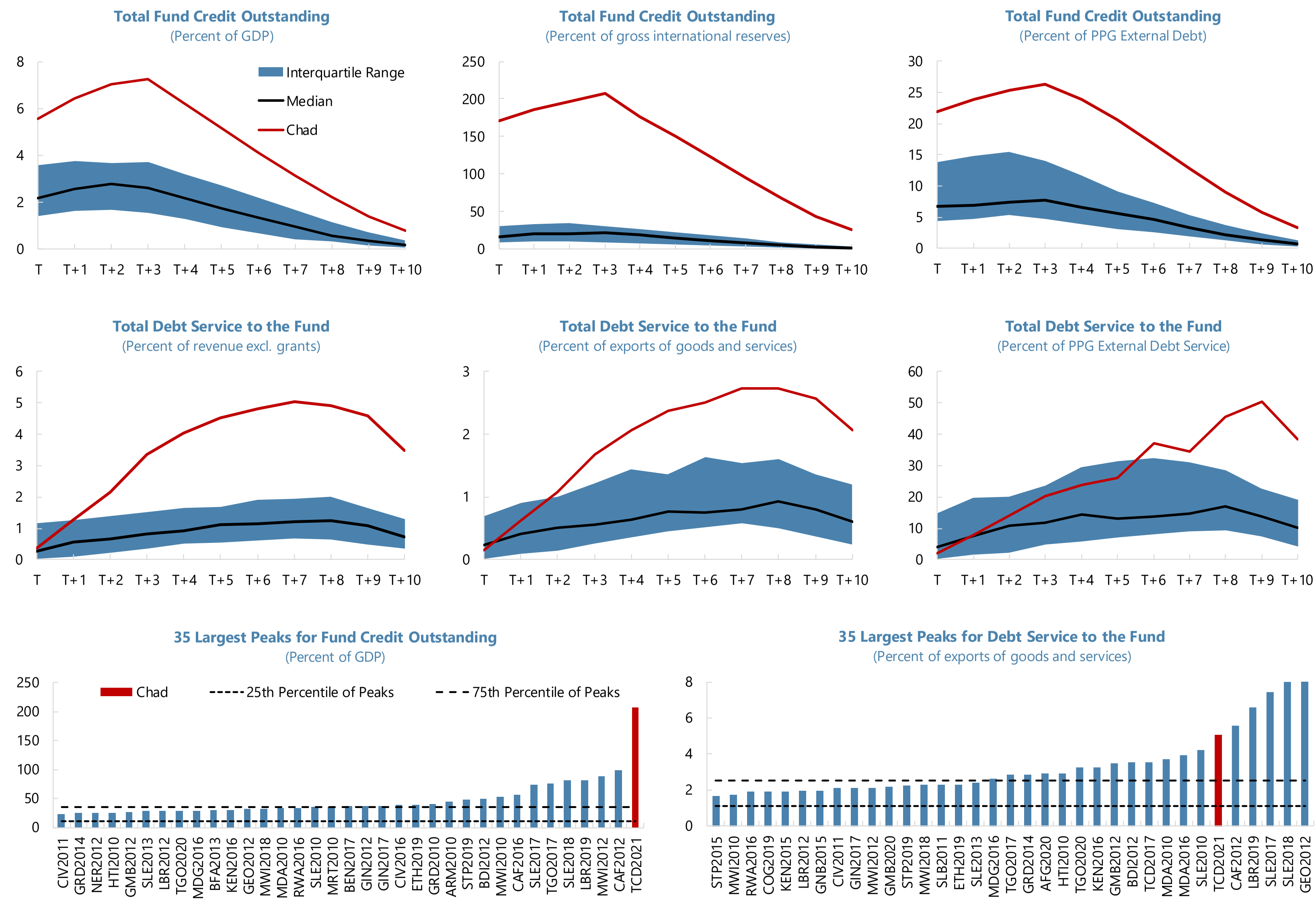
Figure 5. Chad: Financial Sector Developments, 2014-20



Sources: BEAC; IMF Staff Estimates

1/ *Domestic arrears* includes the stock of audited arrears at end 2019. FSI data for 2020 are provisional.

Figure 6. Chad: Fund Credit Indicators Compared to PRGT UCT-Quality Arrangements



Notes:

1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2010 and 2020.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Gross international reserves refer to the gross imputed reserves for Chad.

Table 1. Chad: Selected Economic and Financial Indicators, 2019-2025

	2019	2020	2021	2022	2023	2024	2025
	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)						
Real Economy							
GDP at constant prices	3.0	-1.6	0.6	2.2	3.1	3.6	3.8
Oil GDP	7.6	-1.5	2.3	2.3	2.0	2.4	3.4
Non-oil GDP	2.0	-1.6	0.2	2.1	3.3	3.9	3.9
GDP deflator	1.5	-2.1	6.3	1.4	1.8	2.1	2.4
Consumer price index (annual average)	-1.0	4.5	1.1	2.8	2.8	2.9	3.0
Oil prices							
Brent (US$/barrel)[1]	64.0	42.3	61.7	58.2	56.1	55.0	54.4
Chadian price (US$/barrel)[2]	61.0	40.3	58.7	55.2	53.1	52.0	51.4
Oil production for exportation (millions of barrels)	47.0	46.2	47.4	48.7	49.8	51.2	53.2
Exchange rate CFAF per US$ (period average)	585.9	574.8	....	....	....	....	....
Money and Credit							
Net foreign assets	7.2	-1.6	-2.0	-3.7	-3.1	-2.7	4.5
Net domestic assets	19.1	17.8	13.3	5.4	4.1	4.3	-0.2
Of which : net claims on central government	11.8	9.7	11.4	2.6	1.0	0.9	-3.4
Of which : credit to private sector	1.0	4.7	0.6	2.8	3.1	3.5	3.2
Broad money	24.4	17.6	11.3	1.7	1.0	1.6	4.3
Velocity (non-oil GDP/broad money)[3]	4.7	4.1	3.7	3.9	4.1	4.3	4.4
External Sector (valued in US dollar)							
Exports of goods and services, f.o.b.	3.3	-22.9	34.8	1.0	1.8	3.5	6.9
Imports of goods and services, f.o.b.	4.5	-1.3	12.2	3.3	4.4	3.0	3.3
Export volume	9.5	5.3	-0.4	4.6	3.2	3.3	4.7
Import volume	4.0	2.0	7.2	0.3	3.5	1.0	1.3
Overall balance of payments (percent of GDP)	0.0	-1.5	-2.4	-3.3	-2.6	-3.1	-0.7
Current account balance, including official transfers (percent of GDP)	-4.8	-8.4	-6.5	-5.8	-7.3	-7.9	-6.3
Terms of trade	-6.1	-24.4	29.3	-6.3	-2.3	-1.8	0.1
External debt (percent of GDP)[4]	24.6	25.3	25.2	26.8	27.5	27.4	25.8
NPV of external debt (percent of exports of goods and services)	65.6	86.0	65.6	70.1	73.0	73.5	68.4
	(Percent of non-oil GDP, unless otherwise indicated)						
Government Finance							
Revenue and grants	17.3	24.3	19.2	22.0	21.3	20.7	20.9
Of which : oil revenue	6.4	10.7	7.0	9.1	7.8	6.7	6.5
Of which : non-oil revenue	9.4	9.1	9.3	9.8	10.3	10.8	11.3
Expenditure	18.0	22.3	22.6	21.2	21.1	20.6	20.1
Current	12.5	15.2	15.4	14.1	13.7	13.2	12.7
Capital	5.6	7.1	7.2	7.1	7.4	7.5	7.4
Non-oil primary balance (commitment basis, excl. grants)[5]	-4.8	-8.1	-7.7	-5.9	-5.2	-4.1	-3.2
Overall fiscal balance (incl. grants, commitments basis)	-0.8	1.9	-3.4	0.8	0.2	0.0	0.8
CEMAC reference fiscal balance (in percent of GDP)[6]	-2.1	-3.3	-2.8	-1.2	-0.8	-5.3	1.5
Total debt (in percent of GDP)[4]	53.0	51.5	48.2	49.7	48.0	46.9	45.4
Of which : domestic debt	28.4	26.2	23.0	22.9	20.5	19.5	19.6
Memorandum items:							
Nominal GDP (billions of CFA francs)	6,406	6,170	6,593	6,826	7,163	7,580	8,055
Of which: non-oil GDP	5,130	5,271	5,337	5,603	5,953	6,363	6,807
Nominal GDP (billions of US$)	10.9	10.7	12.0	12.6	13.4	14.3	15.4

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

[1]WEO projections for Brent crude oil price.

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

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

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

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

[6]The 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, 2019-2025
(billions of CFAF, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025
	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**885**	**1,279**	**1,026**	**1,230**	**1,267**	**1,316**	**1,421**
Revenue	806	1,043	868	1,061	1,080	1,114	1,211
Oil[1]	326	562	374	512	466	426	441
Non-oil	480	481	495	548	613	688	770
Tax	461	452	478	529	592	665	745
Non-tax	19	29	17	19	21	23	25
Grants	79	236	158	169	188	201	210
Budget support	7	125	23	26	28	28	28
Project grants	72	111	135	143	160	173	182
Expenditure	**924**	**1,177**	**1,206**	**1,187**	**1,256**	**1,314**	**1,366**
Current	639	800	821	787	816	838	864
Wages and salaries	360	431	425	437	452	465	483
Civil Service	248	305	299	309	323	335	352
Military	111	126	126	128	129	130	131
Goods and services	83	115	136	114	123	128	131
Transfers and subsidies[2]	133	194	206	190	195	197	200
Interest	64	60	54	46	46	48	50
Domestic	21	26	26	17	18	21	24
External	42.8	34.1	28.7	29.1	27.4	27.0	26.1
Of which: Glencore loan (after restructuring)	*31*	*22*	*19*	*19*	*16*	*14*	*12*
Investment	285	377	385	400	440	475	502
Domestically financed	153	170	140	140	150	160	172
Foreign financed[3]	132	207	245	260	290	315	330
Overall balance (incl. grants, commitment)	**-39**	**102**	**-180**	**42**	**12**	**2**	**55**
Non-oil primary balance (excl. grants, commitment)[4]	**-249**	**-428**	**-412**	**-333**	**-307**	**-262**	**-216**
Float from previous year[5]	-31	-74	-34	-34	-33	-21	-21
Float at end of period[5]	74	34	34	33	21	21	40
Var. of Arrears[6]	-64	-149	-111	-50	-50	-50	-15
Overall balance (incl. grants, cash)	**-60**	**-87**	**-292**	**-9**	**-50**	**-48**	**59**
Non-oil primary balance (excl. grants,cash)	**-270**	**-617**	**-524**	**-384**	**-369**	**-312**	**-211**
Financing	**60**	**85**	**180**	**-216**	**-128**	**-105**	**-59**
Domestic financing	35	89	220	-209	-138	-118	-47
Bank financing	179	104	67	-95	-102	-124	-120
Central Bank (BEAC)	179	104	67	-95	-102	-124	-120
Deposits	105	-1	-32	-34	-31	-39	-24
Advances (net)	0	0	0	-48	-48	-48	-48
IMF	74	105	-6	-13	-23	-37	-49
SDR Allocation	0	0	106	0	0	0	0
Commercial banks (deposits)	0	0	0	0	0	0	0
Other financing (net), of which:	-143	-16	154	-114	-35	6	73
Amortization	*-74*	*-61*	*-26*	*-51*	*-50*	*-74*	*-48*
Commercial banks loans	*0*	*-9*	*-9*	*11*	*10*	*10*	*10*
Non-bank loans (gross)[7]	*0*	*21*	*39*	*41*	*46*	*50*	*52*
Treasury bills (net)	*-70*	*0*	*78*	*-105*	*-10*	*-5*	*24*
Treasury Bonds (gross)	*0*	*43*	*71*	*0*	*-21*	*25*	*35*
Bank Recapitalization	*0*	*0*	*-10*	*0*	*0*	*0*	*0*
Stabilization Funds	*0*	*-10*	*10*	*-10*	*-10*	*0*	*0*
Privatization and other exceptional receipts	0	0	0	0	0	0	0
Foreign financing	24	-4	-40	-7	10	13	-12
Grants	79	236	158	169	188	201	210
Budget support	7	125	23	26	28	28	28
Project grants	72	111	135	143	160	173	182
Loans (net)	-4	-30	-65	-32	-15	-11	-36
Disbursements	72	71	72	117	125	132	117
Budget borrowings	13	0	0	41	40	40	21
Project loans	59	71	72	76	85	92	97
Amortization	-76	-101	-137	-149	-140	-143	-154
Of which: Glencore loan (after restructuring)	-24	-48	-76	-81	-74	-73	-83
Debt relief/rescheduling (HIPC)	28	26	25	25	25	24	25
Financing Gap	**0**	**2**	**111**	**225**	**179**	**153**	**-1**
CCRT		2	6				
DSSI (Net)		1	1	0	-1	-1	0
Proposed IMF ECF		0	44	88	88	87	0
Residual financing gap	0	0	60	137	92	67	0
Memorandum items:							
Non-oil GDP	5,130	5,271	5,337	5,603	5,953	6,363	6,807
Poverty-reducing social spending	241	263	284	273			
Bank deposits (including BEAC)	149	150	182	216	247	286	310
(In months of domestically-financed spending)	2.3	1.9	2.3	2.8	3.1	3.4	3.6
BEAC advances	480	480	480	432	384	336	288

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

[1]Net of cash calls and transportation costs linked to the oil public enterprise (SHT) participation in private oil companies.
[2] includes subsidies to the electricity company starting from 2020.
[3]Includes projects financed by the BDEAC, but the corresponding loans (in CFAF) are counted as domestic financing.
[4]Total revenue, less grants and oil revenue, minus total expenditures, less interest payments and foreign financed investment.
[5]Difference between committed and cash expenditure, and errors and omissions.
[6]Recognized arrears, as registered by the Treasury in the "restes à payer" table.
[7]Bilateral or multilateral loans in CFAF (e.g. BDEAC, loan from Cameroon in 2016).

Table 3. Chad: Fiscal Operations of the Central Government, 2019-2025
(Percent of non-oil GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025
	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**17.3**	**24.3**	**19.2**	**22.0**	**21.3**	**20.7**	**20.9**
Revenue	15.7	19.8	16.3	18.9	18.1	17.5	17.8
Oil[1]	6.4	10.7	7.0	9.1	7.8	6.7	6.5
Non-oil	9.4	9.1	9.3	9.8	10.3	10.8	11.3
Tax	9.0	8.6	8.9	9.4	9.9	10.4	10.9
Non-tax	0.4	0.5	0.3	0.3	0.4	0.4	0.4
Grants	1.5	4.5	3.0	3.0	3.2	3.2	3.1
Budget support	0.1	2.4	0.4	0.5	0.5	0.4	0.4
Project grants	1.4	2.1	2.5	2.6	2.7	2.7	2.7
Expenditure	**18.0**	**22.3**	**22.6**	**21.2**	**21.1**	**20.6**	**20.1**
Current	12.5	15.2	15.4	14.1	13.7	13.2	12.7
Wages and salaries	7.0	8.2	8.0	7.8	7.6	7.3	7.1
Civil Service	4.8	5.8	5.6	5.5	5.4	5.3	5.2
Military	2.2	2.4	2.4	2.3	2.2	2.0	1.9
Goods and services	1.6	2.2	2.5	2.0	2.1	2.0	1.9
Transfers and subsidies[2]	2.6	3.7	3.9	3.4	3.3	3.1	2.9
Interest	1.2	1.1	1.0	0.8	0.8	0.8	0.7
Domestic	0.4	0.5	0.5	0.3	0.3	0.3	0.4
External	0.8	0.6	0.5	0.5	0.5	0.4	0.4
Memo: Glencore loan (after restructuring)	*0.6*	*0.4*	*0.4*	*0.3*	*0.3*	*0.2*	0.2
Investment	5.6	7.1	7.2	7.1	7.4	7.5	7.4
Domestically financed	3.0	3.2	2.6	2.5	2.5	2.5	2.5
Foreign financed[3]	2.6	3.9	4.6	4.6	4.9	5.0	4.8
Overall balance (incl. grants, commitment)	**-0.8**	**1.9**	**-3.4**	**0.8**	**0.2**	**0.0**	**0.8**
Non-oil primary balance (excl. grants, commitment)[4]	**-4.8**	**-8.1**	**-7.7**	**-5.9**	**-5.2**	**-4.1**	**-3.2**
Float from previous year[5]	-0.6	-1.4	-0.6	-0.6	-0.5	-0.3	-0.3
Float at end of period[5]	1.4	0.6	0.6	0.6	0.3	0.3	0.6
Var. of Arrears[6]	-1.2	-2.8	-2.1	-0.9	-0.8	-0.8	-0.2
Repayment of other arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (incl. grants, cash)	**-1.2**	**-1.6**	**-5.5**	**-0.2**	**-0.8**	**-0.8**	**0.9**
Non-oil primary balance (excl. grants, cash)	**-5.3**	**-11.7**	**-9.8**	**-6.8**	**-6.2**	**-4.9**	**-3.1**
Financing	**1.2**	**1.6**	**3.4**	**-3.9**	**-2.2**	**-1.7**	**-0.9**
Domestic financing	0.7	1.7	4.1	-3.7	-2.3	-1.9	-0.7
Bank financing	3.5	2.0	1.3	-1.7	-1.7	-2.0	-1.8
Central Bank (BEAC)	3.5	2.0	1.3	-1.7	-1.7	-2.0	-1.8
Deposits	2.0	0.0	-0.6	-0.6	-0.5	-0.6	-0.3
Advances (net)	0.0	0.0	0.0	-0.9	-0.8	-0.8	-0.7
IMF	1.4	2.0	-0.1	-0.2	-0.4	-0.6	-0.7
SDR Allocation	0.0	0.0	2.0	0.0	0.0	0.0	0.0
Commercial banks (deposits)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing (net)	-2.8	-0.3	2.9	-2.0	-0.6	0.1	1.1
Privatization and other exceptional receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	0.5	-0.1	-0.8	-0.1	0.2	0.2	-0.2
Loans (net)	-0.1	-0.6	-1.2	-0.6	-0.3	-0.2	-0.5
Disbursements	1.4	1.3	1.3	2.1	2.1	2.1	1.7
Amortization	-1.5	-1.9	-2.6	-2.7	-2.4	-2.2	-2.3
Debt relief/rescheduling (HIPC)	0.5	0.5	0.5	0.4	0.4	0.4	0.4
External arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**2.1**	**4.0**	**3.0**	**2.4**	**0.0**
CCRT		0.0	0.1	0.0	0.0	0.0	0.0
DSSI (Net)		0.0	0.0	0.0	0.0	0.0	0.0
Proposed IMF ECF		0.0	0.8	1.6	1.5	1.4	0.0
Residual financing gap		0.0	1.1	2.4	1.5	1.1	0.0
Memorandum items:							
Non-oil GDP	5,130	5,271	5,337	5,603	5,953	6,363	6,807
Poverty-reducing social spending	4.7	5.5	5.3	4.9			
Bank deposits (including BEAC)	2.9	2.8	3.4	3.9	4.1	4.5	4.5
(In months of domestically-financed spending)	2.3	1.9	2.3	2.8	3.1	3.4	3.6
BEAC advances	9.4	9.1	9.0	7.7	6.4	5.3	4.2

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

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

[2] includes subsidies to the electricity company starting from 2020.

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

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

[5]Difference between committed and cash expenditure.

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

Table 4. Chad: Balance of Payments, 2019-2025
(billions of CFAF, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025
		Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account, excl. budget grants	**-313**	**-645**	**-450**	**-421**	**-553**	**-630**	**-537**
Trade balance	683	181	569	491	434	414	479
Exports, f.o.b.	2,064	1,508	1,988	1,980	1,979	2,021	2,142
Of which : oil	1,681	1,070	1,530	1,461	1,417	1,407	1,431
Imports, f.o.b.	-1,381	-1,327	-1,419	-1,490	-1,546	-1,606	-1,663
Services (net)	-1,295	-1,245	-1,347	-1,336	-1,360	-1,347	-1,352
Income (net)	-170	-131	-163	-162	-174	-182	-164
Transfers (net)	469	550	491	586	548	485	500
Official (net)	111	95	95	99	104	109	116
Private (net)	358	455	396	487	445	376	384
Financial and capital account	**293**	**427**	**272**	**126**	**300**	**394**	**482**
Capital transfers	69	108	131	139	156	170	178
Foreign direct investment	277	223	234	256	283	303	327
Other medium and long term investment	-38	34	-11	-195	-150	-145	-152
Public sector (excl. budget support loans)	-17	-35	41	-73	-55	-51	-57
Of which: SDR Allocation			106				
Private sector	-21	69	-51	-123	-94	-94	-94
Short-term capital	-15	63	-82	-74	11	67	128
Errors and omissions	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-19**	**-217**	**-178**	**-295**	**-253**	**-235**	**-55**
Financing	**-102**	**-42**	**19**	**-21**	**-19**	**-10**	**-18**
Change in official reserves (decrease +)	-102	-42	19	-21	-19	-10	-18
Of which: SDR Allocation			-106				
Exceptional Financing	28	26	25	25	25	24	25
Debt relief (HIPC)	28	26	25	25	25	24	25
Exceptional Financing	0	0	0	0	0	0	0
Other Exceptional Receipt	0	0	0	0	0	0	0
External arrears accumulation	0	0	0	0	0	0	0
Financing gap	**-93**	**-233**	**-134**	**-292**	**-247**	**-221**	**-48**
Financing gap (percent of GDP)	-1.5	-3.8	-2.0	-4.3	-3.4	-2.9	-0.6
Expected financing (excl. IMF; incl. expected budget loans and grants)	20	125	23	67	68	68	49
Budget support loans	13	0	0	41	40	40	21
Program grants (current transfers)	7	125	23	26	28	28	28
World Bank	0	57					
Other development partners	7	66					
Debt Relief	-	1	1	0	-1	-1	0
DSSI (Net)	-	1	1	0	-1	-1	0
IMF financing, *of which*	74	108	50	88	88	87	0
Proposed IMF ECF	74	0	44	88	88	87	0
CCRT	-	2	6	-	-	-	-
IMF RCF-1	-	67	-	-	-	-	-
IMF RCF-2	-	39	-	-	-	-	-
Residual gap	0	0	-60	-137	-92	-67	0
Memorandum items:							
Current account (incl. expected budget grants; percent of GDP)	-4.8	-8.4	-6.5	-5.8	-7.3	-7.9	-6.3
Overall Balance of Payment (incl. expected budget support; percent of GDP)	0.0	-1.5	-2.4	-3.3	-2.6	-3.1	-0.7
Exports (percent of GDP)	32.2	24.4	30.2	29.0	27.6	26.7	26.6
Of which : oil	26.2	17.3	23.2	21.4	19.8	18.6	17.8
Imports (percent of GDP)	-21.6	-21.5	-21.5	-21.8	-21.6	-21.2	-20.6
FDI (percent of GDP)	4.3	3.6	3.5	3.8	4.0	4.0	4.1
Gross imputed reserves (billions of USD)	0.3	0.4	0.4	0.4	0.5	0.5	0.5

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

Table 5. Chad: Monetary Survey, 2020-2025
(billions of CFAF, unless otherwise indicated)

	2020	2021				2022	2023	2024	2025
		Q1	Q2	Q3	Q4				
	Est.	Proj.				Proj.	Proj.	Proj.	Proj.
Net foreign assets	**-153.0**	**-244.9**	**-224.7**	**-224.7**	**-179.2**	**-232.2**	**-277.8**	**-317.7**	**-251.3**
Central bank	-149.8	-257.5	-258.3	-258.3	-212.7	-265.8	-311.4	-351.3	-284.8
Foreign assets[1]	216.3	116.0	109.5	122.2	317.4	338.7	357.0	366.7	384.2
Foreign liabilities	-366.0	-373.6	-367.8	-380.5	-530.1	-604.5	-668.4	-718.0	-669.0
o/w. IMF financing[1]	-338.6	-338.6	-338.6	-338.6	-382.6	-457.2	-521.5	-571.6	-522.9
Commercial banks	-3.3	12.7	33.6	33.6	33.6	33.6	33.6	33.6	33.6
Net domestic assets	**1437.6**	**1557.1**	**1588.7**	**1598.7**	**1608.8**	**1686.3**	**1746.4**	**1810.1**	**1807.7**
Domestic credit	1581.1	1682.3	1723.2	1788.7	1798.8	1876.3	1936.4	2000.1	1997.7
Claims on the government (net)[1]	958.9	896.6	926.6	936.6	1105.6	1143.3	1158.0	1170.8	1119.9
Treasury (net)	918.9	876.6	906.6	916.6	1085.6	1123.3	1128.0	1120.8	1059.9
Banking sector	918.9	876.6	906.6	916.6	1085.6	1123.3	1128.0	1120.8	1059.9
Central bank	801.8	769.5	769.5	769.5	819.1	811.9	797.3	760.3	640.1
Claims on general government	851.5	851.5	851.5	851.5	901.2	927.8	944.1	946.2	849.5
o/w. Advances[1]	479.9	479.9	479.9	479.9	479.9	431.9	383.9	335.9	287.9
o/w. IMF financing	338.6	338.6	338.6	338.6	382.6	457.2	521.5	571.6	522.9
Liabilities to general government	-49.8	-82.1	-82.1	-82.1	-82.1	-115.9	-146.9	-185.9	-209.5
Commercial banks	117.1	107.1	137.1	147.1	266.5	311.4	330.7	360.4	419.8
Claims on general government	230.4	220.4	250.4	260.4	379.7	424.7	444.0	473.7	533.1
Liabilities to general government	-113.3	-113.3	-113.3	-113.3	-113.3	-113.3	-113.3	-113.3	-113.3
Other non-treasury	40.0	20.0	20.0	20.0	20.0	20.0	30.0	50.0	60.0
Credit to the economy	684.9	746.4	780.4	852.1	693.2	733.0	778.4	829.4	877.8
Other items (net)	-189.6	-171.2	-168.0	-190.0	-190.0	-190.0	-190.0	-190.0	-190.0
Money and quasi money	**1284.6**	**1312.2**	**1364.0**	**1374.0**	**1429.6**	**1454.0**	**1468.6**	**1492.4**	**1556.4**
Currency outside banks	573.7	586.1	609.2	613.6	638.5	649.4	655.9	666.5	695.1
Demand deposits	579.0	591.5	614.8	619.3	644.4	655.4	661.9	672.7	701.5
Time and savings deposits	131.9	134.7	140.0	141.1	146.8	149.3	150.8	153.2	159.8
Memorandum items:									
Broad money (annual percentage change)	17.6				11.3	1.7	1.0	1.6	4.3
Credit to the economy (annual percentage change	8.1				1.2	5.7	6.2	6.5	5.8
Credit to the economy (percent of GDP)	11.1				10.5	10.7	10.9	10.9	10.9
Credit to the economy (percent of non-oil GDP)	13.0				13.0	13.1	13.1	13.0	12.9
Velocity (non-oil GDP)	4.1				3.7	3.9	4.1	4.3	4.4
Velocity (total GDP)	4.8				4.6	4.7	4.9	5.1	5.2

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

[1] Includes statutory and exceptional advances.

Table 6. Chad: Structural Benchmarks 2021/22 and Prior Actions for the 2021 ECF

Prior Actions

1. Ministry of Finance and Budget to partially recapitalize CBT by CFAF 4.5 billion, in line with recapitalization plan that was approved by COBAC.

2. Publication on-line on an easily accessible governmental website of the full text of all COVID-19-related procurement contracts awarded by the central government, as of May 31, 2021.

Structural Benchmarks

1. Publication of a quarterly note on the oil sector, in line with the template designed in consultation with Fund staff, including detailed information on debt service to Glencore.	Quarterly, starting end-December 2021
2. Completion and publication of ex-post compliance audit of COVID expenses by a reputable international auditing firm.	End- December 2021
3. Publication of a semi-annual note which lists all new tax exemptions (including renewal and extension of exemptions).	Semi-annual, starting end-January 2022
4. Allocate VAT revenues in the VAT escrow account at the BEAC	End-February 2022
5. Publish on-line on an easily accessible governmental website the full text of all central government procurement contracts along with the names and nationalities of the beneficial owners of the awarded legal entities.	End-March 2022
6.The government to finalize and adopt the PFM strategy, in line with IMF Technical Assistance.	End-June 2022
7. Implement employment ceilings, in accordance with the provisions of the 2014 organic law on public finance	End- August 2022
8. Implementation of the ASYCUDA Exemption Module to process all customs exemptions requests and authorizations	End- November 2022

Sources: Chadian authorities and IMF staff.

Table 7. Chad: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) Under the ECF Arrangement

(in billions of CFAF, unless otherwise indicated)

	End-Dec 2021 QPCs	End-March 2022 ITs	End-June 2022 QPCs	End-Sept 2022 ITs	End-Dec 2022 QPCs
Quantitative Performance Criteria					
1. Ceiling on new external arrears of the government and non-financial public enterprises[1]	0	0	0	0	0
2. Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises[1]	0	0	0	0	0
3. Floor on non-oil primary budget balance (NOPB)[2]	-412	-95	-156	-245	-333
4. Ceiling on net domestic government financing[3]	....	....	....	-35	-120
5. Ceiling on the stock of domestic payment arrears by the government[4]	....	....	381	361	341
Indicative Targets					
4. Ceiling on net domestic government financing[3]	43	53	-8	....	....
5. Ceiling on the stock of domestic payment arrears by the government[4]	391	391	....	....	....
6. Floor on government tax revenue, excluding tax revenue from oil companies[3]	477	110	253	391	529
7. Ceilling on wages and salaries	425	109	219	328	437
8. Floor for poverty-reducing social spending[5]	284	76	151	234	273
Memorandum items:					
9. Emergency spending procedures-DAO (Percent of primary spending) [6]	*20*	*18*	*18*	*18*	*18*
10. Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO) [6]	*80*	*50*	*70*	*70*	*70*
11. External concessional borrowing (US$ million)	*0*	*0*	*0*	*0*	*75*
12. Oil Revenue [7]	*374*	*97*	*236*	*373*	*512*
13. Grants [8]	*23*	*7*	*13*	*20*	*26*

Sources: Chadian authorities; and IMF Staff.

Notes: The adjustors for the QPCs and ITs are defined in paragraph 23 of the TMU.

In addition to QPCs enumerated in this table, the Standard Continuous Performance Criteria will also apply: (i) not to impose or intensify restrictions on the making of payments and transfers for current international transactions, (ii) not to introduce or modify multiple currency practices, (iii) not to conclude bilateral payments agreements that are inconsistent with Article VIII, (iv) not to impose or intensify import restrictions for balance of payments reasons.

All indicators are cumulative from January 1 unless stated otherwise

1/ Applies continuously.

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

3/ See TMU.

4/ Stock of verified arrears as definied In line with the TMU.

5/ 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).

6/ 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.

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

8/ Budget grants.

Table 8. Chad: Proposed Schedule of Disbursement Under the new ECF Arrangement, 2021-24

Available Date	Conditions for Disbursement	Amount (Percent of Quota)	Amount (Millions of SDRs)
Date of Board Approval	Executive Board approval of the ECF arrangement	40.0	56.08
April 15, 2022	Observance of the performance criteria for December 31, 2021 and completion of the first review under the arrangement	40.0	56.08
September 15, 2022	Observance of the performance criteria for June 30, 2022 and completion of the second review under the arrangement	40.0	56.08
April 14, 2023	Observance of the performance criteria for December 31, 2022 and completion of the third review under the arrangement	40.0	56.08
September 15, 2023	Observance of the performance criteria for June 30, 2023 and completion of the fourth review under the arrangement	40.0	56.08
April 15, 2024	Observance of the performance criteria for December 31, 2023 and completion of the fifth review under the arrangement	40.0	56.08
September 16, 2024	Observance of the performance criteria for June 30, 2024 and completion of the sixth review under the arrangement	40.0	56.08
Total		**280.0**	**392.56**

Source: IMF Staff estimates and projections.

Table 9. Chad: Indicators of Capacity to Repay the Fund, 2021–35

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Fund obligations based on existing credit (SDR millions)															
Principal	0.0	17.0	29.7	47.7	62.7	74.8	65.9	55.4	37.9	18.2	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit (SDR millions)															
Principal	0.0	17.0	29.7	47.7	62.7	74.8	82.7	94.6	99.5	96.7	78.5	61.7	39.3	16.8	0.0
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations based on existing and prospective credit															
SDR millions	0.0	17.1	29.8	47.8	62.8	74.9	82.8	94.7	99.6	96.8	78.6	61.8	39.4	16.9	0.1
CFAF billions	0.0	13.4	23.3	37.2	48.7	57.9	64.1	73.3	77.1	74.9	60.8	47.8	30.5	13.1	0.1
Percent of exports of goods and services	0.0	0.6	1.1	1.7	2.1	2.4	2.5	2.7	2.7	2.6	2.1	1.6	1.0	0.4	0.0
Percent of debt service[1]	0.0	8.1	14.0	20.3	23.9	26.0	37.2	34.7	45.4	50.3	38.5	29.6	18.9	8.0	0.0
Percent of GDP	0.0	0.2	0.3	0.5	0.6	0.7	0.7	0.8	0.7	0.7	0.5	0.4	0.2	0.1	0.0
Percent of tax revenue	0.0	2.5	3.9	5.6	6.5	7.0	7.1	7.5	7.2	6.5	5.0	3.6	2.2	0.9	0.0
Percent of quota	0.0	12.2	21.2	34.1	44.8	53.4	59.1	67.6	71.1	69.1	56.1	44.1	28.1	12.1	0.1
Outstanding IMF credit based on existing and prospective drawings															
SDR millions	465.3	560.4	642.9	707.4	644.7	569.9	487.2	392.6	293.0	196.3	117.8	56.1	16.8	0.0	0.0
CFAF billions	365.7	439.5	502.1	550.3	499.8	441.0	377.0	303.8	226.8	151.9	91.1	43.4	13.0	0.0	0.0
Percent of exports of goods and services	16.9	20.3	23.1	24.8	21.3	18.1	14.7	11.3	8.0	5.2	3.1	1.5	0.4	0.0	0.0
Percent of debt service[1]	248.8	263.9	302.2	300.8	245.2	198.1	219.0	143.6	133.6	101.9	57.6	26.9	8.1	0.0	0.0
Percent of GDP	5.5	6.4	7.0	7.3	6.2	5.1	4.1	3.1	2.2	1.4	0.8	0.4	0.1	0.0	0.0
Percent of tax revenue	76.6	83.0	84.8	82.8	67.1	53.2	41.7	30.9	21.2	13.2	7.4	3.3	0.9	0.0	0.0
Percent of quota	331.9	399.7	458.6	504.5	459.8	406.5	347.5	280.0	209.0	140.0	84.0	40.0	12.0	0.0	0.0
Net use of IMF credit (SDR millions)	48.0	95.2	82.5	64.5	-62.7	-74.8	-82.7	-94.6	-99.5	-96.7	-78.5	-61.7	-39.3	-16.8	0.0
Disbursements	48.0	112.2	112.2	112.2	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	17.0	29.7	47.7	62.7	74.8	82.7	94.6	99.5	96.7	78.5	61.7	39.3	16.8	0.0
Memorandum items:															
Exports of goods and services (CFAF billions)	2,169	2,167	2,174	2,223	2,350	2,441	2,561	2,687	2,822	2,915	2,944	2,981	3,025	3,082	3,136
External Debt service (CFAF billions)[1]	147	167	166	183	204	223	172	212	170	149	158	162	161	164	177
Nominal GDP (CFAF billions)	6,593	6,826	7,163	7,580	8,055	8,567	9,125	9,719	10,354	10,992	11,627	12,322	13,076	13,890	14,765
Tax revenue (CFAF billions)	478	529	592	665	745	829	903	984	1,071	1,147	1,229	1,317	1,412	1,515	1,624
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.

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

Table 10. Chad: Risk Assessment Matrix

	Source of Risks/Time Frame/Relative Likelihood	Potential Impact	Recommended Policy Response
	Uncontrolled COVID-19 local outbreaks and subpar growth. Outbreaks in slow-to vaccinate countries force new lockdowns /Short to medium term/High	**High** This could result in higher fiscal costs.	Prepare for more COVID-related measures and seek additional donor support.
	Widespread social discontent and political instability. Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing price of essentials hurts vulnerable groups/**Short to medium term/Medium**	**Medium** This could result in higher fiscal costs.	Maintaining an active dialogue to make sure that progress is made on the wage bill strategy.
	Rising commodity prices amid bouts of volatility. Uncertainty leads to bouts of volatility, especially in oil prices**/Short to medium term/Medium**	**Medium** Chad's fiscal health and debt sustainability hinge on oil prices to a large degree.	Further develop non-oil revenue sources and implement a price smoothing mechanism for fiscal policy.
	Intensified geopolitical tensions and security risks. Geopolitical tensions cause economic and political disruption, disorderly migration, higher volatility in commodity prices and lower confidence**/Short to medium term/High**	**High** This could result in an increase in fiscal pressures.	Protect social spending and seek donor support.
	Higher frequency and severity of natural disasters related to climate change cause severe economic damage. **/Short to medium term/Medium**	**Medium** This could result in higher fiscal costs.	Prepare for mitigation and adaptation measures and seek donor support.
	Delay/insufficient assurances from private creditors, which is key to improving Chad's debt rating **/Short to medium term/Medium**	**Medium** This will be necessary to bring external and public debt rating from high to moderate risk of debt distress and allow higher program access.	Financial and legal advisors to intensify discussions with private creditors.

The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Three-Year Arrangement Under the Extended Credit Facility

Attached hereto is a letter dated November 24, 2021 (the "Letter"), with its attached Memorandum of Economic and Financial Policies (the "MEFP") and Technical Memorandum of Understanding (the "TMU"), from the Minister of Finance and Budget of Chad requesting from the International Monetary Fund, as Trustee of the Poverty Reduction and Growth Trust (the "Trustee"), a three-year arrangement under the Extended Credit Facility ("ECF"), and setting forth:

(a) the objectives and policies of the program that the authorities of Chad intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of Chad intend to pursue during the first year of the arrangement; and

(c) understandings of Chad with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Chad will pursue during the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Trust (the "PRG Trust") including in particular Section II, paragraph 1(b)(4) of the PRG Trust instrument annexed to Decision No. 8759-(87/176) ESAF, as amended.

1. (a) For a period of three years from the date of approval of this arrangement, Chad will have the right to obtain disbursements from the Trustee in a total amount equivalent to SDR 392.56 million, subject to the availability of resources in the PRG Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 168.24 million in the first twelve months, and the equivalent of SDR 280.40 million in the first twenty-four months.

2. During the period of the arrangement:

(a) the first disbursement, in an amount equivalent to SDR 56.08 million, will be available upon approval of the arrangement, at the request of Chad;
(b) the second disbursement, in an amount equivalent to SDR 56.08 million, will be available on or after [April 15], 2022 at the request of Chad and subject to paragraphs 4 and 5 below;
(c) the third disbursement, in an amount equivalent to SDR 56.08 million, will be available on or after [September 15], 2022, at the request of Chad and subject to paragraphs 4 and 5 below;
(d) the fourth disbursement, in an amount equivalent to SDR 56.08 million, will be available on or after [April 14], 2023, at the request of Chad and subject to paragraphs 4 and 5 below;

3. The right of Chad to request further disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined in the context of reviews under Chad's ECF arrangement.

4. Chad will not request the second, third or fourth disbursements under this arrangement specified in paragraphs 2(b), 2(c) and 2(d) above respectively:

(a) if the Managing Director of the Trustee finds that, with respect to the second disbursement, the data as of December 31, 2021, with respect to the third disbursement, the data as of June 30, 2022, and with respect to the fourth disbursement, the data as of December 31, 2022 indicate that:
(i) the floor on the non-oil primary budget balance;
(ii) the ceiling on net domestic government financing; or
(iii) the ceiling on the stock of domestic payment arrears by the government;

as set out in Table 1 of the MEFP and further specified in the TMU was not observed; or

(b) until the Trustee has determined that, with respect to the second disbursement the first program review, with respect to the third disbursement the second program review, and with respect to the fourth disbursement the third program review referred to in paragraph [55] of the MEFP, has been completed.

5. Chad will not request a disbursement if at any time during the period of this arrangement:

(a) the ceiling on new external arrears by the government and non-financial public enterprises; or
(b) the ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises,

as set out in Table 1 of the MEFP and further specified in the TMU, is not observed; or

(c) Chad:

(i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions, or
(ii) introduces or modifies multiple currency practices, or
(iii) concludes bilateral payments agreements that are inconsistent with Article VIII, or
(iv) imposes or intensifies import restrictions for balance of payments reasons.

6. When Chad is prevented from requesting disbursements under this arrangement because of paragraphs 4 and 5 above, such disbursements may be made available only after consultation has taken place between the Trustee and Chad and understandings have been reached regarding the circumstances in which Chad may request the disbursements.

7. In accordance with Paragraph [5] of the Letter, Chad will provide the Trustee with such information as the Trustee requests in connection with the progress of Chad in implementing the policies and reaching the objectives of the program supported by this arrangement.

8. During the period of this arrangement, Chad shall remain in close consultation with the Trustee. In accordance with Paragraph [5] of the Letter, Chad shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Chad has outstanding financial obligations to the Trustee arising from loan

disbursements under this arrangement, Chad will consult with the Trustee from time to time, at the initiative of the government or whenever the Managing Director of the Trustee requests consultation on Chad's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Chad or of representatives of Chad to the Trustee.

Appendix I. Letter of Intent

November 24, 2021

N'Djamena , November 2021
Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC, USA

Dear Madame Georgieva,

Chad made progress on the economic and financial reform program supported by the Extended Credit Facility (ECF) approved by the IMF Executive Board on June 30, 2017. The program helped reestablish debt sustainability and progressively consolidate the external position. Despite a difficult socio-economic situation and continued humanitarian, climate change and security challenges, our economy had been recovering since 2018, and there were clear signs it was recovering from the financial crisis. Unfortunately, this encouraging progress was interrupted by the COVID-19 pandemic. Due to the scale and duration of the pandemic and the technical difficulties to finalize the 6th review, upon approval by the Board of Directors of the second disbursement under the Rapid Credit Facility (RCF), the ECF arrangement was cancelled and the last disbursement was forfeited.

Chad has been severely hit by the Covid-19 health and economic shocks. While preventive measures have been effective in controlling the pandemic, they disrupted domestic activities. The associated health sector spending and the drop in world oil prices have generated substantial balance of payments and budgetary needs. We are grateful to the IMF's timely support through two disbursements in April and July 2020 under the "exogenous shock" window of the RCF for a total amount of SDR 133.19 million (95 percent of quota). Fund emergency financing catalyzed donor support that helped close financing gaps in 2020. In the absence of any budgetary support in 2021, the new SDR allocation was used to finance pressing social needs, including to address the looming food crisis. However, the pandemic has deteriorated Chad's outlook, and significant balance of payment and budget financing needs remain over the medium term. Indications are that the recent gains made in poverty reduction could be reversed, given the impact of the pandemic.

The Government is determined to tackle the entrenched vulnerabilities in the context of a medium-term program in line with the 2030 vision. The objective of our program is to promote sustainable, green growth and poverty reduction. We believe that the policies outlined in the attached Memorandum of Economic and Financial Policies (MEFP) for 2021-24 could be supported by the IMF under a new ECF arrangement. These policies aim at ensuring fiscal and debt sustainability, improving governance and budgetary allocations to social sectors, strengthening the financial sector, and implementing structural reforms for economic diversification. At the regional front, we will continue to implement policies that are consistent with maintaining regional external stability, in particular by contributing to the restoration of an adequate level of regional reserves, thus helping achieve the regional NFA objectives in the updated letter of policy support from BEAC.

In order to facilitate the implementation of our program and reduce remaining balance of payments vulnerabilities, the Government of Chad requests assistance under the IMF's PRGT for an ECF arrangement in an amount equivalent to SDR 392.56 million, or 280 percent of quota, to be disbursed in seven equal tranches over 36 months. Approval of this request would result in an immediate disbursement of SDR 56.08 million. A first review of the program would be completed on or after April 15, 2022, and a second review on or after September 15, 2022.

We believe that the policies set forth 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, in accordance with the attached Technical Memorandum of Understanding (TMU).

In keeping with our longstanding commitment to transparency, the Government agrees to the publication of the staff report for the new ECF arrangement, 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 for 2021-24

Introduction

1. **The Government successfully implemented the 2017-2020 economic and financial program supported by the IMF under the Extended Credit Facility (ECF).** The three-year ECF arrangement approved on June 30, 2017, helped restore debt sustainability and limit the impact of the 2014-16 oil price shocks. There were signs that the economy was progressively recovering from the financial crisis, with economic growth becoming positive since 2018. Five reviews under the ECF were concluded without interruption, with the 5th ECF review completed on December 13, 2019. The progress made was however abruptly interrupted by the economic and health shocks of the COVID-19 pandemic, which led to large balance of payments and budgetary needs. Chad benefitted from IMF's timely support through two disbursements in April and July 2020 under the "exogenous shock" window of the Rapid Credit Facility (RCF) for a total amount of SDR 133.19 million (95 percent of quota). Fund emergency financing catalyzed donor support that helped close financing gaps in 2020. However, the pandemic has deteriorated Chad's outlook, and significant balance of payment and budget financing needs remain over the medium term.

2. **The Government is determined to implement another ECF-supported program**. In view of practical difficulties to achieve the last disbursement (SDR 28.04 million, 20 percent of quota) under the previous ECF arrangement, the arrangement was cancelled, upon approval by the Board of Directors of the second disbursement under the RCF. The emphasis is now put on preparing a new medium-term economic program for 2021-24 that could be supported by a successor IMF arrangement. The new program aims at maintaining macroeconomic stability achieved under the previous ECF program and at promoting sustainable, inclusive, pro-business, green growth and poverty reduction. This Memorandum of Economic and Financial Policies (MEFP) for 2021-24 outlines policies that could be supported by the IMF under a new ECF arrangement. These policies aim at ensuring fiscal and debt sustainability, improving governance and budgetary allocations to social sectors, strengthening the financial sector, and implementing structural reforms for economic diversification.

Taking Stock of the Last ECF arrangement

3. **The previous ECF arrangement helped restore fiscal and debt sustainability.** The arrangement was approved in response to the economic, financial and social impact of external shocks faced by Chad since mid-2014 following the drop in world oil prices. Despite the very difficult security and social environment, the Government's strong commitment and determination to reform along with the budget support from World Bank, the European Union, the African Development Bank and France (*Agence Française de Développement* or *AFD*), led to the completion of five reviews without interruption.

4. The program's objective of restoring fiscal and debt sustainability was achieved: (1) external debt sustainability was restored thanks to the restructuring of the oil-backed Glencore commercial debt on better conditions for the Government (2) the non-oil primary deficit was kept below 5 percent of non-oil GDP thanks to an increase in non-oil revenue, particularly from VAT and customs, from 8.4 percent of non-oil GDP in 2016 to 9.4 percent of non-oil GDP in 2019 (0.6 percent point above program target) and a decline in the wage bill from 7.5 percent of non-oil GDP in 2016 to 7.0 percent of non-oil GDP in 2019 (0.2 percentage point better than the program target); and (3) the debt stock declined from 51.2 percent of GDP in 2016 to 44.3 percent of GDP in 2019 (0.4 percentage point below program target). Progress was made on a few key structural reforms: (i) the audit of domestic arrears was completed in December 2019 and the clearance strategy adopted in January 2020 is being implemented; (ii) restructuring and funding plans for CBT and BCC were adopted in December 2019 and performance contracts signed in March 2020 are being implemented; (iii) the publication of the quarterly oil note has helped improve transparency in the oil sector.

5. Progress on the commitment to diversify the economy remains limited and spending on social sectors was lower than envisaged. An institutional framework to improve the business climate and attract foreign private investment was established only in March 2019 and is awaiting operationalization. Private investment committed during the September 2017 Paris donor roundtable for mobilizing funding for the 2017-21 National Development Plan (PND) did not materialize. The program's objective of increasing budgetary allocations to social sectors was not fully reached as the indicative targets on the floor on poverty reducing social spending were missed during most of the program period, due partially to the inadequate public procurement framework. Other structural reforms have also proceeded slowly. Significant gaps remain regarding governance, PFM, including the wage bill, and debt management.

Recent Developments

6. Economic activity contracted in 2020 due to the COVID-19 pandemic. Real activity, projected to grow by 3.9 percent at the time of the 5th ECF review, contracted by 1.6 percent, reflecting a contraction of the oil GDP and a decline in non-oil activity -1.6 percent. While preventive measures initiated in March 2020 have been effective in controlling the spread of the virus, they disrupted distribution channels as well as non-oil activities in transport, tourism and hospitality. Fortunately, the negative impact has been lessened by sustained activity in the telecommunication sector and high agriculture growth from the prospects of a good crop year. Inflation (yoy) picked up in 2020, annual average inflation is estimated at 4.5 percent in 2020, compared to -1.0 percent in 2019. In a recent INSEED survey, a good number of respondents indicated that they had lost their job due to the COVID-19, with the most income loss in the services sector.

7. Budget execution in 2020 shows a widening of the NOPB because of the negative impact of COVID-19 on revenues and higher expenditure needs. Despite the good performance of the VAT and customs revenue, non-oil revenue has been lower than projected in the original budget. On the other hand, oil revenue has exceeded budget projections thanks to the large corporate tax payments by a major oil company. Expenditures were higher than projected, reflecting health spending related to COVID-19, higher security spending and the financial impact of the January 2020 agreement with labor unions reestablishing benefits to public sector workers which were cut following the 2014 crisis. The agreement with labor unions provided that most of the benefits would be restored in January and July 2020. In August 2020, the National Assembly passed a revised 2020 budget law reflecting the financing needs stemming from the COVID-19 pandemic.

8. The government continued to reduce its stock of domestic debt. During 2020, the average roll-over rate was roughly 91 percent. There was market appetite for short-term BTA (26 weeks). Government deposits at the BEAC stabilized at CFAF 125 billion.

9. Faced with a tight liquidity situation during the first half of 2021, the government had to cut spending. Despite the good performance in non-oil revenues, the large drop in oil revenues and the delays in donors support have led the government to slash spending, mainly in domestically financed investment and transfers and subsidies. Security spending and the wage bill increased, especially after the recent events while social spending was under executed. To satisfy its large financing needs, the government almost depleted its deposits at the BEAC and relied on domestic borrowing

10. The Government decided to use the entire SDR allocation of US$193 million, help alleviate the liquidity squeeze. This SDR allocation will be mostly used in 2021 for priority spending, and to support economic recovery, in addition to food security.

11. The Government made additional progress in clearing domestic arrears, with total domestic arrears declining by CFAF 149.6 billion in 2020. Arrears amounting to CFAF 79.6 billion were paid by the Treasury. The Government also started implementing the plan to clear domestic arrears adopted in January 2020, based on the independent audit report of end-2019, which set the net stock at CFAF485 billion. In June 2020, an agreement was reached with local banks for clearing CFAF 110 billion in domestic arrears to banks and other borrowers through an CFAF 85 billion 8-year bank loan and the issuance of treasury bonds for CFAF 25 with maturities ranging between 3-5 years. Up to end-December, arrears amounting to CFAF 70 billion were cleared thanks to the loan. The agreement is expected to improve bank portfolio and profits, by reducing NPLs and provisioning needs.

12. The Government has maintained good relations with external creditors. Debt service obligations are being paid regularly except for the already outstanding arrears. Discussions are underway to address outstanding arrears with Libya, the Republic of Congo and BDEAC. 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, will ensure the nonrecurrence of external arrears.

13. The banking sector has been impacted by COVID-19. The ratio of nonperforming loans, which had declined in 2019, rebounded to 26 percent at end 2020 from 23 percent a year earlier. Moreover, the financial position of domestic banks remains fragile, some of them facing liquidity constraints and a weak capital position. This is mainly reflected in the significant drop in the sector's capital adequacy ratio, for the most part due to the changes in COBAC's reporting requirements to Basel II standards. End of December data show that lending activity and deposits grew, backed by the private and public sector. Starting from April 2020, the Ministry of Finance has been making monthly repayments of the direct debt to BCC and CBT (CFAF 250 million and CFAF 500 million per month, respectively), as envisaged in their restructuring and funding plans. The delayed partial recapitalization of CBT, amounting to CFA 4.5 billion, will be completed soon (prior action).

14. The security situation remains difficult and the social environment fragile. Boko Haram has intensified attacks in the Lake Chad region, sending more regional refugees to Chad and several thousands of internally displaced people, aggravating humanitarian needs. In early 2020, the security forces conducted a major campaign that destroyed its bases in the Chadian islands of Lake Chad. This led to the postponement of the force to fight against terrorism in the Sahel in line with the January Pau Summit in France. Chad continues to play a leading security role in Central Africa and in the Sahel. On April 11, Chad was attacked by a Libya-based terrorist group. President Déby, the Marshal of Chad, succumbed to wounds sustained in fighting the group. An 18-month transition was established, under the leadership of the Transitional Military Council and a broad-based civilian government. The transition will end with democratic, fair and free presidential and legislative elections. Security concerns have continued to necessitate an increase in security spending. Despite Government mitigating measures, the impact of COVID-19 on businesses and households has been significant. A severe rain shortfall in 2021 has increased food insecurity, while we registered an increase in the number of refugees and internally displaced people. To preserve social peace during the transition, in October 2021 a "social pact" was signed with public sector labor unions. The social pact reinstates some benefits cut following the post-2014 financial crisis.

15. Progress has been made under the 18-month political transition in line with the roadmap adopted in July 2021. The National Transition Council, with a parliamentary role, was installed on October 5, and an inclusive national dialogue has been prepared, with the participation of politico-military groups. The transition government has appealed to development partners to help finance priority activities under the transition road map, including the national dialogue, the revision of the constitution, and the organization of presidential and legislative elections.

Economic and Financial Policies for FY2022-24

A. Outlook and Risks

16. The medium-term outlook remains dependent on the evolution of the COVID-19 pandemic, oil prices and debt burden. Growth prospects are weak, as non-oil growth is projected to reach 3.8 percent in 2024, while oil production will remain subdued over the medium-term. Inflation will hover around 3 percent. Significant balance of payment needs and budgetary financing gaps persist, averaging 2.6 percent of GDP per year during 2021-24. Donor support will be necessary in the form of budget support to help cover remaining gaps, along with debt restructuring to reduce the debt burden. The outlook is subject to risks, including developments in the COVID-19 pandemic, oil prices, security and the implementation of sound public policies.

17. Medium-term policies will support the PND, built on the Government's "Vision 2030", "the Chad we want". The PND (2017-21) includes a comprehensive strategy to put the economy on a sustainable growth path and improve the socio-economic conditions of the population. It entails policies that would help stabilize the economy, support a resumption in non-oil growth and build the foundation for inclusive, sustainable, green and pro-business growth. A mid-term review of the implementation of the PND was conducted in August 2020, and a new PND (2022-26) is adopted in 2021. Policies for 2022-26, detailed below, are built on: (i) ensuring fiscal and debt sustainability; (ii) strengthening public financial management (PFM) and debt management; and (iii) deepening structural reforms promoting economic diversification.

B. Enhancing Fiscal and Debt Sustainability

18. The Government will conduct a phased fiscal adjustment contributing at reducing the risk of debt distress over the medium term. The non-oil primary balance will constitute the key indicator of fiscal adjustment and will be monitored as a quantitative performance criterion under the ECF-supported program. The adjustment will be based on a progressive increase in non-oil revenue and improvements in the allocation of resources. Reducing the risk of debt distress from high to moderate will also require bringing down the debt service. To this end, the Government has actively engaged creditors on debt restructuring.

19. The Government will pursue efforts to raise non-oil revenue, which remains low. Due to COVID-19, non-oil revenue declined from 9.4 percent of non-oil GDP in 2019 to 9.1 percent in 2020. The program aims to gradually increase non-oil tax revenue by some 1.8 percentage points of non-oil GDP by 2024, to 10.8 percent of non-oil GDP. Gains in non-oil revenue are predicated on the improved management of the VAT and the modernization of tax and customs administration, including through greater computerization (see details on short-term and medium-term measures below) and optimization of exemptions.

20. The program aims at progressively reducing current primary expenditure (as percent of non-oil GDP) and raising investment spending. The program projects a progressive rephasing of special spending related to COVID-19, improving the quality of spending, and savings from a better control of the wage bill and transfers and subsidies. At the same time, adequate resources will be oriented to poverty reduction, with higher allocation to social sectors and social programs. Accordingly, current primary spending is projected to decline gradually from 14 percent of non-oil GDP in 2020 to 12.4 percent by 2024.

21. The Government is determined to contain the wage bill to a sustainable level despite the recent signature of the Social Pact. The wage bill, which has been on the rise since 2019, will be brought to levels that could be supported by non-oil revenue, without crowding out priority spending. The wage bill is projected to decline from 8.2 percent of non-oil GDP (96 percent of non-oil revenue) in 2020 to 7.3 percent of non-oil GDP (68 percent of non-oil revenue) by 2024.

22. The Government is also committed to streamline transfers and subsidies. Transfers and subsidies increased from 2.6 percent of non-oil GDP in 2019 to 3.7 percent of non-oil GDP in 2020, reflecting COVID-19 related spending and subsidies to the electricity company. They are projected to slightly rise to 3.7 percent of GDP in 2021, reflecting new spending for the organization of presidential elections (CFAF 30 billion, or 0.6 percent of non-oil GDP) but also the phasing out of COVID-19 spending. Transfers and subsidies will average of 3.3 percent of non-oil GDP during 2022-24, as additional savings will be mitigated by activities by the National Solidarity Fund (FNS) established in 2020 among COVID-19 mitigating measures. The FNS, established in 2020, will help protect in a sustainable way the poorest and the most vulnerable to natural disasters. Savings are expected from a better control of transfers to international and regional organizations, and efficiency gains in allocated to crucial sectors (education, health, agriculture, security) and transfers to public entities. Short-term and medium-term measures to contain the wage bill and to contain transfers to public entities are detailed in paragraphs 34-35.

23. More budgetary allocations will be directed to investment and poverty reducing social spending. Investment spending plays a crucial role for long-term growth. It is expected to increase from 7.1 percent of non-oil GDP in 2020 to 7.5 percent by 2024; this will be 1.9 percentage points above the pre-COVID-19 level of 2019. The Government continues to attach the utmost importance to continue improving social spending, particularly given Chad's low social indicators. The program will set quarterly indicative targets in the form of floors on spending in several ministries and institutions. Meeting these targets will be facilitated by the reform of the procurement system. In the context of the 2021 budget, social spending will represent at least 34 percent of domestically financed primary expenditure (excluding transfers to the electricity company), and that investment increases by 10 percent relative to the pre-COVID level of 2019. The Government plans further increases during 2022-24. Social spending is defined in the attached TMU.

24. The Government will accelerate the clearance of domestic arrears. The Government will pursue implementation of the domestic arrears clearance plan. The remaining stock will be repaid over a period of 7 years in the form of securitization and cash payments for small obligations. The arrear clearance plan has established priorities for the payments, bases on their economic and social impact. The exact amount to be cleared per year will depend on the level of budgetary resources available. The Ministry of Finance and Budget will also continue to make the monthly repayment of the debt owed to CBT and BCC (CFAF 250 million and CFAF 500 million per month, respectively).

25. The Minister of Finance signed a Memorandum of Understanding with BEAC to exit the rollover mechanism for domestic bank debt. The rollover mechanism had been established to protect banks in difficulties (CBT and BCC) from Government's possible failure to pay maturities on securities, particularly in view of the difficulty to raise additional financing in the regional market. However, it has been costly to the Treasury and constraining for the Treasury management given that (i) the Treasury has not benefitted from the overall fall in the regional market interest rates; and (ii) the Treasury could not issue new securities. The exit of the roll over mechanism allowed Chad's Treasury to access the CEMAC securities market and to mobilize the CFAF 145 billion under the CFAF 600 billion public securities program. The phasing out of the rollover mechanism will however be done with caution, including a progressive restructuring of the current stock of short-term securities into longer-term securities, secured by the opening of an escrow account with BEAC.

26. The Government will seek the contribution of external creditors in reducing the risk of debt distress. The Government appreciates the IMF debt relief under the CCRT and has also benefited from the Debt Service Suspension Initiative (DSSI) to a smaller-than-expected amount. However, despite this effort and the envisaged fiscal adjustment, the debt service to Government revenue ratio, would remain above the IMF-World Bank LIC DSA threshold of 14 percent until 2026. Within the G20 common framework, the Government is engaging creditors on the restructuring of their debt by providing a significant reduction in debt burden that would bring the risk of debt distress to "moderate" by the end of the period covered by the program. To this end, the Government is seeking a restructuring that would close the program financing gaps and bring the external debt service-to-revenue ratio below 12.3 percent, to ensure there is some space to absorb shocks to revenues without a deterioration in the risk rating. The official bilateral creditors participating in the creditor committee have provided financing assurances and Chad, supported by its financial and legal advisors, is negotiating with its private creditors. The Government is determined to reach the necessary restructuring agreements with both official and private creditors by the time of the first ECF arrangement review.

27. Supported by the financing provided by the Fund-supported program, the common framework official bilateral creditors and the debtor would discuss and agree the Memorandum of Understanding for the debt treatment, in terms of: (i) the reduction in debt service during the determined period; (ii) the extension of the duration of payments and, where needed; and (iii) the reduction in the present value of payments. These parameters would guide the implementation of relief by other official bilateral creditors and by private creditors through bilateral agreements with the debtor following the comparability of treatment principle.

28. The 2021 budget was designed with a view to maintain fiscal prudence while efficiently using available resources to support economic recovery. The budget, in line with the proposed Fund-supported program, was approved by the National Assembly in December 2020.

- The Government understands that keeping the wage bill at a sustainable level is necessary to allow it to effectively implement fiscal policy and meet the development and social spending needs of the country. The Government remains committed to a wage bill envelop of CFAF 425 billion in line with the 2021 budget.

- Transfers and subsidies envelop was set at CFAF 206 billion reflecting the unwinding of COVID-19 related emergency spending as the crisis abates. Transfers to the electricity company are projected at CFAF 50 billion. The Government allocated CFAF 30 billion to cover the cost of the presidential election that took place in April 2021.

- 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). Improving the efficiency and prioritizing capital investment is a priority. The Government allocated an envelope of CFAF 140 billion for domestically financed capital investment from the State's own resources, in addition to CFAF 314 billion from external resources.

- The NOPB will improve by around 0.4 percent of non-oil GDP to reach 7.7 percent of non-oil GDP.

C. Tax and Customs Reforms

29. Higher non-oil revenue will help reduce the dependency on oil revenue. Addressing weaknesses in tax and customs administration will be the main driver for increasing non-oil revenue, which remains below potential, this will mainly involve strengthening the tax and customs administrations. Tax administration reforms will be based on (i) improved management of the VAT, whose performance (1.5 percent of GDP) is low by regional standards; (ii) modernization of tax and customs administration, including greater use of information technology (IT) and revenue collection through the banking system and mobile money; and (iii) better tax audits through strengthened collaboration between tax and customs administration.

30. Most of the non-oil tax revenue increase is expected from VAT reforms. Reforms will concentrate on addressing the factors behind the low VAT performance:

- First, the authorities are aiming to improve VAT control, which will be under the control of the unit responsible for the management of large enterprises and the management of medium-sized enterprises, including management of the list of taxable persons, organization of audits, follow-up of collections and refunds, in conjunction with collection services. With Fund assistance, the Authorities will establish a set of indicators in order to increase the number of taxpayers and improve compliance and effective tax payments. Reaching these objectives will require the collection of information and monitoring of activities as well as a proper framework for legal sanctions for defaulters.

- Second, the authorities are committed to rationalize granting of tax exemptions and improve their transparency. In addition to measures taken since 2019 to reduce the scope of VAT exemptions, the government will ensure that tax exemptions granted in various conventions deliver their objectives. The government is aware that an inefficient exemption system will lead to revenue shortfalls, distort the VAT collection and lead to the accumulation of VAT credits. 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 (structural benchmark end January 2022).

- Third, the authorities are committed to establish an effective VAT refund mechanism, which preserves the smooth running of VAT, facilitates tax compliance and avoids the proliferation of demands for tax exemptions. An account dedicated to VAT refunds was established with BEAC in 2019, but has not been operational, as it has not been funded. The Government will start allocating all VAT revenue to this account for VAT refund to avoid the accumulation of VAT credits (Structural benchmark for end February 2022). The establishment of a VAT mechanism should strengthen confidence in the VAT system and improve revenue collection. Steps will also be taken towards the clearance of VAT credits. By end 2021, an administrative audit of VAT credits will be conducted to assess the stock and nature of VAT credits.

31. Efforts to modernize Customs Administration will be pursued. The Government will continue to improve working conditions for Tax Administration and Customs. Customs Administration has recently moved to a new building completed with World Bank assistance. In early October, a scanner became operational, which is expected to reduce revenue losses. The payment of customs revenue through the banking system ("*bancarisation*") has been effective for customs offices in areas where banking operations can be conducted. For the 13 customs offices with no banking coverage, an agreement has been signed with a local telecommunication company to facilitate payments through mobile phones. With the help of IMF technical assistance, work will continue during 2020-22 on securing revenue collection through the banking system, customs valuation control, and on reinforced monitoring of customs exemptions. Work on the installation of ASYCUDA World will continue in customs offices connected to the internet, which have increased from 12 to 18. With the support of the World Bank, the authorities have embarked on its installation in October 2021, which will help modernize customs services by upgrading working capacities, adapting ASYCUDA to local needs and increasing staff ownership. It is expected to improve customs procedures, by allowing more accurate application of customs duties, limiting the abuse of customs exemptions, strengthening the integration of customs and taxation departments to improve VAT collection, facilitating the interconnections with the custom offices in Cameroon, Niger and Sudan; and setting the stage for transition to a single window system.

32. Working conditions will need to be improved in the Tax Department. The Tax Department has recently been allocated the premises left by Customs administration. Permanent premises will however be needed given that the new building belongs to another institution. Such premises should be equipped to handle the computerization planned under the World Bank project for mobilization and management of domestic resources (PROMOGRI). New resources (building and software) to tax directorates in charge of large and medium taxpayers will be allocated before end 2022. The computerization of the tax department will be organized under 12 modules, with the first four modules (registration, monitoring of tax obligation, tele-filing procedures in LTO, and electronic VAT monitoring for commercial activities) expected to be implemented by end- 2022.

33. Collaboration between tax and customs administrations will be strengthened. The use of data from ASYCUDA will help the Tax department in its risk-based controls, including identifying taxpayers that are evading the VAT. At the same time, Customs administration should use the tax identification number (TIN) established by the Tax department. To this end, the Tax department will continue to update and publish the list of VAT taxpayers, to be integrated in the computerized system of the customs department. To improve tax compliance, the 15 percent penalty will continue to be applied to importers that are not registered with the Tax department.

D. Reforms on Public Financial Management

34. The Government believes in the importance of a sound and transparent public financial management to achieve the program's objectives. While recognizing the progress made in terms of budget execution, monitoring and reporting, and in integrating all CEMAC directives within the Chadian legislation, the Government has decided to give an impetus to reform in the context of the revised public financial management (PFM) under the updated Strategy for the

Development and Modernization of Public Finance Management (SDMFP). The document, which updates SDMFP of April 2013, was prepared in mid-2019 with the support from the IMF and the World Bank, as a strong and urgent response to weaknesses existing in our public financial management. With Fund assistance, it will be adjusted over the coming weeks, to reflect reforms under way, and adopted by the Government following a validation workshop by all concerned Government bodies (structural benchmark for end-June 2022). Drawing on the SDMFP and on the 2014 budget organic law, the key policy reforms for the short and medium term include (i) the implementation of an integrated financial management system (IFMS); (ii) wage bill management; (iii) improving budget preparation and execution, including improvements in governance and public procurement; (iv) medium-term program budgeting; (v) the rationalization of transfers and subsidies; (vi) cash management; and (vii) debt management.

E. Implementation of the Integrated Financial Management System (IFMS)

35. The Ministry of Finance and Budget has decided to revamp the information system by acquiring and implementing the IFMS with the assistance of the Rwanda Cooperation Initiative (RCI). The IFMS aims at achieving effective accountable and transparent PFM, through an integrated computerization of Government -wide financial transactions by various public entities. The system, developed since end-2019 with the help of Rwandan experts, will soon be operational for the benefit of all PFM reforms, including consistency and transparency in the expenditure chain, efficiency gains in the wage bill management, the integration of debt management, and improvements in the allocation and absorption of public resources, particularly for social sectors. The 2021 budget is being executed based on the IFMS, with the help of AFD**.**

F. Strengthening wage bill management

36. In the short run, the following measures will help contain the wage bill:

- The Government will continue to rationalize the wage bill and control recruitment to the civil service within the limits of the commitments made in the budget.
- The Government have conducted a biometric census of civil servants to establish a sound payroll database.
- The implementation of the IFMS is expected to generate significant savings on the wage bill through: (i) updating the payroll based on the results of the biometric census; (ii) avoiding undue benefit payment thanks to better identification using biometric data; (iii) strengthening security thanks to better controlled annual access rights, compared to the previous payroll management system (SIGASPE).
- An agreement was signed with a local telecommunication company for the payment of wages through mobile money in areas that are not covered by banks. To that effect, 10 000 kiosks will be opened in the countryside which will support job creation.

The Government will establish a payroll monitoring committee, chaired by the Finance Inspector General (IGF) and including representatives from the payroll unit (Ministry of Finance) and civil service management (Ministry of civil service) and the HR Directors of other ministries. The committee will monitor developments in the wage bill and civil service reforms, including the cleaning up and updating of the payroll, to ensure consistency and the attainment of wage bill objectives.

37. Over the medium term, the Government will implement structural reforms, with the assistance of the IMF's Fiscal Affairs Department, aimed at:

Improving the budgeting of the wage bill:

- Align the wage bill budget procedures with the recommendations of Fiscal Affairs Department's manual.

- Set employment ceilings by ministries and institutions in accordance with the provisions of the organic finance law (end-August 2022 structural benchmark) and develop a specific budget annex for the wage bill presenting a consolidated vision for the public service as well as the evolution of the workforce by ministry or institution.

- Improve the reliability of information on the determinants of changes in payroll and workforce flows, in accordance with the recommendations by Fiscal Affairs Department.

Updating and periodically checking the payroll file:

- Reduce transmission times for individual paper files;

- Redeploy some of the activities of the payroll department to the HRD of sector ministries and provinces;

- Establish a regular alert system for the retirement of civil servants (periodic exchanges with the Chad national pension Fund, CNRT);

- Facilitate the communication of individual information from the payroll department to CNRT; and

- Increase security/reliability for all administrative documents and acts (diplomas, advancement, etc.). Conduct periodic audits of the payroll file.

G. Budget preparation and execution

38. The Government will pursue reforms to strengthen budget preparation and execution. Reforms will focus on (i) improving the expenditure chain and reducing the use of emergency procedures (DAO); (ii) implement the new budget classification recommended by AFRITAC and improve accounting and fiscal reporting; (iii) elaborating annual commitment plans and annual public procurement plans; and (iv) improve cash management.

39. Implementation of the IFMS will help improve the expenditure chain. The IFMS will help in providing timely and reliable information on budget execution. The integrated system will cover all the phases of the expenditure chain, from commitment to payment. This will be a significant improvement relative to the current CID computerized system, which covers only the administrative part of the expenditure chain (from commitment to payment orders). The Government remains committed to reducing the use of emergency spending procedures ("*dépenses avant ordonnancement*", or DAO). The use of DAO, which had been contained in 2019, has intensified in 2020 due to COVID-19 emergency spending and the regularization has been extremely low. With the gradual phase out of COVID-19 emergency spending, the use of DAO is estimated to be around 20 percent of primary spending in 2021, and its regularization accelerated, and falling to 15 percent of primary spending by 2024.

40. The Government will strengthen accounting and fiscal reporting. The Government will implement a new economic classification of expenditure recommended by an AFRITAC technical assistance mission of September 2020. The new classification is expected to improve the efficiency and transparency of budget execution in line with the organic budget law of 2014. Before being applied, we will first ensure its consistency with the Government chart of accounts. We will also confirm that the IFMS is aligned with the budget classification. Over the medium term, we plan to upgrade the State's accountants' network and organizational chart of the Treasury department to implement the transition to accrual accounting.

41. We will improve the forecasting framework for budget execution. Proper forecasting permits a smooth budget execution, ensuring resources are allocated as budgeted and avoiding the accumulation of arrears. In this context, quarterly commitments plans will be produced for the fiscal year as well as annual public procurement plans.

42. The Government is committed to improve public investment. We will continue to improve the design and development of the public investment program (PIP) as recommended by the IMF TA mission of July 2018. In particular, the PIP should only include projects that are mature with available funding, so that they can be implemented in a timely manner. This is in line with the new framework decree 2020/PR/2020 of October 8, 2020 on project prioritization and selection, including criteria on economic efficiency as well as the social, gender, regional equity, and environmental impact. The PIP should also be in line with the MTDS. In this regard, medium-term financing plans will be prepared to ensure that the PIP maintains debt sustainability. The Government counts on a Public Investment Management Assessment (PIMA) that could be conducted to assess the PIP supporting the PND.

43. The cash management system will be improved to avoid the reemergence of arrears. The Cash Plan Committee in charge of cash flow forecasts and management will refine the monthly cash flow plan— annual cash flow plans will continue be included within the budget (in line with the CEMAC Directive) and updated on a semi-annual basis—and effort will be put on strengthening the responsiveness of the Committee to update revenue and expenditure forecasts. Steps will also be taken to establish a treasury single account (TSA), monitoring the current Treasury account at the BEAC, and centralizing public accounting operations, cash flow and public debt. The establishment of a TSA should help improve treasury management, avoid arrears accumulation, and reduce borrowing costs. With the installation of the IFMS, we will use an electronic management platform to manage the payment of expenses. Over the medium term, we will finalize and operationalize the TSA including the creation of sub accounts for authorized accountants, and the repatriation of public resources from commercial banks to the TSA. The repatriation will be made in a way that does not disturb the local banking sector.

H. Medium-term program budgeting

44. Additional progress will be made towards program budgeting. Progress has been made in mastering the tools and developing and expanding the medium-term expenditure framework and medium-term budgetary framework. In early October 2020, a workshop was organized to update the annual performance projects (PAP) of 28 sectoral ministries in the context of the preparation of the 2021 budget law. This is an important step towards the preparation of program budgets, which started the preparation of PAPs in 5 "pilot" ministries (Health, Education, Infrastructure, Agriculture, and Finance and Budget) with the assistance from the World Bank, UNICEF and the UNDP. The work was expanded in 2019 with the assistance from the EU.

45. We are in the process of improving the efficiency and transparency of public procurement. We will strengthen the capacity of the Public Procurement Regulatory Authority so that it can ensure that the procurement code and regulations are respected. The procurement code has just been revised to remove constraints that limited absorption, including raising the threshold and simplifying the approval process, and to promote woman entrepreneurship. The legal framework for sanctions on public procurement will also be strengthened. Deviations from the procurement code, including market segmentation, will be severely punished. The General Directorate of Control of Public Procurement (DGCMP) will continue to publish a quarterly bulletin and, from end-March 2022, will start publishing the full text of all procurement contracts (including the names and nationalities of the beneficial owners of awarded legal entities) and *ex post*-delivery reports. As a first step, it will assist the Ministry of Finance and Budget regarding the publication of procurement contracts, the names of the beneficial owners of awarded legal entities, and *ex post*-delivery reports related to COVID-19 expenditures. The US State Department will be assisting DGCMP in the development of a website for the publication of tenders, with a bidding progress tracking tool that will help improve transparency.

I. Rationalization of transfers and subsidies

46. Steps will be taken to rationalize transfers and subsidies. In the context of the 2021 budget law, ministries have been instructed to reassess the pertinence of Chad's participation and membership in International Institutions and Organizations, to retain only those that are essential. Accordingly, contributions to international institutions and organizations were presented in the budgets of sector ministries. The budget law also calls for the performance contracts with State Owned Enterprises (SOE) and public establishments, to improve their financial management. The autonomous communities, the regulation authorities, agencies, offices, and public establishments benefiting from transfers, management committees as well as projects on external financing eligible for national procedures, must strictly comply with provisions of the Public Procurement Code. With the help of IMF technical assistance, the Government will finalize and adopt a draft law on SOEs and public agencies as well its implementing regulations. Over the medium-term, an assessment of fiscal risks management will be conducted, and an appendix to the annual budget law dedicated to public entities (public agencies, SOEs) will be elaborated. It will provide details on transfers and subsidies as well as own resources.

47. Rationalizing transfers to the National Electricity Company (SNE) will be a priority. Since 2020, Government transfers to SNE are reflected in the budget. In the medium term, the current system of transfers to SNE in the form of diesel for electricity generation will be progressively replaced by monetary transfers that will be made in the context of the performance contract. The performance contract will set several performance indicators aimed at improving the SNE's financial position, including sale recovery from private and public entities, given the low level of revenue collection, reduction of production cost and tariffs adjustment. A restructuring of SNE will be essential to attracting investment in renewable energy, with no resort to sovereign guarantees. To help create conditions for cost-effective electricity access extension in a financially sustainable manner, the World Bank plans sector reforms under a technical assistance project before end-2021. To increase access to electricity, which is currently weak, the Government amended the legal framework to liberalize the production and distribution of electricity and the 2020 budget law provided tax incentives for investment in green energy.

J. Debt management

48. The Government is committed to refrain from non-concessional borrowing and to maintain debt transparency. In view of the already heavy burden, the Government will continue to ensure that all external financing agreements, both for budget support and investment projects, are on concessional terms (at least 35 percent grant element, see TMU), in line with the envisaged reduction in the risk of debt distress. 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). All new loan agreements examined by CONAD will be published on the website of the Ministry of Finance and Budget: it will be easier to service the debt if a comprehensive and transparent database of debt contracts is maintained. Details of all new contracted loans will be communicated to the debt management department as well as the IMF.

47. Steps will be taken to strengthen debt management capacity. Debt management continues to be weak, due to low capacity, low resources, and poor coordination among entities intervening in debt contracting and management. The Government will implement recommendations made by IMF technical assistance aiming at: (i) reforming the roles and structures of debt management, (ii) improving communication among responsible entities (contracting, disbursement, issuing of securities, debt service payment), and (iii) augmenting the resources applied to debt management. The World Bank and IMF are also expected to provide assistance that would strengthen capacity at the Debt Directorate, including the analysis of debt sustainability (DSA) and through the quarterly publication of a public debt bulletin. The World Bank has also been helping in recording debt contracted by SOEs, which will improve debt coverage in the DSA. The EU is helping in upgrading the debt reporting system (SYGADE) and the UNCTAD will be providing the necessary training. With the help of IMF technical assistance, the Government will elaborate and publish a fiscal risks statement that will be attached to the annual budget law. Over the medium-term, an assessment of fiscal risks management will also be conducted.

K. Improving the Business Environment

48. The Government is determined to reform the business environment to make it attractive to the private sector in an effort to promote economic diversification. In early 2020, the UNECA completed important diagnostic work (Industrialization and Economic Diversification Master Plan, PDIDE) that demonstrated strong potential for economic diversification in Chad. The government will take measures to ensure a stable regulatory environment for SMEs, even-handed and consistent rule of law and efficient Government services. Several structural reforms are envisaged including:

In the short term:

(i) restructuring the national electricity company (SNE);

(ii) modernizing tax and customs administration;

And over the medium term:

(i) adopting and implementing a reform strategy for SOEs, including a framework to reduce transfers;

(ii) streamlining procedures for the creation of SMEs;

(iii) improving access to financing;

(iv) continuing to improve the transparency in the oil sector; and

(v) taking measures to reduce corruption and strengthen the rule of law.

49. In this context, the Observatory for the Business Environment and the National Competition Council (CNC) will be made operational. The Government is committed to fostering entrepreneurship and economic engagement for women and the youth and improving access to finance. In this pursuit, it has established a National Youth Entrepreneurship Fund that is now fully operational and will further seek the assistance technical and financing from the World Bank and the African Development Bank to further help achieve this objective.

L. Transparency and Governance

50. Good governance will be a key factor in reviving private sector activity. To implement the United Nations Convention against Corruption (UNCAC), which entered into force for Chad, by accession, on June 26, 2018, the Government will seek support from the UN to align the present penal code with the convention and strengthen the fight against corruption. The Government will engage with IMF staff to design an asset declaration regime in line with the applicable international good practices, including in the context of upcoming constitutional reforms. The constitution includes categories of public figures and State officials who are required to declare their assets when taking up and leaving office. However, compliance is very low, partly due to the absence of an implementing law. Responsibilities of anti-corruption bodies (IGF, IGE and the Chamber/Court of Accounts) will be clearly delineated, adequate resources will be provided to anti-corruption activity, and anticorruption 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), Chad's financial intelligence unit (FIU), including by augmenting its human resources. The Government will assess corruption risks during the transition period and craft an action plan to mitigate those risks, to be shared with the Fund and published by the first review.

51. **The Government remains committed to transparency in the use of COVID-19 resources**. It will provide separate reporting for transparent management and in accordance with best budget management practices to which they have always adhered. Resources dedicated to the COVID-19 will be used in full transparency, and we will publish on-line on an easily accessible governmental website of the full text of all COVID-19-related procurement contracts awarded as of May 31, 2021 (prior action). In addition to being reflected in the budget law, they will be committed in line with the CEMAC PFM directives. In particular, emergency spending for urgently needed supplies will be committed according to the provisions of Decree No. 1025/PR/MFB/2020 of May 29, 2020, derogating from public procurement rules concluded in the context of the fight against the coronavirus and subjected to an ex-post compliance audit by a reputable international auditing firm, which will be completed with the support of the Inspectorate of Public Finances. The audit will also cover all COVID-related expenditures. Auditing reports, also including analysis of compliance with procedures, in particular with regards to regulated agreements, will be published within a month upon completion on the website of the Ministry of Finance and Budget (end-December 2021 structural benchmark). The full text of all procurement contracts, along with the names and nationalities of the beneficial owners of awarded legal entities, will be published on the website of the Ministry of Finance and Budget within 30 days of the award of any contract concluded under the fight against the coronavirus, as of end-March 2022. E*x post*-delivery reports for goods and services, including the list of suppliers and contractors, will be published on the website of the Ministry of Finance and Budget within three months of the end of the execution period for each contract. To further the efforts on good governance and transparency, the Government will extend commitments made initially in the context of the fight against the COVID-19 pandemic to all procurement contracts, publishing on-line on an easily accessible governmental website the full text of all procurement contracts along with the name and nationalities of the beneficial owners of the awarded legal entities, from end-March 2022 (structural benchmark), and will seek technical assistance from the Fund to meet this objective.

52. **The Authorities are committed to continuing their efforts to improve transparency and oversight of the oil sector.** In May 2019, the EITI completed Chad's assessment under the 2016 standards and will implement the EITI board's recommendations. The Government has made significant progress in disclosing contracts and licenses involving the petroleum sector with support

from the World Bank and has published, certified and verified annual financial reports for 2017-2018 for SHT (Société des Hydrocarbures du Tchad) and its subsidiaries. The Government will continue to publish quarterly notes on the oil sector (December 2021 Structural Benchmark, continuous) to promote transparency in the sector.

M. Strengthening the Banking Sector

53. Strengthening the financial sector will contribute to supporting growth and reducing poverty. The Government continues to ensure that the local banking sector remains strong and, in a position, to finance domestic activities. In this context, the timely repayment of Government bank debt obligations will support the improvement in the banking system liquidity position as well as the repayment of domestic arrears in the context of the domestic arrears clearance plan, which will enable the private sector to pay its loan obligations to banks. The authorities remain committed to (i) enforcing the performance contracts for the two public banks (CBT and BCC) and supporting the implementation of their restructuring and funding plans (approved by the COBAC/BEAC); (ii) the treasury remains committed to the monthly repayment of the direct debt to the CBT and BCC (CFAF 250 million to BCC and CFAF 500 million to CBT per month, respectively); and (iii) the partial recapitalization of CBT (CFAF 4.5 billion, prior action) based on the budget for 2021; BHT (CFAF 3 billion) and BAC (CFAF 2 billion) to be implemented in 2022. The authorities intend to carry out the partial recapitalization for CBT, via treasury resources. Over the medium term, the Government commits to (i) reduce its stakes in banks; (ii) support COBAC's request for gradual capital restoration plans, to make further capital available if a reassessment of the bank's financial position shows further weaknesses, given the adverse impact of the COVID-19 pandemic; and (iii) explore possibilities of increasing private sector participation in the capital of CBT.

54. Financial inclusion is an important factor for poverty reduction. The Government will improve access to financial services and strengthening financial inclusion by encouraging the creation of strong and secure microfinance institutions, by channeling through banks Government transactions "*bancarisation*". The "*bancarisation*" will allow the opening of accounts by greater numbers of users, while the payments of wages, taxes and customs duties through mobile money will promote the use of modern payment methods. The Government will strengthen the governance and supervision frameworks for microfinance institution as well as security for mobile money transactions.

N. Program Monitoring

55. To monitor the implementation of measures and attainment of objectives under the program, the Government will strengthen the Negotiation Committee based in the Ministry of Finance and Budget. A permanent secretariat has been attached to the Committee, with the aim of collecting macro data necessary for program evaluation and monitoring the implementation of structural reforms. The Committee of Negotiations will remain in constant communication with the IMF's Resident Representative office in Chad and will organize meetings between the Authorities and the IMF.

56. The program will be monitored through semi–annual reviews by the IMF Executive Board on the basis of quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2 attached). The indicators are outlined in the Technical Memorandum of Understanding (TMU) attached. The first program review will be based on end-December 2021 test dates and should be completed on or after April 15, 2022. The second review will be based on end-June 2022 test dates and should be completed on or after September 15, 2022, and the third review will be based on end-December 2022 test dates and should be completed on or after April 14, 2023. The fourth review will be based on end-June 2023 test dates and should be completed on or after September 15, 2023. The fifth review will be based on end-December 2023 test dates and should be completed on or after April 15, 2024. The sixth review will be based on end-June 2024 test dates and should be completed on or after September 16, 2024.

Table 1. Chad: Quantitative Performance Criteria (QPC) and Indicative Targets (IT)* Under the ECF Arrangement

(in billions of CFAF, unless otherwise indicated)

	End-Dec 2021 QPCs	End-March 2022 ITs	End-June 2022 QPCs	End-Sept 2022 ITs	End-Dec 2022 QPCs
Quantitative Performance Criteria					
1. Ceiling on new external arrears of the government and non-financial public enterprises[1]	0	0	0	0	0
2. Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises[1]	0	0	0	0	0
3. Floor on non-oil primary budget balance (NOPB)[2]	-412	-95	-156	-245	-333
4. Ceiling on net domestic government financing[3]	....	....	....	-35	-120
5. Ceiling on the stock of domestic payment arrears by the government[4]	....	....	381	361	341
Indicative Targets					
4. Ceiling on net domestic government financing[3]	43	53	-8	....	....
5. Ceiling on the stock of domestic payment arrears by the government[4]	391	391	....	....	....
6. Floor on government tax revenue, excluding tax revenue from oil companies[3]	477	110	253	391	529
7.Ceilling on wages and salaries	425	109	219	328	437
8. Floor for poverty-reducing social spending[5]	284	76	151	234	273
Memorandum items:					
9. Emergency spending procedures-DAO (Percent of primary spending) [6]	*20*	*18*	*18*	*18*	*18*
10. Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO) [6]	*80*	*50*	*70*	*70*	*70*
11. External concessional borrowing (US$ million)	*0*	*0*	*0*	*0*	*75*
12. Oil Revenue [7]	*374*	*97*	*236*	*373*	*512*
13. Grants [8]	*23*	*7*	*13*	*20*	*26*

Sources: Chadian authorities; and IMF Staff.

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

** In addition to QPCs enumerated in this table, the Standard Continuous Performance Criteria will also apply: (i) not to impose or intensify restrictions on the making of payments and transfers for current international transactions, (ii) not to introduce or modify multiple currency practices, (iii) not to conclude bilateral payments agreements that are inconsistent with Article VIII, (iv) not to impose or intensify import restrictions for balance of payments reasons.

1/ Applies continuously.

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

3/ See TMU.

4/ Stock of verified arrears as definied In line with the TMU.

5/ 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).

6/ 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.

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

8/ Budget grants.

Table 2. Chad: Structural Benchmarks 2021/22 and Prior Actions for the 2021 ECF

Prior Actions

1. Ministry of Finance and Budget to partially recapitalize CBT by CFAF 4.5 billion, in line with recapitalization plan that was approved by COBAC.

2. Publication on-line on an easily accessible governmental website of the full text of all COVID-19-related procurement contracts awarded by the central government as of May 31, 2021.

Structural Benchmarks

1. Publication of a quarterly note on the oil sector, in line with the template designed in consultation with Fund staff, including detailed information on debt service to Glencore.	Quarterly, starting end-December 2021
2. Completion and publication of ex-post compliance audit of COVID expenses by a reputable international auditing firm.	End- December 2021
3. Publication of a semi-annual note which lists all new tax exemptions (including renewal and extension of exemptions).	Semi-annual, starting end-January 2022
4. Allocate VAT revenues in the VAT escrow account at the BEAC	End-February 2022
5. Publish on-line on an easily accessible governmental website the full text of all procurement contracts by the central government along with the names and nationalities of the beneficial owners of the awarded legal entities.	End-March 2022
6.The government to finalize and adopt the PFM strategy, in line with IMF Technical Assistance.	End-June 2022
7. Implement employment ceilings, in accordance with the provisions of the 2014 organic law on public finance	End- August 2022
8. Implementation of the ASYCUDA Exemption Module to process all customs exemptions requests and authorizations.	End-November 2022

Sources: Chadian authorities and IMF staff.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Letter of Intent (LOI) and Memorandum on Economic and Financial Policies (MEFP) of November 24, 2021. 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) prior actions and structural benchmarks.

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.

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 subsector as defined in Government Finance Statistics Manual 2014[2].

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 in particular: *Société Tchadienne des Eaux* (STE), *Société Nationale*

[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). 2014 (GFSM 2014), paragraphs 2.85 – 2.89.

[2] See GFSM 2014, paragraph 2.85.

d'Electricité (SNE), *Société des Télécommunications du Tchad* (SOTEL), *Société Tchadienne des Postes et de l'Epargne* (STPE), *Société des Hydrocarbures du Tchad* (SHT), Nouvelle Société *des Textiles du Tchad* (NSTT), *Sociètè Nationale de Ciment* (SONACIM Tchad), *Société Industrielle de Materiels Agricoles et d'Assemblage des Tracteurs* (SIMATRAC), and *Fonds d'Entretien Routier* (FER).

5. Oil revenue is defined as the sum of: (i) the gross sales revenue of Government 's crude oil 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 on production; (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. Tax revenue, excluding tax revenue from oil companies is defined includes all the Government 's tax revenue, with the exception of oil revenue as defined under paragraph 5

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, tax revenue, as defined in paragraph 6, and exceptional receipts, as defined in paragraph 7, will be shown in the breakdown of total Government revenue report.

9. Total Government expenditure is understood to be the sum of expenditure on Government employees (wages, salaries, allowances, bonuses, etc.) (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)[3], 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

[3] 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.

(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 ("*engagement*"), the validation ("*liquidation*"), the authorization of payment order ("*ordonnance*"), and the 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*, via ordinary or in-kind payment, 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 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 organizations (NGO), corporations, or Government units 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. Decision 16919-(20/103)but also includes contracted or guaranteed commitments for which values have not been received. For purposes of these guidelines, the term "debt" is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take several forms; the primary ones being as follows:

i. Loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchange of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the loan funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii. Suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii. Lease agreements, that is, arrangements under which the lessee is allowed to use a property for a duration usually shorter than that of the life of the property in question, but without transfer of ownership, while the lessor retains the title to the property. For the purposes of this guideline, the debt is the present value (at the inception of the lease) of all the lease payments expected for the period of the agreement, except payments necessary for the operation, repair, and maintenance of the property;

- In accordance with the definition of debt set out above, penalties and judicially awarded damages arising from failure to pay under a contractual obligation that constitutes debt are also debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.
- 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 percent[4] 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 discounted sum of all future the debt service payments at the time of the contracting of the debt.[5] 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 not paid after the due date (taking into account any applicable contractual grace periods, which are defined below:

[4] 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.

[5] 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.

- 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 expenditures 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 expenditures payment arrears which have not gone through that standard spending procedure.
- 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 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, including military health services and National Solidarity; (iii) Women, Early Childhood Protection and National Solidarity; (iv) Production, Irrigation and Agricultural Equipment; (v) Livestock and Animal Production; (vi) Environment Water and Sanitation; (vii) Professional Training and small Job Promotion, and viii) Higher Education.

19. Domestic 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 Government domestic financing 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.[6] 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.

[6] Net claims of the BEAC and domestic commercial banks to the government 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 government is defined by BEAC and represents the Government net position.

20. "Program reference rate", is based on staff's "average projected rate" for the current LIBOR rate (three- month USD LIBOR) and is projected as 0.94 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 current LIBOR rate, a spread reflecting the difference between the benchmark rate and the current LIBOR rate (rounded to the nearest 50 basis points) will be added. According to the Federal Reserve and regulators in the UK, LIBOR will be phased out by June 30, 2023, and will be replaced by a comparable benchmark, which is the Secured Overnight Financing Rate (SOFR).

Quantitative Performance Criteria

21. The quantitative performance criteria[7] 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 Fund staff promptly (regardless of the data reporting periodicity set forth in Table 2). 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 zero ceiling on the accumulation of any new external payment arrears by the Government and public non-financial enterprises (debts guaranteed by the Government). 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 in terms of key indicators in the DSA (based on consultation with IMF staff).
- A floor for the non–oil primary balance. The non–oil primary balance is defined in

paragraph 17 above.

- With effect from the second review, QPCs will be set on the stock of domestic recognized

[7] In addition to QPCs enumerated above, the standard continuous performance criteria will also apply: (i) not to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions; (ii) not to introduce new or intensify existing multiple currency practices; (iii) not to conclude bilateral payments agreement that are inconsistent with the IMF's Articles of Agreement (Article III); and (iv) not to impose new or intensify existing import restrictions for balance of payments reasons.

expenditure payment arrears, as defined in paragraph 22.

- Starting from the third review, QPCs will be set on net domestic Government financing, as defined in paragraph 22.

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 Government tax revenue**, excluding tax revenue from oil companies.
- **A ceiling on wages and salaries**. Wages and salaries are defined in paragraph 11.
- **A ceiling on net domestic Government financing** (as defined in para 19). The ceiling includes support from the IMF. QPCs will be set on net domestic Government financing starting from the third review. **A ceiling on the stock of domestic recognized expenditure payment arrears**. Domestic arrears include (i) the stock of arrears established by an independent audit at CFAF 485 billion at end-2019; and (ii) the stock of recognized expenditure payment arrears at the Treasury. Domestic recognized expenditure payment arrears at the Treasury are defined in paragraph 15. As of end-December 2020, the stock of recognized expenditure payment arrears at the Treasury was at CFAF 80 billion based on information in the Table "*Reste à Payer*" (prepared by the Treasury). The ceiling set for end-December 2021 would be adjusted to reflect the end-September 2021 actual stock of arrears when final data is available. QPCs will be set on the stock of domestic recognized expenditure payment arrears, starting from the second review.
- **A floor on poverty–reducing social spending** equivalent to 34 percent of domestically financed primary spending financed by domestic resources (excluding transfers to the electricity company). Poverty–reducing social spending is defined in paragraph 18.

A. Memo items

- **Emergency spending procedures** (DAO) (20 percent of primary spending in 2021). 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, including Exceptional Security Expenses (DES) of section 88.
- **A floor on regularization of spending executed through emergency spending procedures** (DAO) 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.
- **External concessional borrowing** (US$ million).
- **Oil revenue** (US$ million).
- **Grants** (US$ million).

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 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 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 domestic financing can be adjusted down by 50 percent of the excess amount; and
    - the ceiling on the stock of domestic recognized expenditure payment arrears can be adjusted down by 25 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 presidential and parliamentary elections. 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.

A. Prior Actions and Structural Benchmarks

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

- Ministry of Finance and Budget to partially recapitalize CBT by CFAF 4.5 billion, in line with the recapitalization plan that was approved by COBAC.
- Publication on-line on an easily accessible governmental website of the full text of all COVID-19-related procurement contracts awarded by the central government, as of May 31, 2021.

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

	2021				2021
	End Mar	**End June**	**End Sept**	**End Dec**	**End Mar**
	in CFAF billion				
Net oil Revenue	74	154	264	374	97
Budget grants	0	0	0	23	3
Budget loans	0	0	0	0	0
Exceptional Receipt	0	0	0	0	0
Total	**74**	**154**	**264**	**397**	**100**

*/ Net oil revenue is the sum of (i) the sake revenue of gov. oil net operating and transportation cost and (ii) oil tax revenues.

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

- Publish quarterly note on the oil sector, , in line with the template designed in consultation with Fund staff, including detailed information on debt service to Glencore, quarterly, starting end-December 2021 (Table 2). The note issued at end-December will cover developments up to the end of the previous quarter (September 2021).
- 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.
- 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.
- Publish a semi-annual note which lists all new tax exemptions (including renewal and extension of exemptions). The first list should be published by end-January 2022 and should cover the period June to December 2021.
- Publish on-line on an easily accessible governmental website the full text of all procurement contracts by the central government, along with the names and nationalities of the beneficial owners of the awarded legal entities, starting from end-March 2022.
- Allocate VAT revenues in the VAT escrow account at the BEAC by end February 2022
- The completion and publication of an ex-post compliance audit of COVID expenses by a reputable international auditing firm by end December 2021.
- The Government to finalize and adopt the PFM strategy, in line with IMF Technical Assistance, by end June 2022.

- The government to implement employment ceilings, in accordance with the provisions of the 2014 organic law on public finance, by end August 2022.
- The government to implement the ASYCUDA Exemption Module to process all customs exemptions requests and authorizations by end November 2022.

Table 2. Chad: Summary of Data to Be Reported

Data	***Provider***	***Periodicity and Target Date***[1]
Oil and Non–oil revenue, by category *Collection situation* *Revenue position of the revenue–collecting agencies*	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 *Table showing the four phases; payroll table, including benefits*	Ministry of Finance and Budget General Budget Directorate DGB	Monthly, within 45 days after month–end.
Table of expenditure before payment authorization; TOFE, on a cash basis; *Comparative table on budget execution, consolidated balance tables (changes in debts, claims, etc.); and consolidated Treasury balance*	Ministry of Finance and Budget General Budget Directorate DGB DGTCP DGTCP	Monthly, within 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
Detailed use of Government oil (4 million barrels) sold to the refinery, including the exact amount of the subsidy to the electricity company.	DGB SHT	Quarterly, within 45 days of the end of the quarter
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 *(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[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* *Actual*	*2017* *Projection*	*2018*	*2019* *Projection*	*2020*	Unit
Production and Export Overiew						
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						CFAF
Direct Receipt						CFAF
Net Sales Revenue						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						CFAF
Average Selling Price						
in FCFA						CFAF
in USD						US Dollar
Doba Discount						US Dollar
Oil sales until March 2017						
Government						
Export Volume						Barrel
Export Value						CFAF
Average Selling Price						CFAF
Transportation Cost						CFAF
SHT						
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

INTERNATIONAL MONETARY FUND

CHAD

REQUEST FOR A THREE- YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

November 29, 2021

Approved By
Vitaliy Kramarenko, Gavin Gray (IMF), Abebe Adugna, Marcello Estevão (IDA)

Prepared by the Staff of the International Monetary Fund (IMF) and the International Development Association (IDA).

Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*In debt distress*[1]
Overall risk of debt distress	*In debt distress*
Granularity in the risk rating	*Unsustainable*
Application of judgement	*No*

Chad's debt ratios have worsened since the onset of the COVID-19 pandemic and downside risks have increased given the uncertainties around the intensity and duration of the pandemic and oil price volatility. On the external debt side, liquidity pressures have increased given a downward revision in exports in 2020 which implied lower oil revenues. As a result, in the pre-restructuring DSA, the external debt service to revenue ratio breaches its threshold under the baseline over a prolonged period. Identified domestic and external funding sources are insufficient to meet Chad's financing needs over the medium to long term, even with an ambitious fiscal consolidation. Altogether, Chad's public debt is assessed to be unsustainable. Considering these financing and debt challenges, on December 14, 2020, the authorities announced their intention to seek debt restructuring under the G20 Common Framework. On the domestic debt side, the authorities are in the process of rolling over the current debt stock to longer maturities. In view of the ongoing debt restructuring negotiations, Chad is assessed as being in external and overall debt distress. The ongoing debt restructuring is expected to restore debt sustainability and bring the risk rating to 'moderate' within the program period.

[1] With a score of 2.47, Chad's composite indicator, which is based on the October 2020 WEO and the 2019 CPIA, signals a weak debt-carrying capacity. Thus, the relevant external debt burden high-risk thresholds are: (i) 30 percent for the present value (PV) of external debt-to-GDP ratio; (ii) 140 percent for the PV of debt-to-exports ratio; (iii) 10 percent for the debt service-to-exports ratio; and (v) 14 percent for the debt service-to-revenue ratio.

BACKGROUND

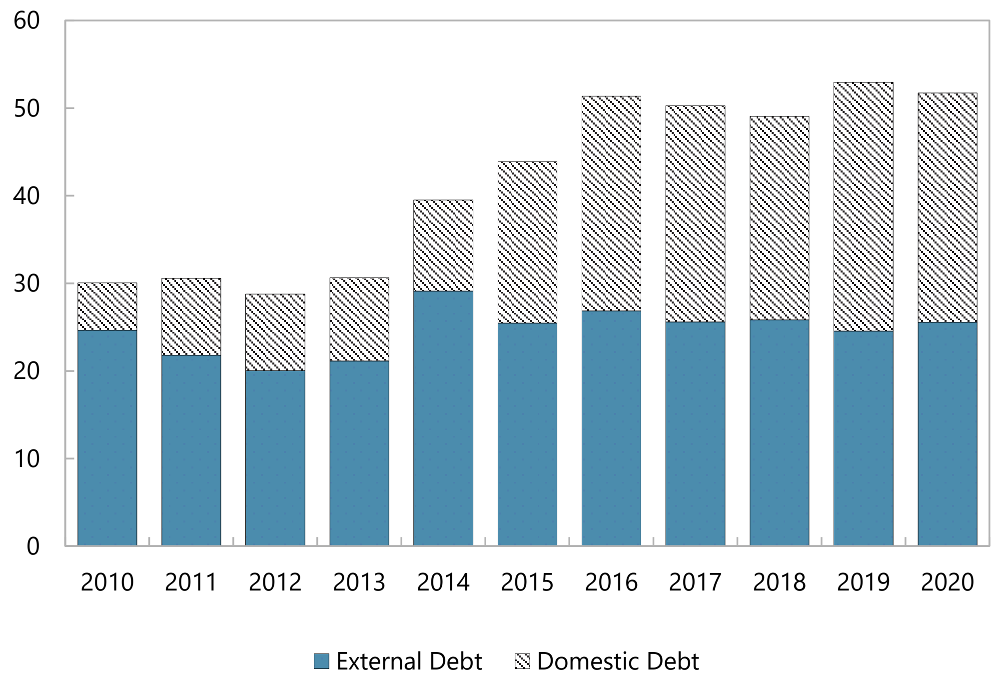
A. Evolution and Composition of Debt

1. **Chad's external public and publicly guaranteed (PPG) debt burden has stabilized at about 25 percent of GDP since 2015**. Chad reached the HIPC Completion Point in April 2015 after a prolonged interim period. In the same year, it also undertook its first rescheduling of oil sale advances from the commercial company, Glencore, to cover revenue shortfalls. The Glencore debt was restructured again in early 2018 (Box 1). At end-2020, outstanding PPG external debt stood at US$3.0 billion, about 26 percent of GDP (Text Table 1).

2. **The composition of external PPG debt is dominated by commercial and non-Paris Club lenders**. The share of external debt from multilaterals and international creditors has fallen from about 87 percent in 2008, to 36 percent in 2020, which in part reflects grant financing provided by the World Bank (IDA) and the AfDB. In turn, the share of commercial debt, mostly owed to Glencore, increased rapidly following the 2014 crisis. It was reduced following the debt restructuring, from a peak in 2016 of 53 percent to 37 percent at end-2020. Bilateral debt doubled over the past decade with China becoming the main bilateral creditor (Text Table 1).

Text Figure 1. Public and Publicly Guaranteed Debt

(Percent of GDP)



Source: Country authorities, IMF and World Bank staff estimates

Text Table 1. Chad: External Debt Stock 2017–2020[1]
(US$ million, unless otherwise indicated)

	2017	2018	2019	2020
Multilateral	**695**	**741**	**848**	**1071**
IMF	173	262	381	586
World Bank/IDA	182	175	171	170
African Development Bank/ADF	100	95	94	109
Other	239	208	201	206
Official Bilateral	**734**	**800**	**661**	**837**
Paris Club	43	108	122	122
Non-Paris Club	690	692	539	715
China	226	226	218	291
Libya	230	272	230	263
India	38	37	37	48
Other				114
Commercial	**1272**	**1202**	**1158**	**1106**
Glencore Energy	1272	1199	1155	1073
Total	**2702**	**2745**	**2665**	**3013**
Percent of GDP	*25.6*	*25.8*	*24.6*	*26.3*
Memorandum Items				
Multilateral (share of total)	25.7	27.0	31.8	35.5
Bilateral (share of total)	27.2	29.1	24.8	27.8
Commericial (share of total)	47.1	43.8	43.5	36.7

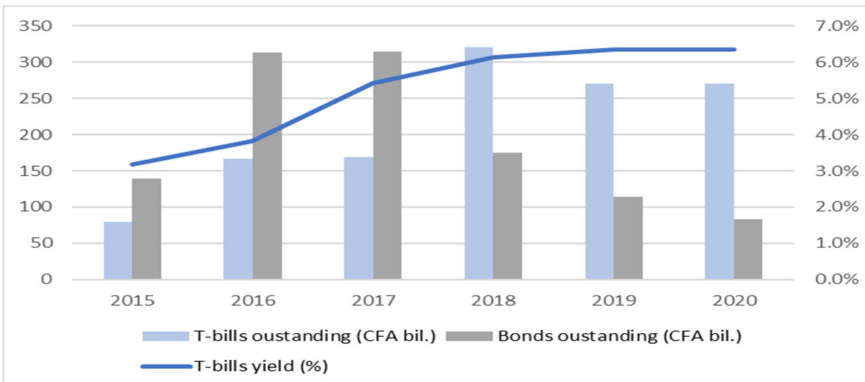
Source: Country authorities, IMF and World Bank staff estimates

3. **External payment arrears remain outstanding**. As of September 2021, about US$123 million (about 1 percent of GDP) remained outstanding, mainly to bilateral creditors —debt to the Republic of Congo alone is about US$57 million. The authorities are discussing bilaterally arrears with Libya that amount to about US$33 million. Bilateral discussions to restructure the remaining arrears to the Republic of Congo are ongoing. Following a data reconciliation exercise, an agreement on debt restructuring with BDEAC is expected to be finalized soon. After complications related to payment modalities, the authorities reached an agreement in July 2019 to pay the debt owed to Angola in kind (livestock). The authorities have taken steps to prevent further arrears accumulation—including continued arrears clearance during 2020 and 2021, and measures to improve coordination among relevant agencies and enhance debt servicing (e.g., stricter debt service monitoring and reactivation of an escrow account for the payment of external debt at BEAC).

4. **Chad has benefited from IDA financial support since 2013 and is also benefiting from debt relief under the CCRT as well as a small amount of debt suspension under the Debt Service Suspension Initiative (DSSI).** IDA has significantly stepped up its support since 2013, which has entirely been provided in the form of grants, reflecting IDA's policy to provide grants to countries at moderate and high risk of debt distress. In turn, this has translated into IDA commitments of over $1.5 billion, with positive net flows of over half a billion USD over the past five years. Chad is benefiting from debt relief under the CCRT on its scheduled repayments to the Fund of SDR 10.1 million in 2020 and 2021. Chad has applied for debt suspension under the terms of the G20's DSSI not only from its G20 creditors, but from all of its official bilateral and private commercial creditors. It has signed a MOU with France and Kuwait. Chad has requested its official bilateral creditors to extend the DSSI to end-2021. In 2020, DSSI led to a debt relief of US$1.2 million and is projected to yield US$0.1 million in 2021.

5. An agreement was reached in end-March 2021 to exit the rollover mechanism, which since 2017 had restricted Chad's access to the domestic and regional debt market. To limit the risks from the sovereign-bank relationships in an environment of increased risk perception, a roll-over arrangement was introduced in 2017 by BEAC. This arrangement implied a repayment of 10-15 percent of the marketable debt falling due each year, and the roll-over of the remaining 85-90 percent into 26-week T-bills (BTA). As a result, the profile of the domestic debt is now almost entirely composed of T-bills, exposing Chad to severe refinancing risk (Test Figure 2). An agreement to exit the rollover mechanism was reached in end-March 2021, which allowed Chad to access the regional market, including benefiting from the BEAC bond repurchase program until it expired in September 2021. This mitigated severe liquidity pressures on the treasury during 2021.

Text Figure 2. Domestic Marketable Debt: Issuance Volume (left axis) and Yields (right axis)



Source: BEAC

6. Chad's authorities and BEAC are in the process of reprofiling the existing domestic debt stock. Modalities have not yet been formalized, but the overarching goal is to convert the T-bills (BTA) into long-term bonds (OTA)[2]. Banks' participation in the reprofiling is facilitated by incentives such as the creation of an escrow account for OTA repayments.[3]

7. The authorities have requested debt restructuring under the G20 Common Framework to restore debt sustainability. Despite previous restructuring agreements with Glencore (Box 1), Chad is in debt distress. Chad's elevated debt vulnerabilities are reflected in the persistently high external debt service-to-revenue ratio and the significant financing needs that cannot be realistically met by the existing domestic and external funding sources. The Common Framework debt restructuring aims at addressing these vulnerabilities and restoring a level of external debt stock and service consistent with a moderate risk of external debt distress.

[2] A first five-year bond was successfully auctioned on March 31. A two-year bond was also issued in August 2021. Between April and September, issuances were mostly at a one-year maturity, reflecting lower market appetite following the death of the President in mid-April 2021.

[3] Coupon and principal payments need to be deposited into an escrow account at BEAC at least 10 months before their maturity date. This arrangement reassures investors about Chad's capacity to serve its domestic debt, but it generates a cost of carry, as the escrow account is not remunerated.

Box 1. Glencore's Debt

In June 2014, Chad's National Oil Company (SHT) contracted a loan for US$1.4 billion (around 10 percent of GDP) with Glencore Energy, in turn supported by a consortium of banks, to be repaid over the period 2014-18 through direct deductions from oil shipments sold by Glencore. If the value of deductions from oil shipments turned out to be insufficient to service the debt, then the revenues from oil royalties due to the Government would also be used.

Beginning in early 2015, the Government started negotiating a rescheduling of the agreement with Glencore, since the decline in oil prices that began in mid-2014 implied a sharp decline in oil revenue. In November 2015, a rescheduling agreement was reached, allowing a three-year extension of maturities. This arrangement marginally improved Chad's debt service profile but was not sufficient to place the debt on a sustainable path and Chad's PPG was still classified in debt distress. At end 2016, the debt service to Glencore was absorbing between half and two thirds of the value of total oil shipments, so authorities started seeking a second rescheduling agreement.

In June 2017, the 2014-16 ECF agreed with the IMF was cancelled, and a new ECF-supported program was approved. The authorities decided to achieve a deeper debt restructuring with Glencore[1/], which was concluded in June 2018. The agreement included an extension of maturities, a lower interest rate, and a reduction in restructuring fees that restored external debt sustainability.

The restructured loan includes a mechanism that makes debt service contingent on the Doba oil price, moving above or below certain thresholds[2/]. The upside scenarios generate significant principal payment acceleration and raised interest payments in 2018-2019. Conversely, the downside scenario, which manifested in 2020, involves a limited debt service reduction (1 percent principal deferral). This contingency mechanism also allows Chad to defer some mandatory payments as prices fall, but the cumulative deferred amortization is capped at US$75 million. When the cap is reached, Chad needs to put up cash, potentially necessitating unsustainable fiscal adjustments.

The 2015 and 2018 restructurings involved protracted debt negotiations. The first rescheduling resulted in insufficient debt relief in view of the persistent low oil prices. The second restructuring improved Chad's immediate liquidity constraint but introduced state-contingent features whose parameters limited its impact. These experiences point to the need for a more long-lasting solution, as well as the use of more symmetrical downside and upside parameters, based on independent oil prices projections, should the oil-cash sweep mechanism be maintained in any restructured loan.

[1/]Chad: Request for a Three-Year Arrangement Under the Extended Credit Facility and Cancellation of the Current Arrangement, IMF Country Report No. 17/246, August 2017.

[2/]The complexity of the loan structure hinders a proper accounting by the debt office and an effective cash-management by the national Treasury. The financial accounting related to government oil exports, operating costs and debt service to Glencore is outsourced to an independent third party (Ernst and Young).

PUBLIC DEBT COVERAGE

8. **Public debt coverage includes central, state and local governments, as well as government guaranteed external debt owed by the public oil company** (*Société des Hydrocarbures du Tchad*, or SHT). Almost all other public sector entities (including other state-owned enterprises (SOEs) and local governments) do not have access to external financing. The exception is the Ndjamena oil refinery (*Société de Raffinage de N'Djaména*, or SRN), in which the central government holds a 40 percent share, and which

has two loans with CNPC Finance and EXIM Bank China. As in previous DSAs, external debt is calculated on a currency basis. Therefore, Chad's CFAF-denominated debt held by the regional development bank (BDEAC),[4] and bilateral creditors in the currency union (Republic of Congo,) are not considered external debt. Debt owed to Angola, which is being repaid in kind and was previously classified as domestic, has been reclassified as external.

9. **The contingent liability stress test accounts for vulnerabilities associated with nonguaranteed SOE debt and contingent fiscal liabilities associated with financial sector recapitalization** (Text Table 2). Contingent liabilities from financial markets are set at 5 percent of GDP, which represents the average cost to the government of a financial crisis in a low-income country since 1980. The size of the contingent liabilities for the SOE debt is set at 9.5 percent, reflecting the liabilities of SRN, *Société Nationale d'Electricité* (SNE), and *Société Nationale de Ciment* (SONACIM) following the results of a 2019 SOE Census by the World Bank.

Text Table 2. Chad: Coverage of Public-Sector Debt and Design of Contingent Liability Stress Tests

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

Public debt coverage and the magnitude of the contingent liability tailored stress test

1	The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	9.5	From the SOE census, 2017 levels.
4	PPP	35 percent of PPP stock	0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		15	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

A. Macroeconomic Forecasts

10. **The DSA's baseline scenario reflects policies and financing assumptions consistent with the requested ECF arrangement**. Relative to the previous DSA (August 2020), real GDP growth has been reduced from 6.1 percent in 2021 to 0.6 percent. Both oil and non-oil GDP are expected to modestly rebound in 2021, although less strongly than in the previous projections since oil producers have adjusted

4 The *Banque de Développement des Etats de l'Afrique Centrale* (BDEAC) is the development bank of the CEMAC region. The main shareholder is BEAC (33.43 percent). CEMAC countries, including Chad, are equal shareholders (8.48 percent).

down their oil output projections. Oil production is expected to resume growth in the medium term, leading to higher oil revenues, exports, and overall GDP growth. The outlook assumes a revenue-led fiscal consolidation that will continue beyond the program horizon at a gradual pace and that spending control would also be maintained. The fiscal consolidation would aim to maintain public investment at reasonable levels and protect social spending while improving its efficiency. Chad ranks second to last in the World Bank's Human Capital Index 2020 and about 6.5 million Chadians or 42 percent of the population are poor, according to national statistics, and it is highly vulnerable to climate change.[5] At the same time, social spending and spending on climate adaptation are among the lowest in the world. Any fiscal consolidation should therefore not only protect but allow for increase spending for critical social sectors and climate adaptation.

11. The forecast is subject to heightened uncertainty and downside risks as the economic impact of the pandemic and ongoing insecurity unfolds, and as Chad is subject to frequent climatic shocks. Chad is one of the poorest and most vulnerable countries in the world, and its heavy dependency on oil has increased economic volatility as witnessed by four recessions since 2006, with significant consequences for debt sustainability. Insecurity and increasing climatic shocks exacerbate these downside risks.[6] The baseline scenario assumes a gradual clearance of external arrears on debt over the period 2021-26. The authorities have a financing plan that should underpin a gradual repayment of audited domestic arrears. Chad intends also to resume the clearing of outstanding audited domestic arrears (equivalent to approximately 8 percent of the GDP) of which CFA 235 billion (3.6 percent of GDP) are expected to be cleared during 2021-24.

12. Over the long term, the DSA assumes an average real growth rate of 3.8 percent for 2025-29. While this is higher than the recent growth performance for Chad, it is grounded in the reform agenda on which the government is committed to embark on in the coming years. The government is already taking steps to mobilize more non-oil revenues, including digitizing customs procedures for livestock and streamlining tax exemptions. Improving fiscal space will support an increase in public investment to average around 7 percent of GDP. A higher level, and better governance, of public investment in energy and connectivity infrastructure coupled with reforms to improve the business environment will unleash the potential of the private non-oil sector in Chad and sustain a recovery. In the long run, the DSA is also projecting a GDP deflator of 2.9 percent, consistent with the BEAC monetary policy objective and historical data.

13. Financing assumptions have been updated based on most recent information. This DSA corresponds to a pre-restructuring scenario. With respect to external financing, the DSA includes IDA19 grants consistent with Chad's performance-based allocation that averages around $140 million between 2021 and 2022 (Text Figure 3).[7] Subsequently, annual IDA allocations assume a similar level of resources as the IDA19 performance-based allocation. Actual IDA financing would be dependent on the performance of Chad's reforms and subsequent replenishments by IDA Deputies, with terms based on current IDA

[5] World Bank. 2020. The Next Generation Africa Climate Business Plan: Ramping Up Development-Centered Climate Action. World Bank, Washington, DC.

[6] The most recent development with an armed rebellion and a military-led transition government further highlights the volatility of the security situation.

[7] For FY2021, an additional $75 million was committed through the IDA Refugee Window for Chad.

policies[8]. A significant portion of the IDA resources will be deployed to support social investment projects to reduce fragility. New financing is also assumed starting in 2023 from the AfDB, and other international and bilateral partners, which is conditional on a successful debt restructuring. Overall, given the authorities' limited capacity to borrow on the regional debt market, especially after the April 2021 events, their debt strategy mainly relies on concessional external financing and grants to meet their financing needs.

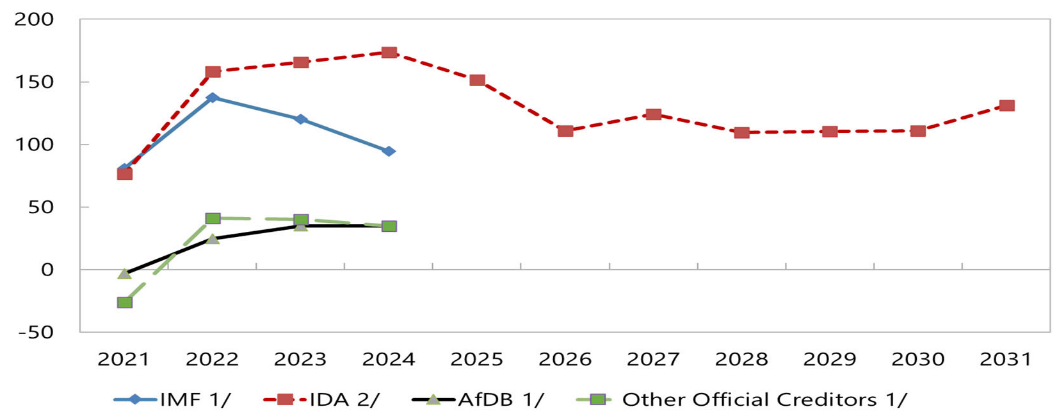
Text Table 3. Chad: Selected Macroeconomic Assumptions[1]

	2017-20	2021	2022	2023	2024	2025-29 (avg.)
	(Annual percentage change, unless otherwise indicated)					
Real GDP growth						
Current DSA	0.3	0.6	2.2	3.1	3.6	3.8
August 2020 DSA	0.5	6.1	4.9	4.0	3.8	3.8
Oil GDP						
Current DSA	1.9	2.3	2.3	2.0	2.4	2.9
August 2020 DSA	2.9	19.2	10.6	4.4	2.8	2.9
Non-oil GDP						
Current DSA	0.0	0.2	2.1	3.3	3.9	4.1
August 2020 DSA	0.0	3.1	3.4	3.8	4.1	4.1
Current Account Balance (incl. official Transfers) (% of GDP)						
Current DSA	-5.4	-6.5	-5.8	-7.3	-7.9	-5.4
August 2020 DSA	-6.7	-10.8	-8.8	-8.7	-8.4	-3.4
	(percent of non-oil GDP, unless otherwise indicated)					
Overall budget balance2						
Current DSA	0.5	-3.4	0.8	0.2	0.0	0.9
August 2020 DSA	0.4	-3.8	-1.3	1.0	0.4	2.6
Revenue and grants						
Current DSA	19.2	19.2	22.0	21.3	20.7	20.4
August 2020 DSA	19.4	17.6	19.4	21.2	20.5	21.7
of which: oil revenues						
Current DSA	7.0	7.0	9.1	7.8	6.7	5.6
August 2020 DSA	7.0	5.0	6.0	7.4	6.0	6.7
of which: non-oil revenue						
Current DSA	8.8	9.3	9.8	10.3	10.8	11.9
August 2020 DSA	8.7	8.5	9.4	9.9	10.6	11.7
of which: grants						
Current DSA	3.4	3.0	3.0	3.2	3.2	3.0
August 2020 DSA	3.7	4.1	4.5	4.9	5.1	5.3
Grant Element of new External Borrowing (Current DSA, percent)	....	35.4	39.4	40.2	40.9	42.4

Source: Country authorities, IMF and World Bank staff estimates
1/ DSA Vintage used for RCF-2 Arrangment.
2/ Commitment basis, including grants.

8 Consistent with the LIC DSF Guidance Note, for the World Bank (IDA) and other MDBs, regular credit terms on all lending are assumed for all years in the projection period for which grant finance has not already been committed.

Text Figure 3. Chad: Official External Financing, Net
($US, millions)



Sources: IMF and World Bank Staff estimates
1/ Financing commitments currently unavailable beyond 2024
2/ Includes project grants

14. The fiscal adjustment envisaged is realistic and relies on a combination of increases in non-oil revenue and streamlining non-essential expenditures. The projected four-year fiscal adjustment in the non-oil primary balance is ambitious compared with other LIC adjustment programs but is consistent with Chad's previous adjustment between 2014-17.[9]Over the 36 months, the program targets a consolidation of the NOPB of 4.0 percentage points of non-oil GDP through the mobilization of non-oil revenues and streamlining expenditures, while promoting social spending. Tax revenues are targeted to increase by 1.9 percentage points of non-oil GDP. Current expenditures would drop by 2.0 percentage points of non-oil GDP by gradually reducing the wage bill and subsidies to the electricity company. Capital expenditures are expected to remain at an average of 7.3 percent of non-oil GDP, but above pre-pandemic levels. The rationalization of public spending, mainly through strengthening expenditure controls, prudent increases and efficiency gains in social spending, and improvements in public investment efficiency, combined with greater transparency and oversight over debt management, will be required to reduce the risk of future debt distress.

15. The DSA assumptions incorporate a gradual increase in social spending (34 percent of current spending over 2021-24) within the overall fiscal consolidation.[10] Specifically, the framework incorporates the government's commitments to recruit additional staff in the health and education sectors, who will be deployed to underserved regions, while recruitments on other areas will be closely monitored. The framework enables public capital expenditure to rise from a relatively modest level, which should be beneficial for growth and would enable Chad to address large infrastructure gaps. Ensuring greater

[9] This assessment is different from the one shown in Figure 5 below, which refers to the adjustment in the primary fiscal balance rather than in the non-oil primary balance as a share of non-oil GDP. The latter is the relevant metric for an oil-exporting country such as Chad.

[10] 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, including military health services and National Solidarity; (iii) Women, Early Childhood Protection and National Solidarity; (iv) Production, Irrigation and Agricultural Equipment; (v) Livestock and Animal Production; (vi) Environment Water and Sanitation; (vii) Professional Training and Small Job Promotion; and (viii) Higher Education.

transparency and strengthening procedures and processes in critical sectors, such as health, education, energy, agriculture, transport, and public investment management, will help to promote better economic and social outcomes.

B. Country Classification and Determination of Stress Test Scenarios

16. The composite indicator (CI) based on October 2020 World Economic Outlook (WEO) projections and an update of the CPIA index to 2020 levels indicates weak debt carrying capacity for Chad. The CI combines the CPIA score, external conditions as captured by world economic growth, and country-specific factors. The October 2020 data indicate weak debt carrying capacity, reflecting mainly a low CPIA, very low remittances, and a low level of foreign reserves (Text Table 4). Debt-carrying capacity was weak before the latest update.

17. A tailored commodity price stress test is activated for Chad. Debt service under the Glencore contract includes a mandatory amortization and interest payment plus a cash-sweep component that falls as the Doba oil price goes below a threshold. Because oil prices have fallen so far in the baseline, this contingency is fully exercised even in the baseline and the standard commodity price shock scenarios. As a second contingency mechanism, the contract allows Chad to defer some mandatory payments as prices fall, but the cumulative deferred amortization is capped at $75 million. For this reason, the customized scenario featured in the last DSA is no longer informative.

Text Table 4. Chad: CI Score

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.38	2.72	1.05	42%
Real growth rate (in percent)	2.72	2.51	0.07	3%
Import coverage of reserves (in percent)	4.05	31.30	1.27	51%
Import coverage of reserves^2 (in percent)	-3.99	9.80	-0.39	-16%
Remittances (in percent)	2.02	0.00	0.00	0%
World economic growth (in percent)	13.52	3.50	0.47	19%
CI Score			2.47	100%
CI rating			Weak	

Source: IMF and WB staff calculations. The CI cutoff for medium debt carrying capacity is 2.69.

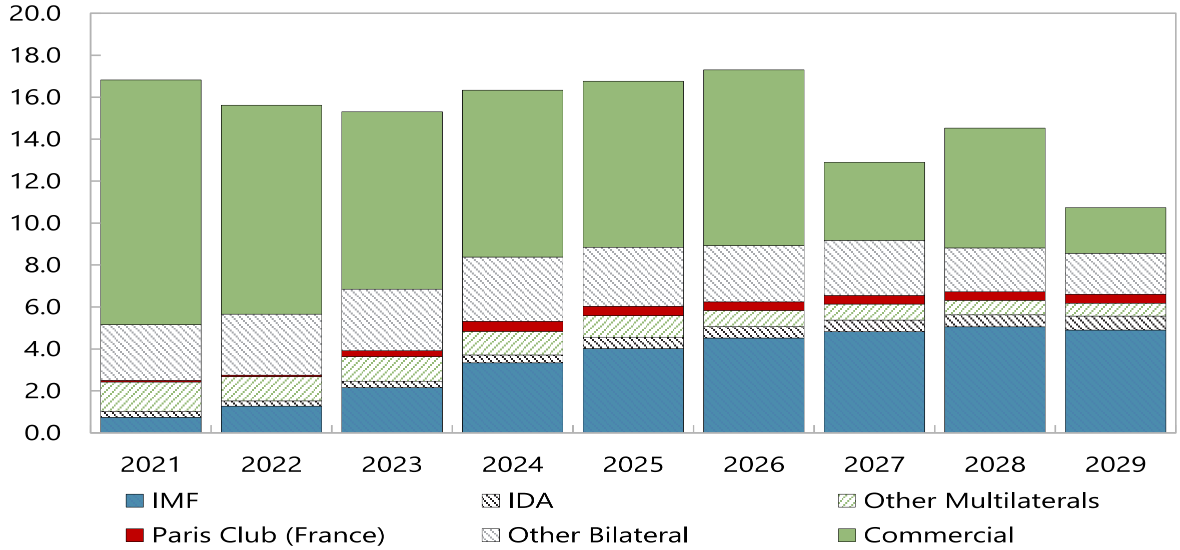
DEBT SUSTAINABILITY

A. External Debt Sustainability

18. The external debt service-to-revenue ratio threshold under the baseline scenario is breached. The debt service-to-revenue ratio rises above 14 percent starting in 2021 due to lower revenue and associated higher borrowing in response to the pandemic. This ratio is not expected to permanently drop below its threshold of 14 percent until after 2029, as the Glencore debt matures (Text Figure 4). Under the baseline scenario, the other liquidity and solvency ratios remain below their thresholds (Figure 4).

19. The thresholds for all indicators are breached under stress tests. Under the shock scenarios, the exports stress test produces the most extreme scenario for all indicators except the debt service-to-revenue ratio, for which the commodity price stress test is the most extreme.[11] Under the exports stress test, all four indicator thresholds are breached for the entire horizon (Figure 2). For the present value of PPG external debt-to GDP, present value of PPG external debt-to-exports, and debt service-to-exports ratios, levels approach those seen during the 2018 debt distress episode. The debt service-to-revenue-ratio—the factor that pushed Chad into debt distress in the past—peaks at 22 percent.

Text Figure 4. Chad: External Debt Service by Creditor
(percent of government revenue, excluding grants)



Source: Country authorities, IMF and World Bank staff estimates.
In line with the LIC DSF Guidance Note, future IDA disbursements are assumed in the form of concessional loans.

B. Public Debt Sustainability

20. The benchmark for public debt is breached in 2021-26 under the baseline. Due to higher budget deficits related to the impact of the COVID-19 pandemic, the PV of total public debt-to-GDP ratio is projected to peak at 45 percent in 2022, above the 35 percent high-risk threshold associated with heightened public debt vulnerabilities with a weak debt carrying capacity. The benchmark for public debt is also breached through 2030 for the most extreme contingency scenario. The DSA assumes a normalization of the domestic issuance capacity which would partially fill the financing gap.

C. Risk Rating and Vulnerabilities/Staff's Assessment

21. Chad is in debt distress. Based on the assessment of the external public debt indicators and ongoing debt restructuring, Chad's classification has been changed to "in debt distress" from high risk of debt distress in the previous DSA (August 2020). Given the impact of COVID and other shocks on growth and the widening of the fiscal and external imbalances, there is a large residual financing need that cannot be met with fiscal adjustment and grants alone. Moreover, Chad's outlook is subject to significant

[11] A tailored stress test, tailored to reflect a 20 percent reduction in oil price, is activated for Chad.

downside risk, related to the economic impact of the pandemic, ongoing insecurity, and exposure to climatic shocks.

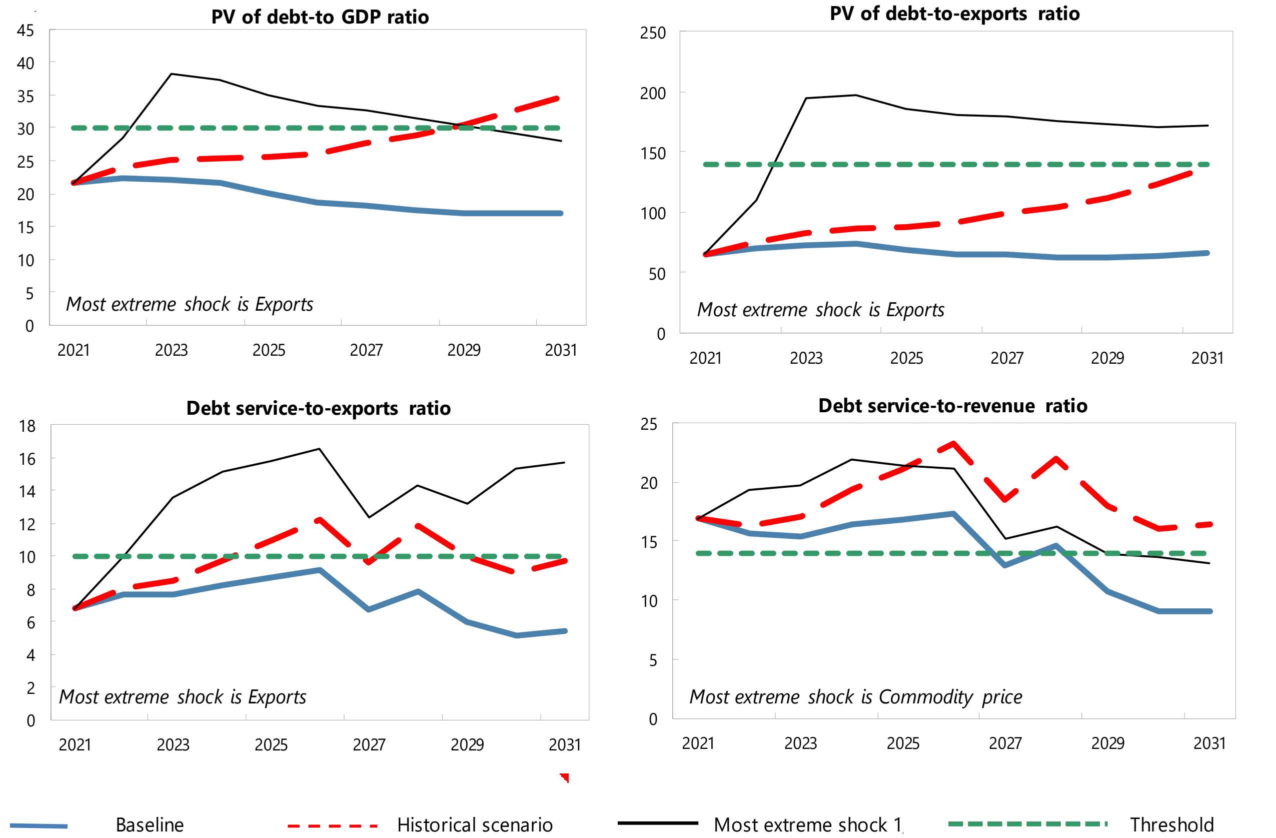
22. A deep debt restructuring under the Common Framework is underway and is expected to restore debt sustainability and bring the risk rating to 'moderate' within the program period. Given the request for exceptional access under the proposed Fund arrangement and the current 'in debt distress' rating, Fund policies require that the envisaged debt restructuring should bring the risk of external debt distress back to a low or moderate level. The envelope for the restructured debt will need to allow for a suitable buffer to absorb shocks as the economy is vulnerable to frequent and often concurrent shocks. For example, recent economic shocks have resulted from global oil price volatility, regional and domestic insecurity (with Chad hosting large numbers of internally displaced people and refugees), climatic shocks with droughts and flooding of increasing intensity, in addition to the COVID-19 pandemic. Given the liquidity challenges, the debt restructuring envelope will need to close the 2022-24 residual financing gap. The Chadian authorities have received financing assurances from the Common Framework creditor committee for a restructuring in line with these parameters and have also taken important steps towards the required restructuring of debt held by private creditors.

23. Following debt restructuring, significant concessional financing will still be required to maintain a moderate risk of external and overall debt distress. While restructuring is expected to reduce the annual financing gap, significant concessional financing commitments by multilateral and bilateral creditors will still be required over the longer-term to avoid a recurrence of either external and/or domestic debt service problems. A zero NCB limit is an important part of the debt conditionality under the proposed Fund-supported program. The government would also need to take action to further enhance debt management capacity and public debt transparency while strengthening fiscal policies. In particular, improving control of SOE liabilities, enhancing domestic revenue mobilization and expenditure efficiency, and normalizing relations in the regional debt market. These policy measures are important since adverse shocks to revenues (i.e. from oil price shocks, insecurity) and climatic conditions, are likely to be a persistent feature in Chad over the long term.

D. Authorities' Views

24. The authorities broadly agreed with the overall assessment of the country's debt sustainability. Debt sustainability is expected to be restored through a deep debt restructuring, donor support, and the reforms contemplated under the Fund-supported program. The authorities are committed to further improve debt management.

Figure 1. Chad, Indicators of Public and Publicly Guaranteed External Debt under Restructuring Scenarios, 2021-31



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	No	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	20
Avg. grace period	7	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

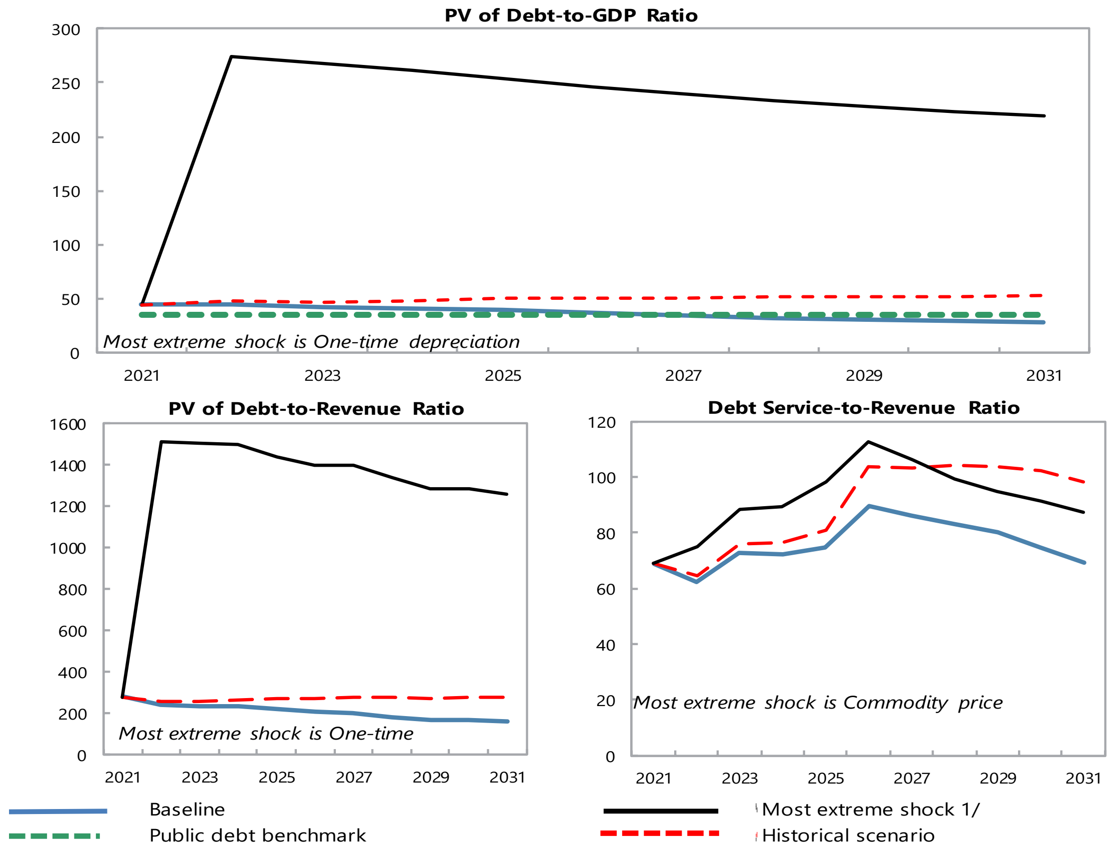
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

The tailored commodity price stress test presented here does not account for the contingency mechanisms in the Glencore debt as Text Figure 1 does.

Figure 2. Chad: Indicators of Public Debt Under Alternative Scenarios, 2021-2031



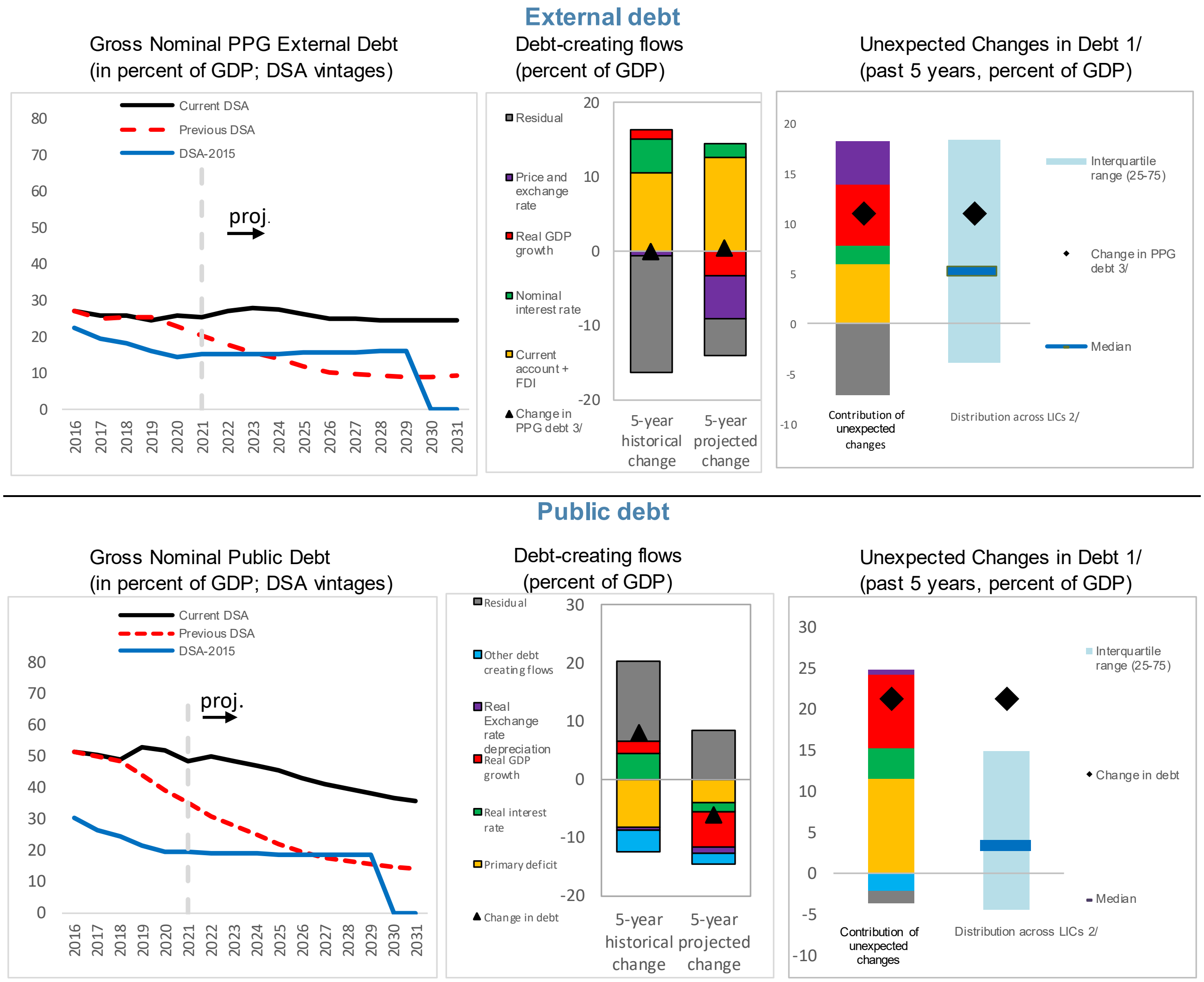
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	37%	65%
Domestic medium and long-term	10%	5%
Domestic short-term	115%	30%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
Avg. maturity (incl. grace period)	21	20
Avg. grace period	7	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.2%	5.0%
Avg. maturity (incl. grace period)	6	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0%	2.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Chad: Drivers of Debt Dynamics- Baseline Scenario



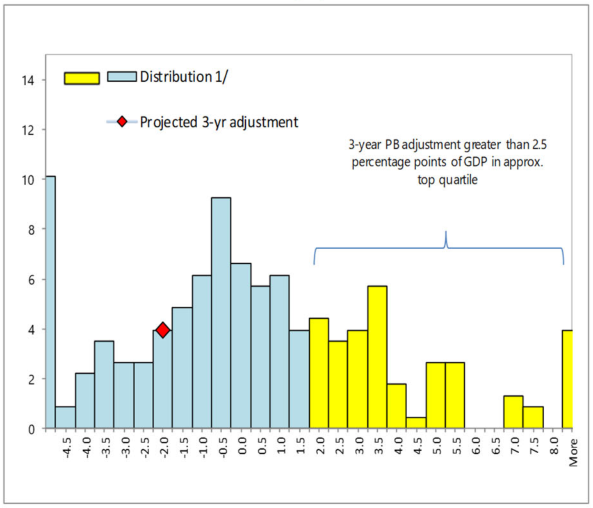
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

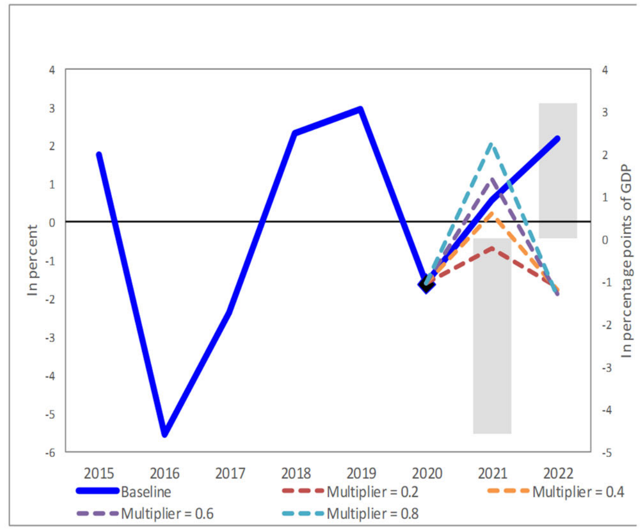
Figure 4. Chad: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

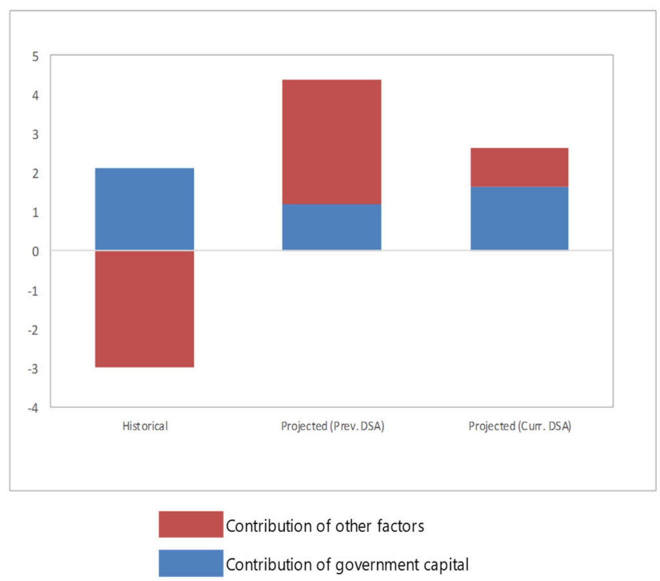
Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)

Contribution to Real GDP growth
(percent, 5-year average)



Source: Country authorities, IMF and World Bank staff estimates

Table 1. Chad: External Debt Sustainability Framework, Baseline Scenario, 2010–2041

	Actual											Projections								Average 8/	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projectio
External debt (nominal) 1/	24.6	21.8	20.0	21.1	29.1	25.5	26.8	25.6	25.8	24.6	25.5	25.4	27.0	27.7	27.6	26.0	24.9	24.4	19.8	24.6	25.5
of which: public and publicly guaranteed (PPG)	24.6	21.8	20.0	21.1	29.1	25.5	26.8	25.6	25.8	24.6	25.5	25.4	27.0	27.7	27.6	26.0	24.9	24.4	19.8	24.6	25.5
Change in external debt	...	-2.8	-1.7	1.1	8.0	-3.7	1.4	-1.3	0.2	-1.3	1.0	-0.2	1.6	0.7	-0.1	-1.6	-1.1	0.0	-0.8		
Identified net debt-creating flows	...	-1.7	2.7	4.2	2.2	16.8	9.9	3.8	-3.8	0.7	5.3	2.8	1.5	2.6	3.0	1.3	1.3	0.8	-0.1	4.0	1.5
Non-interest current account deficit	8.4	5.4	7.1	8.5	8.2	12.6	8.7	6.1	0.8	4.1	7.9	6.0	5.4	6.9	7.6	6.0	5.6	1.8	0.9	6.9	5.1
Deficit in balance of goods and services	10.8	7.5	9.8	9.6	12.5	16.5	16.2	15.2	8.7	9.6	17.2	11.8	12.4	12.9	12.3	10.8	10.1	6.9	5.0	12.3	10.2
Exports	37.8	40.6	38.2	33.4	31.5	26.4	22.9	26.5	33.3	34.8	27.3	32.9	31.7	30.3	29.3	29.2	28.5	25.3	18.7		
Imports	48.6	48.1	48.0	43.1	43.9	42.9	39.1	41.7	42.0	44.3	44.5	44.7	44.1	43.3	41.6	40.0	38.6	32.3	23.7		
Net current transfers (negative = inflow)	-5.6	-4.3	-4.4	-5.1	-7.9	-7.1	-7.6	-9.4	-8.9	-7.4	-10.9	-7.8	-9.0	-8.1	-6.8	-6.6	-6.3	-5.4	-3.9	-7.3	-6.6
of which: official	-0.3	-0.3	-0.7	-1.3	-4.0	-2.5	-2.4	-3.1	-3.2	-1.3	-3.3	-1.5	-1.6	-1.6	-1.5	-1.5	-1.5	-1.3	-1.2		
Other current account flows (negative = net inflow)	3.2	2.2	1.7	3.9	3.6	3.2	0.1	0.3	0.9	2.0	1.6	2.0	1.9	2.1	2.0	1.7	1.8	0.2	-0.1	2.0	1.6
Net FDI (negative = inflow)	-5.2	-4.5	-4.7	-4.0	-5.2	-5.1	-2.4	-3.6	-3.0	-4.3	-3.6	-3.5	-3.8	-4.0	-4.0	-4.1	-3.7	-0.6	-0.6	-4.0	-3.3
Endogenous debt dynamics 2/	...	-2.6	0.3	-0.3	-0.8	9.3	3.6	1.4	-1.6	0.9	1.0	0.3	-0.1	-0.4	-0.6	-0.7	-0.6	-0.4	-0.4		
Contribution from nominal interest rate	...	0.4	0.7	0.6	0.7	1.1	1.7	1.0	0.6	0.7	0.6	0.4	0.4	0.4	0.4	0.3	0.3	0.2	0.2		
Contribution from real GDP growth	...	0.0	-1.9	-1.1	-1.4	-0.7	1.5	0.6	-0.5	-0.8	0.4	-0.1	-0.5	-0.8	-0.9	-1.0	-0.9	-0.6	-0.6		
Contribution from price and exchange rate changes	...	-3.0	1.5	0.2	-0.2	8.8	0.4	-0.3	-1.7	1.0	0.1	...	...	...	...	...	...	...	...		
Residual 3/	...	-1.1	-4.5	-3.2	5.8	-20.4	-8.5	-5.1	4.1	-2.0	-4.3	-3.0	0.1	-1.9	-3.1	-2.8	-2.4	-0.8	-0.7	-3.9	-1.6
of which: exceptional financing	...	0.0	0.0	0.0	-0.1	-0.8	-1.1	-1.0	-1.3	-1.6	-0.4	-1.0	-1.7	-1.6	-1.5	-0.3	-0.3	-0.2	-0.1		
Sustainability indicators																					
PV of PPG external debt-to-GDP ratio	...	...	...	...	...	...	...	...	...	...	23.5	21.6	22.2	22.2	21.5	19.9	18.7	16.9	13.8		
PV of PPG external debt-to-exports ratio	...	...	...	...	...	...	...	...	...	...	86.0	65.6	70.1	73.0	73.5	68.4	65.6	66.7	73.8		
PPG debt service-to-exports ratio	1.5	2.2	3.2	3.9	15.6	9.6	14.4	9.0	6.1	4.1	6.5	6.8	7.7	7.6	8.2	8.7	9.1	5.4	6.6		
PPG debt service-to-revenue ratio	3.1	3.9	5.7	7.1	31.0	24.0	34.5	22.4	16.9	11.3	10.4	16.9	15.7	15.4	16.4	16.8	17.4	9.1	9.2		
Gross external financing need (Million of U.S. dollars)	...	...	...	...	1114.2	1101.2	980.5	486.7	-24.7	132.0	647.5	568.4	508.8	709.5	858.8	686.0	746.0	565.0	623.3		
Key macroeconomic assumptions																					
Real GDP growth (in percent)	13.6	0.1	8.8	5.8	6.9	1.8	-5.6	-2.4	2.3	3.0	-1.6	0.6	2.2	3.1	3.6	3.8	3.7	2.6	2.9	1.9	3.1
GDP deflator in US dollar terms (change in percent)	1.1	13.7	-6.4	-1.0	0.8	-23.2	-1.4	1.2	7.0	-3.8	-0.2	11.2	2.5	3.3	3.4	3.5	3.3	3.1	0.3	-1.3	3.8
Effective interest rate (percent) 4/	...	1.8	3.3	3.4	3.7	3.1	6.2	3.8	2.8	2.6	2.2	1.9	1.8	1.5	1.4	1.3	1.1	0.9	0.9	3.3	1.5
Growth of exports of G&S (US dollar terms, in percent)	23.2	22.3	-4.1	-8.4	1.4	-34.4	-19.2	14.5	37.6	3.3	-22.9	34.8	1.0	1.8	3.5	6.9	4.7	1.0	7.9	-1.0	6.5
Growth of imports of G&S (US dollar terms, in percent)	19.4	12.7	1.6	-6.0	9.9	-23.7	-15.1	5.4	10.3	4.5	-1.3	12.2	3.3	4.4	3.0	3.3	3.3	-1.4	5.5	-0.2	3.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	...	...	...	...	...	35.4	39.4	40.2	40.9	43.4	42.2	42.2	47.8	...	41.1
Government revenues (excluding grants, in percent of GDP)	18.9	23.2	21.7	18.5	15.8	10.5	9.5	10.6	12.0	12.6	16.9	13.2	15.5	15.1	14.7	15.0	15.0	15.0	13.4	15.1	14.8
Aid flows (in Million of US dollars) 5/	263.4	279.6	477.1	377.5	369.1	433.3	326.8	527.7	511.9	283.6	577.9	521.0	789.9	766.0	765.0	771.6	904.9	1084.0	985.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	...	...	...	...	...	...	...	...	3.7	4.8	4.7	4.5	4.0	4.1	3.7	2.2	...	4.1
Grant-equivalent financing (in percent of external financing)	...	...	...	...	...	...	...	...	...	...	...	67.9	61.4	64.8	66.9	73.8	70.3	72.4	84.0	...	69.3
Nominal GDP (Million of US dollars)	10,701	12,183	12,411	12,994	14,003	10,952	10,202	10,079	11,036	10,934	10,735	12,004	12,567	13,378	14,331	15,395	16,501	22,395	40,167		
Nominal dollar GDP growth	...	13.8	1.9	4.7	7.8	-21.8	-6.8	-1.2	9.5	-0.9	-1.8	11.8	4.7	6.5	7.1	7.4	7.2	5.8	3.2	0.5	6.9
Memorandum items:																					
PV of external debt 7/	...	...	...	...	...	...	...	...	...	...	23.5	21.6	22.2	22.2	21.5	19.9	18.7	16.9	13.8		
In percent of exports	...	...	...	...	...	...	...	...	...	...	86.0	65.6	70.1	73.0	73.5	68.4	65.6	66.7	73.8		
Total external debt service-to-exports ratio	1.5	2.2	3.2	3.9	15.6	9.6	14.4	9.0	6.1	4.1	6.5	6.8	7.7	7.6	8.2	8.7	9.1	5.4	6.6		
PV of PPG external debt (in Million of US dollars)											2520.5	2591.4	2795.7	2965.4	3088.2	3070.9	3082.7	3779.9	5546.5		
(PVt-PVt-1)/GDPt-1 (in percent)												0.7	1.7	1.4	0.9	-0.1	0.1	0.9	-0.1		
Non-interest current account deficit that stabilizes debt ratic	...	8.3	8.8	7.4	0.2	16.3	7.4	7.3	0.5	5.4	6.9	6.2	3.8	6.2	7.7	7.6	6.6	1.8	1.7		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Chad: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–2041

	Actual											Projections								Average 7/	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	24.6	30.6	28.8	30.6	39.5	43.9	51.3	50.3	49.1	53.0	51.7	48.4	49.9	48.2	47.0	45.6	43.0	35.7	25.2	42.9	43.0
of which: external debt	24.6	21.8	20.0	21.1	29.1	25.5	26.8	25.6	25.8	24.6	25.5	25.4	27.0	27.7	27.6	26.0	24.9	24.4	19.8	24.6	25.5
Change in public sector debt	...	5.9	-1.8	1.9	8.9	4.4	7.5	-1.1	-1.2	3.9	-1.2	-3.3	1.5	-1.7	-1.1	-1.5	-2.6	-1.0	-0.3		
Identified debt-creating flows		-4.5	-3.0	0.6	0.2	10.2	5.4	-3.1	-3.8	-1.8	-2.7	-1.0	-3.2	-3.1	-3.2	-3.9	-4.0	-2.2	-0.3	-0.2	-3.0
Primary deficit /2	3.6	-3.0	-0.9	1.5	3.6	2.7	-0.1	-1.3	-3.0	-0.8	-3.0	1.5	-1.7	-1.1	-1.0	-1.6	-1.8	-0.9	0.1	-0.4	-1.1
Revenue and grants	20.2	24.8	24.4	20.7	17.8	14.0	12.4	14.6	15.3	14.2	21.1	15.9	18.4	18.0	17.7	17.9	17.8	17.7	15.3	17.9	17.6
of which: grants	1.3	1.6	2.6	2.3	2.0	3.4	2.9	4.0	3.3	1.7	4.2	2.8	2.8	3.0	3.0	2.9	2.9	2.7	1.8		
Primary (noninterest) expenditure	23.8	21.8	23.4	22.3	21.4	16.7	12.4	13.3	12.3	13.4	18.1	17.5	16.7	16.9	16.7	16.3	16.0	16.7	15.4	17.5	16.5
Automatic debt dynamics		-1.5	-2.1	-0.4	1.0	8.2	5.9	0.0	-0.2	-0.5	0.8	-2.2	-1.2	-1.6	-1.9	-2.0	-1.9	-1.1	-0.3		
Contribution from interest rate/growth differential	...	-0.1	-2.3	-0.8	-1.5	1.1	4.4	2.4	-1.2	-1.2	2.2	-2.0	-1.0	-1.5	-1.7	-1.7	-1.6	-0.9	-0.3		
of which: contribution from average real interest rate	...	-0.1	0.2	0.8	0.5	1.7	1.8	1.2	-0.1	0.2	1.3	-1.7	0.0	0.0	0.0	0.0	0.0	0.1	0.4		
of which: contribution from real GDP growth	...	0.0	-2.5	-1.6	-2.0	-0.7	2.6	1.3	-1.1	-1.4	0.9	-0.3	-1.0	-1.5	-1.7	-1.7	-1.6	-0.9	-0.7		
Contribution from real exchange rate depreciation		-1.4	0.2	0.3	2.5	7.1	1.5	-2.4	1.0	0.7	-1.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows		0.0	-0.1	-0.5	-4.4	-0.7	-0.5	-1.8	-0.6	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.1	-0.9	-0.3
Privatization receipts (negative)		0.0	-0.1	0.0	-4.0	-0.4	0.0	-1.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)		0.0	0.0	-0.5	-0.4	-0.3	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.1		
Other debt creating or reducing flow (please specify)		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	0.0	0.0	0.0	0.0	0.0		
Residual		10.4	1.2	1.3	8.7	-5.8	2.1	2.0	2.6	5.7	1.5	-2.5	4.5	1.3	1.8	2.1	1.1	1.0	0.0	3.0	1.3
Sustainability indicators																					
PV of public debt-to-GDP ratio 3/		...	...	...	...	...	...	...	...	...	48.2	44.6	45.0	42.5	40.9	39.4	36.7	28.2	19.1		
PV of public debt-to-revenue and grants ratio		...	...	...	...	...	...	...	...	...	227.9	280.1	244.6	235.9	231.5	219.9	205.8	159.6	125.1		
Debt service-to-revenue and grants ratio 4/		3.6	5.0	7.1	29.1	31.6	33.8	27.1	34.1	20.3	15.0	69.0	62.4	73.0	72.1	74.9	89.7	69.4	32.0		
Gross financing need 5/	4.0	-2.5	-0.4	2.2	7.8	5.8	2.3	1.2	1.1	1.1	0.1	9.3	13.6	12.8	13.1	13.7	15.0	11.4	5.5		
Key macroeconomic and fiscal assumptions																					
Real GDP growth (in percent)	13.6	0.1	8.8	5.8	6.9	1.8	-5.6	-2.4	2.3	3.0	-1.6	0.6	2.2	3.1	3.6	3.8	3.7	2.6	2.9	1.9	3.1
Average nominal interest rate on external debt (in percent)		1.8	3.5	3.3	3.6	3.3	6.3	4.0	2.7	2.7	2.2	1.8	1.8	1.5	1.4	1.3	1.1	0.9	0.9	3.3	1.5
Average real interest rate on domestic debt (in percent)	0	-6.2	-1.3	6.2	2.2	10.6	2.1	2.3	-0.5	-0.1	3.6	-5.2	1.2	1.0	1.1	1.3	1.4	2.3	3.8	1.9	1.0
Real exchange rate depreciation (in percent, + indicates depreciation)		-5.5	1.0	1.7	12.3	24.4	5.4	-8.5	4.1	2.7	-5.6	...	...	...	...	...	...	...	...	3.2	...
Inflation rate (GDP deflator, in percent)	6.2	8.4	1.3	-4.2	0.8	-8.0	-1.1	-0.8	2.3	1.5	-2.1	6.3	1.4	1.8	2.1	2.4	2.5	3.1	2.3	-0.2	2.8
Growth of real primary spending (deflated by GDP deflator, in percent)		-8.5	17.2	0.5	2.7	-20.8	-29.9	5.0	-5.7	12.8	32.6	-2.9	-2.3	4.2	2.4	1.6	1.8	3.6	-2.2	0.6	2.4
Primary deficit that stabilizes the debt-to-GDP ratio 6/		...	...	...	...	...	...	...	-1.8	-4.7	-1.8	4.9	-3.1	0.5	0.2	-0.1	0.8	0.1	0.4	-2.8	0.3
PV of contingent liabilities (not included in public sector debt)		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	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments, central bank, government-guaranteed debt. Definition of external debt is Currency-based.

2/ The primary balance assumes debt relief under the CCRT as a capital grant (subject to availability of resources).

3/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

5/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

6/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

7/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–2031

(In percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	21.6	22.2	22.2	21.5	19.9	18.7	18.2	17.4	17.0	16.9	16.9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	21.6	23.9	25.0	25.3	25.6	26.1	27.7	28.8	**30.5**	**32.6**	**34.7**
B. Bound Tests											
B1. Real GDP growth	21.6	24.0	26.1	25.4	23.5	22.0	21.5	20.5	20.1	20.0	19.9
B2. Primary balance	21.6	22.1	22.7	21.7	19.1	17.1	16.2	14.8	14.3	14.2	14.0
B3. Exports	21.6	28.5	**38.2**	**37.2**	**35.1**	**33.3**	**32.6**	**31.4**	**30.4**	29.2	28.0
B4. Other flows 3/	21.6	25.1	27.3	26.6	24.8	23.5	22.9	22.0	21.3	20.8	20.3
B6. One-time 30 percent nominal depreciation	21.6	28.0	23.9	23.3	21.4	19.9	19.4	18.4	18.0	18.2	18.4
B6. Combination of B1-B5	21.6	29.6	**31.2**	**30.3**	28.3	26.7	26.1	25.0	24.1	23.6	23.1
C. Tailored Tests											
C1. Combined contingent liabilities	21.6	20.7	19.6	18.1	15.4	13.4	12.5	11.3	10.8	10.8	10.8
C2. Natural disaster	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
C3. Commodity price	21.6	26.3	30.0	29.3	27.3	25.5	24.6	23.1	21.9	20.8	19.8
C4. Market Financing	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Threshold	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**
PV of debt-to-exports ratio											
Baseline	65.6	70.1	73.0	73.5	68.4	65.6	64.9	62.8	62.4	63.9	66.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	65.6	75.2	82.4	86.4	87.9	91.7	98.7	104.3	111.9	123.1	137.1
B. Bound Tests											
B1. Real GDP growth	65.6	70.1	73.0	73.5	68.4	65.6	64.9	62.8	62.4	63.9	66.7
B2. Primary balance	65.6	69.6	74.9	74.0	65.5	60.0	57.6	53.6	52.4	53.4	55.4
B3. Exports	65.6	110.4	**195.3**	**196.7**	**186.3**	**181.3**	**180.0**	**176.1**	**173.0**	**170.5**	**171.6**
B4. Other flows 3/	65.6	79.2	90.0	90.6	85.1	82.3	81.6	79.5	78.2	78.4	80.3
B6. One-time 30 percent nominal depreciation	65.6	70.1	62.7	63.1	58.2	55.4	54.8	52.8	52.4	54.6	57.9
B6. Combination of B1-B5	65.6	98.0	89.1	118.9	111.6	107.8	106.9	104.1	101.7	102.1	104.6
C. Tailored Tests											
C1. Combined contingent liabilities	65.6	65.1	64.7	61.7	52.7	47.0	44.6	40.8	39.7	40.8	42.5
C2. Natural disaster	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
C3. Commodity price	65.6	99.2	115.5	113.5	102.9	95.5	90.4	86.2	82.9	80.9	80.9
C4. Market Financing	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Threshold	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**
Debt service-to-exports ratio											
Baseline	6.8	7.7	7.6	8.2	8.7	9.1	6.7	7.9	6.0	5.1	5.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	6.8	8.0	8.5	9.7	**10.9**	**12.2**	9.6	**11.9**	10.0	9.0	9.7
B. Bound Tests											
B1. Real GDP growth	6.8	7.7	7.6	8.2	8.7	9.1	6.7	7.9	6.0	5.1	5.4
B2. Primary balance	6.8	7.7	7.7	8.3	8.7	9.1	6.7	8.1	6.2	5.5	5.6
B3. Exports	6.8	**10.1**	**13.5**	**15.1**	**15.8**	**16.6**	**12.4**	**14.3**	**13.2**	**15.3**	**15.7**
B4. Other flows 3/	6.8	7.7	7.8	8.4	8.9	9.3	6.9	8.1	7.0	6.7	6.9
B6. One-time 30 percent nominal depreciation	6.8	7.7	7.6	8.1	8.5	9.0	6.6	7.8	5.9	4.1	4.4
B6. Combination of B1-B5	6.8	8.8	**10.4**	**11.2**	**11.7**	**12.3**	9.1	**10.7**	9.9	8.7	9.1
C. Tailored Tests											
C1. Combined contingent liabilities	6.8	7.7	7.6	8.2	8.6	9.0	6.5	7.7	5.8	4.9	5.2
C2. Natural disaster	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
C3. Commodity price	6.8	9.4	9.5	**10.2**	**10.5**	**10.8**	7.8	9.0	8.0	7.9	8.0
C4. Market Financing	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Threshold	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**
Debt service-to-revenue ratio											
Baseline	**16.9**	**15.7**	**15.4**	**16.4**	**16.8**	**17.4**	13.0	**14.6**	10.8	9.1	9.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	**16.9**	**16.3**	**17.0**	**19.3**	**21.1**	**23.3**	**18.4**	**22.0**	**17.9**	**16.0**	**16.4**
B. Bound Tests											
B1. Real GDP growth	**16.9**	**16.9**	**18.1**	**19.4**	**19.8**	**20.5**	**15.3**	**17.2**	12.7	10.7	10.7
B2. Primary balance	**16.9**	**15.8**	**15.5**	**16.6**	**16.9**	**17.4**	12.9	**15.0**	11.1	9.8	9.5
B3. Exports	**16.9**	**16.7**	**17.6**	**19.4**	**19.8**	**20.3**	**15.4**	**17.1**	**15.3**	**17.6**	**17.2**
B4. Other flows 3/	**16.9**	**15.7**	**15.6**	**16.9**	**17.2**	**17.7**	13.3	**14.9**	12.5	11.9	11.7
B6. One-time 30 percent nominal depreciation	**16.9**	**19.7**	**19.4**	**20.3**	**20.9**	**21.5**	**16.0**	**18.1**	13.3	9.2	9.4
B6. Combination of B1-B5	**16.9**	**17.1**	**18.2**	**19.4**	**19.8**	**20.4**	**15.3**	**17.2**	**15.5**	13.5	13.3
C. Tailored Tests											
C1. Combined contingent liabilities	**16.9**	**15.8**	**15.3**	**16.3**	**16.6**	**17.1**	12.6	**14.2**	10.4	8.7	8.7
C2. Natural disaster	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
C3. Commodity price	**16.9**	**19.3**	**19.8**	**21.9**	**21.4**	**21.1**	**15.2**	**16.2**	13.9	13.7	13.2
C4. Market Financing	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Threshold	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

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

3/ Includes official and private transfers and FDI.

Table 4. Chad: Sensitivity Analysis for Key Indicators of Public Debt, 2021–2031
(In percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
						PV of Debt-to-GDP Ratio					
Baseline	**44.6**	**45.0**	**42.5**	**40.9**	**39.4**	**36.7**	34.6	32.5	30.7	29.2	28.2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	**45**	**48**	**47**	**48**	**50**	**50**	**51**	**51**	**52**	**52**	**53**
B. Bound Tests											
B1. Real GDP growth	**45**	**231**	**249**	**246**	**242**	**237**	**233**	**230**	**226**	**223**	**222**
B2. Primary balance	**45**	**47**	**47**	**45**	**44**	**42**	**39**	**37**	**35**	33	32
B3. Exports	**45**	**49**	**55**	**53**	**51**	**48**	**46**	**43**	**41**	**38**	**36**
B4. Other flows 3/	**45**	**48**	**48**	**46**	**44**	**41**	**39**	**37**	35	33	32
B6. One-time 30 percent nominal depreciation	**45**	**274**	**268**	**261**	**254**	**246**	**240**	**234**	**228**	**223**	**219**
B6. Combination of B1-B5	**45**	**45**	**47**	**45**	**45**	**44**	**42**	**40**	**39**	**37**	**35**
C. Tailored Tests											
C1. Combined contingent liabilities	**45**	**59**	**56**	**54**	**53**	**49**	**47**	**44**	**41**	**39**	**37**
C2. Natural disaster	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
C3. Commodity price	**45**	**220**	**223**	**227**	**229**	**227**	**225**	**222**	**218**	**216**	**214**
C4. Market Financing	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Public debt benchmark	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
						PV of Debt-to-Revenue Ratio					
Baseline	280.1	244.6	235.9	231.5	219.9	205.8	199.1	184.3	171.3	165.8	159.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	280	258	259	268	273	274	281	278	275	277	277
B. Bound Tests											
B1. Real GDP growth	280	1240	1342	1349	1311	1292	1305	1264	1228	1234	1224
B2. Primary balance	280	256	261	257	247	233	227	211	195	188	179
B3. Exports	280	269	303	298	284	269	263	245	229	218	206
B4. Other flows 3/	280	260	264	260	247	233	226	210	195	188	179
B6. One-time 30 percent nominal depreciation	280	1511	1503	1496	1436	1400	1400	1340	1287	1282	1259
B6. Combination of B1-B5	280	245	261	254	248	244	242	227	215	208	199
C. Tailored Tests											
C1. Combined contingent liabilities	280	320	311	307	293	277	268	248	229	219	209
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	280	1390	1439	1492	1412	1354	1326	1236	1201	1207	1197
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
						Debt Service-to-Revenue Ratio					
Baseline	69.0	62.4	73.0	72.1	74.9	89.7	86.2	83.2	80.2	74.8	69.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	69	64	76	77	81	104	103	104	104	102	98
B. Bound Tests											
B1. Real GDP growth	69	68	84	85	88	104	102	101	97	93	88
B2. Primary balance	69	63	72	76	73	85	82	81	78	75	70
B3. Exports	69	62	73	73	76	90	87	84	83	81	75
B4. Other flows 3/	69	62	73	73	75	90	86	83	82	77	72
B6. One-time 30 percent nominal depreciation	69	62	73	70	75	89	84	83	77	71	65
B6. Combination of B1-B5	69	62	74	75	76	91	87	84	81	76	71
C. Tailored Tests											
C1. Combined contingent liabilities	69	63	65	67	70	83	81	80	77	73	69
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	69	75	88	89	98	112	106	99	95	91	87
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Statement by Mr. Aivo Andrianarivelo, Executive Director for Chad and Mr. Regis N'Sonde, Alternate Executive Director, and Mr. Madjiyam Bangrim Kibassim, Advisor of the Executive Director on Chad

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I. Introduction

The Chadian authorities welcome the fruitful engagement with Staff and Management and appreciate the Executive Board's recent support to the country's agenda. In particular, they welcome the sustained support that Chad has benefited from the Fund since the beginning of the COVID-19 pandemic, in the form of policy advice and emergency financing. They are also appreciative of the international community's various debt initiatives, notably under the IMF's Catastrophe Containment and Relief Trust (CCRT), G- 20's Debt Service Suspension Initiative (DSSI) and Common Framework—which is being operationalized—as well as the historical SDR allocation. All these initiatives have provided breathing room to the country. Nonetheless, the economy remains highly vulnerable to domestic and external shocks, including the lingering effects of the COVID-19 pandemic andthe volatile security conditions. The effects of climate change, with notably drought and recurrent flooding, add to the adverse shocks.

Chad's reform agenda is fully aligned with the second phase of CEMAC's regional strategy geared towards green, sustainable, and inclusive growth. This strategy was strongly affirmed at the Heads of State Summit in August 2021 and geared at supporting diversified, sustained and job-generating growth while strengthening macroeconomic and external stability. Building on recent progress made with private creditors to complete the debt restructuring, the authorities are requesting a triennial arrangement under the Extended Credit Facility (ECF) to consolidate the gains achieved under the 2017-20 ECF arrangement and resume the growth path interrupted by the 2014-15 oil price shock and the pandemic. This program is anchored by the country's 2022-26 National Development Plan (NDP).

II. Recent Developments and the Authorities' Response to the Pandemic

The COVID-19 pandemic and subsequent containment measures have severely impacted businesses and households and caused an important decline of oil GDP and non-oil activity particularly in transport, tourism, and hospitality. Real GDP contracted by 1.6 percent in 2020 while poverty and unemployment, particularly in services, increased. The comprehensive response plan implemented by the authorities, notably on the fiscal front,complemented by support measures by the regional central bank, *Banque des Etats de l'Afrique Centrale* (BEAC), was decisive in mitigating the effects of the health crisis. However, other shocks, notably floods in Q4 2020, heightened insecurity and an impending food crisis have further limited the authorities' room to maneuver. The social environment has also deteriorated and remains fragile despite the assistance from partners. As a result, thehard-won gains in poverty reduction achieved during the last decades could be reversed.

Since April 2021, the institutional framework has changed following the death of President Idriss DEBY ITNO, and Chad is experiencing an 18-month transition period. The transition is led by the Transitional Military Council and the National Council of Transition and expected to lead to democratically elected institutions. A transition road map has been adopted in July 2021 covering the preparation of a national dialogue, the organization of presidential and legislative elections, and the revision of the constitution. Meanwhile, a social pact aiming at preserving a peaceful social climate has been signed between the government and trade unions and will restore the benefits of civil servants suspended in 2016 in the aftermath of the oil crisis. These institutional changes induce financial costs, and the authorities see partners' support as essential for getting through this critical time. While Chadian troops continue to be engaged in the fight against terrorism, security conditions remain challenging and are significantly impacting public expenditure. Food insecurity and the increasing number of refugees and internally displaced persons have aggravated the humanitarian situation, exerting pressures on public finances.

Despite a difficult fiscal position and delayed budget support causing daunting treasury constraints, the government has pursued budgetary consolidation, with a view to strengthening fiscal sustainability. Although oil revenue performed well in 2020, the weaker non-oil revenue collection combined to the rise in public spending required to address the consequences of the pandemic, security needs and the January 2020 agreement reestablishing workers' benefits, caused a larger-than-expected deterioration of non-oil primary balance and overall deficit. At the same time, the authorities took necessary steps to ensure regular payments of external debt service, reduce domestic debt, and clear audited arrears for CFA 149 billion. They also took advantage of the SDR allocation to strengthen the recovery and provide financing for food security and banks' recapitalization. The government has maintained engagement with Chad's official creditors and undertook spending cuts in investments and transfers to cope with the drop in oil revenue and delays in budget support.

III. Economic Outlook and Risks

The Chadian authorities recognize that the economic outlook is challenging given risks

to global growth. Risks are stemming from the continuing pandemic revived by a new variant, limited growth prospects in both oil and non-oil sectors, climate-related challenges, and daunting security conditions. On upside risks, a successful and swift completion of the debt restructuring will provide highly needed policy space and the authorities are determined to achieve a favorable outcome in this area with the help of the Paris Club and other bilateral creditors.

IV. Policies and Reforms for 2021-24

The new ECF arrangement will serve as an anchor for the government's medium-term policies aimed at achieving sustainable, greener, and inclusive growth. This agenda focuses on i) private sector and non-oil growth, ii) enhancing fiscal and debt sustainability, iii) strengthening PFM and debt management and iv) advancing economic diversification through comprehensive structural reforms. To achieve the program's objectives, the authorities' policies will put an emphasis on strengthening the economic recovery, reinforcing fiscal and debt sustainability, promoting good governance, and raising spending in social sectors while improving spending efficiency. Priority will also be given to enhancing the banking system and fostering economic diversification to reduce dependency on the oil sector through targeted structural reforms. The authorities have completed the two prior actions on the recapitalization of Commercial Bank Tchad (CBT) and the online publication of all COVID-related public contracts. They have agreed on eight structural benchmarks, notably on an oil sector quarterly note including information on debt service to the private creditor Glencore; the audit of COVID spending by a reputable international auditing firm; the publication of all new tax exemptions; and the allocation of VAT revenue in the VAT escrow account at BEAC.

Fiscal Policy for 2021

The fiscal policy stance for 2021 aims at maintaining prudence while supporting the economic recovery. The authorities are determined to strengthen fiscal sustainability by implementing a cumulative fiscal consolidation of 4 percent of non-oil GDP. To create the fiscal space needed for development and social requirements, structural measures aimed at further raising domestic revenue through the enhancement of the efficiency of revenue administrations are being considered in addition to new fiscal measures. These will focus on maintaining the wage bill, transfers, and subsidies, efficiently adjusted to available resources. The achievement of better spending quality, efficiency and allocation is expected to improve outcomes in capital investments and social sectors. Moreover, the positive prospects of a successful debt restructuring will help close the financing gap.

Medium-Term Fiscal Measures

The objective of the medium-term fiscal measures is to further strengthen fiscal sustainability while increasing resources to public investments and social sectors for poverty reduction. On the revenue side, measures include the streamlining of exemptions and modernization of VAT mechanisms, tax, and customs administrations, with a view to increasing non-oil revenue from 9.1 percent to 10.8 percent of GDP by 2024. On the expenditure front, the corrective measures already undertaken will be continued to prevent a further increase of wage bill and adjust transfers and subsidies, notably in the electricity sector. In this context, resources resulting from transfer adjustments, including to international institutions, will be directed to health, security, agriculture, and education sectors. Improving social indicators is at the core of the government's priorities as reflected by its commitment to reserve 34 percent of domestically financed primary spending for poverty-reducing social expenditure.

Tax and Customs Reforms

Administrative reforms in tax and customs administrations are central in the government's strategy for increasing domestic revenue mobilization. To achieve revenue objectives, envisaged actions in tax administration aim at improving VAT management and tax compliance; scaling up infrastructures, including buildings and software; augmenting monitoring of taxpayers; modernizing tax services through increased recourse to IT; promoting banking and mobile money services; and pursuing tax audits. In customs administration, efforts will rely on strengthening operational frameworks; banking services for transactions and their extension to custom offices; and controls and monitoring. The authorities also see merits in integrating tax and customs services to create synergies in revenue collection. The performance of VAT in Chad will be further enhanced by improved control, quest for greater efficiency and transparency of tax exemptions and procedures, and the clearance of VAT credits. The operationalization of an escrow account for VAT refund should stimulate the efficiency of the VAT mechanisms.

PFM Reforms

With the support from partners, the government has embarked in a far-reaching reform program aimed at enhancing transparency and efficiency in public financial management. These efforts are sustained by the implementation of the revamped Strategy for the Development and Modernization of PFM which will address existing vulnerabilities. A committee chaired by the Finance Inspector General will monitor developments of the wage bill and reforms in the civil service.

Debt Management

The authorities highly appreciate the IMF and other partners' support in obtaining financing assurances and reaching a decisive step in the debt restructuring process, and they will do their utmost efforts to achieve debt restructuring outcomes that are satisfactory to all parties. They are confident that they will be able to implement all restructuring agreements being requested by the time of the first review under the ECF arrangement. Successful completion of this process will allow to reduce debt service and to bring back the external debt service-to-revenue ratio from 14 to 12.3 percent. In addition, progress has been made towards reforming the debt management framework, enhancing coordination between technical services, and increasing resources to tackle weaknesses in debt management. The creation of an escrow account and the regular holding of meetings dedicated to external debt management should also be highlighted. The authorities continue to value the capacity building assistance on debt management provided by partners.

Financial Sector

The Chadian authorities are cognizant of the importance of strengthening the financial sector for sustaining growth and tackling poverty. Noticeable gains have been made in reinforcing the sector, notably ongoing monthly repayments to public banks CBT and BCC and the enforcement of performance contracts in line with their restructuring plans. In addition, the partial recapitalization of CBT will be finalized as required. In this context, credits and deposits have increased according to the December 2020 data. On the other hand, the pandemic has contributed to an increase in NPLs and a deterioration of banks' liquidity and capital positions. Therefore, in addition to the existing recovery committee, the authorities, in collaboration with the association of local banks are contemplating the establishment of a national debt recovery agency. To that end, they are requesting the IMF's technical assistance.

Medium-term reforms will endeavor to further reduce financial vulnerabilities stemming from the capital structure and governance of financial institutions. In this regard, the authorities are committed to (i) reduce the public stakes in banks; (ii) support COBAC's request for gradual capital restoration plans, to make further capital available as needed; and (iii) explore possibilities of increasing private sector participation in the capital of CBT. To foster the development of financial inclusion, the supervision and governance frameworks of microfinance institutions will be reinforced and access to financial and banking services enabled, including through mobile money services.

Structural Reforms

The authorities share the view that creating conducive conditions for stronger and inclusive long-term growth, underpinned by a more diversified economy, will require strengthening transparency and efficiency in the public and electricity sectors, reinforcing governance and the fight against corruption, and improving the business environment. The authorities strive to augment electricity production and distribution, including by prioritizing green energy. The national electricity company (SNE) will be subject to a performance monitoring and a restructuring to improve public service delivery in a cost-efficient manner. Efforts will also be made to operationalize the National Competition Council, the Observatory for the Business Environment, and the United Nations Convention against Corruption (UNCAC), and to ensure good functioning of the National Agency for Financial Investigation and other anti-corruption bodies to tackle corruption and strengthen the rule of law. Capacity building assistance remains critical, particularly in the implementation of the UNCAC and key reforms. Regarding extractive industries, further improvements will be sought in the transparency and oversight of the oil sector based notably on the 2019 EITI assessment and recommendations.

V. Conclusion

The Chadian authorities have undertaken bold measures to mitigate the effects of the 2016 crisis, significantly improve the macroeconomic framework and complete the 2017-20 ECF arrangement. Building on these achievements, and fully aware that the COVID-19 pandemic has increased vulnerabilities and undermined the progress made, the authorities attach great value to enhancing fiscal sustainability, reinforcing macroeconomic stability, and achieving more sustainable and inclusive growth, including as part of the regional strategy to strengthen external stability and resilience. They seek Executive Directors' support for their request of a three-year arrangement under the Extended Credit Facility to help sustain their policy and reform agenda.