

BUFF/ED/20/128

July 20, 2020

**Statement by Mr. Raghani and Mr. Bangrim Kibassim on Chad  
Executive Board Meeting  
July 22, 2020**

1. The Chadian authorities express their appreciation to the Executive Board, Management and Staff for their support under the Extended Credit Facility (ECF) arrangement and emergency assistance under the Rapid Credit Facility (RCF) and the Catastrophe Containment and Relief Trust (CCRT) approved in April 2020. The IMF support has played a significant catalytic role in securing external funding for Chad and has been critical in mitigating the impact of the pandemic. The country expects also to benefit from the G-20's Debt Service Suspension Initiative (DSSI). However, given the uncertainties about the scope and duration of the pandemic, its magnitude already larger than initially projected, challenges for a timely conclusion of the 6<sup>th</sup> ECF review, and higher balance of payments and budget financing needs, the authorities are cancelling the current ECF arrangement which was due to expire at end-September 2020 and requesting a second disbursement under the RCF.

**RECENT DEVELOPMENTS AND OUTLOOK**

2. Since the first RCF (RCF-1), health, social and economic conditions in Chad have remained particularly difficult and uncertainties have increased as the impact of the pandemic and terms of trade shocks have deepened. Security problems add to the challenges. As of July 19, 2020, confirmed positive COVID-19 cases have reached 889. The government's COVID-19 contingency plan focused on supporting vulnerable populations, as well as businesses and affected sectors such as agriculture. Progress has been encouraging. However, the implementation of the plan has proved to be more difficult and costlier than expected thereby exerting strong pressures on public finances. The execution of agreements with unions and backpay for 2018 and 2019, and new hiring in health sector have also weighed on public finances. Furthermore, additional mitigating measures were taken by the authorities. These measures include (i) the introduction of a food program with the assistance of UN agencies, (ii) the simplification of the import process for essential goods, (iii) the creation of the Solidarity and Youth Entrepreneurship Funds, and (iv) the clearance of domestic arrears.

BEAC and COBAC have also stepped up their support to the CEMAC economy with a relaxation of BEAC refinancing criteria and the adoption of a restrictive policy for dividend distribution.

3. Against this background, Chad's outlook for 2020 has further worsened. GDP growth for this year has been revised downward from -0.1 to -0.8 percent. Inflation projections have been revised up from 2.2 to 2.8 percent. The budget deficit is expected to rise on account of reduced revenue and higher -than-anticipated health and security. As for the external position, the current account is projected to widen to about 18 percent of non-oil GDP. Thus, the 2020 financing gap has been revised upwards to 7 percent of non-oil GDP. Chad's public debt remains low and sustainable, despite high risks of external and overall debt distress.

#### **POLICY RESPONSES TO THE COVID-19 PANDEMIC**

4. The authorities will pursue their efforts to fight the pandemic while committing to the objectives of economic stabilization and debt sustainability and contributing to the regional external stability. In light of the deeper impact of the twin shocks, a revised budget law reflecting a relaxation of the fiscal policy to accommodate additional COVID-19-related expenditures has been prepared and will be submitted to the National Assembly before end-July 2020. The rationalization of other public spending will continue in order to preserve fiscal and debt sustainability. In this regard, non-priority expenditures will be reduced further, and the growth of wage bill will be contained. The authorities intend to pursue a prudent borrowing policy and continue good faith negotiations on external arrears with the country's creditors. Over the medium-term, they will pursue fiscal consolidation, including through unwinding the temporary COVID-19-related measures and stepping up domestic revenue mobilization, with a view to preserving fiscal and debt sustainability consistent with the related CEMAC convergence criteria.

5. The authorities also remain committed to transparency. They have set up a special treasury account to track the COVID 19 related expenditure. They will implement best practices in public procurement and commission audits including on emergency spending. In this context, full text of procurement contracts, specifying the names of the beneficial owners of awarded legal persons, as well as the audit reports on the use of emergency funding will be posted on the website of the Ministry of Finance and Budget.

6. Safeguarding financial stability remains a top priority of the authorities. The financial system has been severely affected by the pandemic and financial soundness indicators are deteriorating. Mindful of the need to preserve a healthy banking system, the authorities have started the repayment of arrears to banks and will recapitalize one of the two largest public banks for CFA 3 billion by end-July. In the same vein, the payment of domestic arrears through a mix of government securities and cash will help reduce vulnerabilities in the

banking system. The authorities will continue to implement the new foreign exchange regulations, in support of CEMAC's reserves and stability objectives.

#### **ECF CANCELLATION AND REQUEST FOR RCF**

7. Prior to the health crisis, the ECF arrangement approved on June 30, 2017 was on track and its implementation was satisfactory. However, the challenging environment brought about by the COVID-19 outbreak has complicated its implementation and review process. Also, given the close expiration date of this arrangement amid a higher financing needs, the authorities have opted for its cancellation and are requesting a second disbursement under the RCF equivalent to 35 percent of Chad's quota. The rest of the additional financing gap is expected to be closed through domestic measures and contributions from Chad's partners, including through debt service suspension initiatives. This will help contain risks of a deeper downturn and allow the stabilization phase to take place. The country's capacity to repay remains adequate.

8. The Chadian authorities intend to engage discussions with the Fund in the coming months on a successor arrangement to support their medium-term adjustment and recovery agenda. Executive Directors' approval of their present request will be appreciated.