

Letter of Intent

N'Djamena, April 9, 2020

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

Dear Managing Director,

The Chadian authorities are grateful to the IMF for its continued support under the Extended Credit Facility (ECF) arrangement approved by the IMF Executive Board on June 30, 2017, in support of our economic and financial reform program. The program helped reestablish debt sustainability and progressively consolidate the external position. Despite a difficult socio-economic situation and continued humanitarian, climatic and security challenges, our economy was on a recovery trend. We remain committed to the program, and performance towards the sixth and last ECF arrangement review has been satisfactory.

Unfortunately, the socio-economic impact of the COVID-19 pandemic threatens to erode the progress made under the ECF arrangement. The reduction in global demand will lead to a decline in remittances and a drop in oil prices and in non-oil exports and considerably weaken fiscal and external positions. Efforts to contain a spread of the pandemic will also entail additional spending in the health sector. Disruptions in international trade flows have disturbed manufacturing and agricultural activities relying on imports and exports. Disruptions could lead to shortages in imported goods, which in turn could push up prices for basic necessities. Containment measures (07 PM to 06AM) and restrictions on travel, gatherings and public transportation listed below have also disrupted non-oil activities in transport, tourism and hospitality. A drop of imports and a slow-down of economic activity will lead to shortfalls in tax and customs revenue.

A set of pressure alleviating measures will be announced by the government. For small and medium-sized businesses, these include a reduction of the business license and the presumptive tax, which would help enterprises, merchants and public transport. Tax breaks such as allowing loss carry-over and late payment of taxes can be examined on a case by case basis, which could help some sectors namely air transport, tourism and hospitality. Also, the ad hoc tax audits and all general accounting verifications may be suspended from April. The payment of CFAF 110 billion of debts owed to suppliers to the state will be made as soon as possible thanks to the mobilization of savings by Chadian banks, in the context of the domestic debt clearance plan.

Measures have also been taken in favor of the population. They concern the assumption by the State of all water consumption billed by the Société Tchadienne des Eaux or by management committees (or at standpipes) to households for a period of six months; the assumption by the State of the invoices of the national company of electricity for the domestic uses of the 1st social tranche capped at 150 KWh per month for the next three months; the payment of all death benefits due to deceased

civil and military agents, indemnities and ancillary wages owed to retirees and payment of medical expenses for civilian agents and defense and security forces in accordance with the domestic debt clearance plan adopted by the Council of Ministers; speed up the establishment of the Youth Entrepreneurship Fund in agreement with Chadian banks for an amount of CFAF 30 billion, with a third of which reserved for young women.

The pandemic is adding pressure to a fragile social situation, and a worsening security environment. In January 2020, an agreement was reached with labor unions to reestablish some benefits to public sector workers, cut following the 2014 crisis, which has helped avert a generalized public strike. Students have been demonstrating, calling for the reestablishment of scholarships and improved education and transport benefits. While the state of emergency in three provinces was removed in January, there have been renewed clashes with armed groups in one of these provinces. Boko Haram bases in the Chadian islands of Lake Chad have been destroyed and the defense and security forces are continuing their search, while Chad's contribution to the fight against terrorism in the Sahel has been stepped up in line with recommendations of the Pau Summit of January. We continue to count in part on external financial support for the legislative elections, scheduled for December 13, 2020.

The government took preventive measures against the COVID-19 with the assistance of the World Health Organization (WHO). These measures include, among others:

- The closure of all primary, secondary and university establishments throughout the territory;
- The closure of all places of worship (Mosques, Churches, etc.);
- The ban on all buses and minibuses for urban and interurban transport in the city of N'Djamena and in other provinces and the limitation of seats in taxis to three passengers plus the driver;
- The closure of grilling places, shops and stores selling non-food items such as bars, restaurants, local beer selling places, casinos and betting places;
- The closure of weekly markets in villages;
- The establishment of hygiene regulations in all public places;
- The formal ban on the gatherings of more than 50 people across the country;
- The introduction of a curfew from 07 PM to 06 AM in four provinces (Logone Oriental, Logone Occidental, Mayo-kebbi East and West plus the city of N'Djamena) since April 02, 2020 for two weeks renewable.

While only ten cases of coronavirus infection have been declared in Chad, the virus is closing in as many cases have been reported in neighbor countries. All travelers entering the territory via the airport and border posts are screened upon arrival and suspected cases are quarantined and tested. An instruction was issued on mandatory quarantine for all visitors from five countries affected by the virus, and official travels to these countries were suspended. All passenger flights were suspended starting from March 19, and borders with Central African Republic and Sudan were closed. Events and

meetings were cancelled, gatherings of more than 50 people were banned, public transport was restricted, and all schools and universities were closed. A contingency plan to contain the spread of the virus was adopted, an inter-ministerial monitoring committee was established, and Farcha Hospital was designated to receive infected cases identified at N'Djamena entry points. Other cases will be treated in provincial hospitals.

The National Contingency Plan for the preparedness and response to the pandemic of the Coronavirus COVID-19 aims at reinforcing the preparedness to respond quickly, to stem its spread across the country, and to mitigate its health and socio-economic impacts. The plan was supported by the German cooperation which provided test kits and a mobile laboratory and by the WHO which supplied reagents tests. Two agents were trained in the use of the equipment and the molecular technique for diagnosing COVID 19. The budget for the contingency plan is estimated at CFAF 15 billion (0.3 percent of non-oil GDP), of which 60 percent is to be financed by donors. Prospects for additional financial support from other development partners seem necessary to cover the still indicative financing need. Implementation of the plan is a real challenge in view of the long borders, a weak health care system, limited human resources and the need to set up and equip isolation and treatment sites across a continental territory, particularly in regions without medical coverage. The provisional budget for the plan may therefore be exceeded, depending on the evolution of the pandemic.

The global impact of the coronavirus pandemic will generate substantial balance of payments and fiscal needs. Unfortunately, the shock on oil prices materializes at a time when the government was starting to build up reserves under the law for the smoothing mechanism for oil prices and production that came into force in November 2019. Including additional spending in the health sector, total financing needs are estimated at CFAF 238 billion (3.9 percent of GDP). In the absence of external financing, spending plans in the 2020 budget would be curtailed, affecting negatively growth and poverty reduction objectives under our development plan (PND, 2017-2021). The government is reaching out to donors to address COVID-19 challenges and medium-term fiscal pressures which have emerged due to the oil market slump and continues to be committed to fiscal discipline once the COVID-19 effects subside.

The government requests IMF financial assistance under the Rapid Credit Facility (RCF) arrangement, in the amount of SDR 84.12 million, equivalent to 60 percent of quota. This financing will help us to address urgent balance of payments and fiscal financing needs. We are confident that IMF emergency assistance will play a catalytic role in securing needed external grants from other development partners. This comes in addition to our request to access resources under the Catastrophe Containment and Relief Trust (CCRT) to cover future debt service to the Fund, in the amount of SDR 10.1 million, equivalent to 7 percent of quota,

At the same time, in order to allow for more time to reach understandings on the 6th review under the arrangement, which were supposed to take place around the end of April 2020 with the physical presence of an IMF team in N'Djamena, we ask the IMF Board, if it deems it necessary, to extend the end of the program from June 29, 2020 to the end of September 2020, with a rephasing of access providing for a new availability date for the last disbursement (SDR 28.04 million, 20 percent of quota), to be July 15, 2020. In case travel bans are lifted, the IMF mission to conduct the 6th review can be anticipated, and the date of the discussions made closer.

We remain committed to policies set out in the Memorandum of Economic and Financial Policies (MEFP) of November 2019 and are confident that they 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, and will not introduce any measures or policies that would compound our balance of payment difficulties. To facilitate program monitoring and assessment, the government undertakes to provide all necessary information to IMF staff on a regular basis and in a timely manner, pursuant to the Technical Memorandum of Understanding (TMU) attached to the letter of intent of November 2019. We also undertake, under Decree N ° 0374 of March 24, 2020 creating a special allocation account entitled "Special Fund for the fight against the Coronavirus" to keep separate accounts for COVID-19 expenses and provide separate reporting for the transparent management and in accordance with the best budget management practices to which we have always adhered.

We will continue to implement policies that are consistent with maintaining regional external stability. In particular, to help achieve regional NFA objectives, we will continue to support the efforts of the BEAC and COBAC to improve compliance with the new foreign exchange regulations, which requires notably the repatriation of export proceeds, including oil revenues. The BEAC also continues to implement the remaining recommendations of the 2017 safeguards assessment.

In keeping with our longstanding commitment to transparency, the government agrees to the publication of the staff report for the RCF request and this letter of intent on the IMF website.

Very truly yours,

/s/

Tahir Hamid Nguilin
Minister of Finance and Budget