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**Statement by Mr. Mozhin and Mr. Tolstikov on Chad
(Preliminary)
Executive Board Meeting 20/80
July 22, 2020**

We thank staff for the well-written paper and Mr. Raghani and Mr. Bangrim Kibassim for their helpful Buff statement. We support the authorities' request for the second purchase under the RCF and the cancelling of the ECF arrangement. In addition, we would like to make the following comments.

As the global economic crisis deepens and the authorities' containment policies are taking effect, Chad's economy is slowing down. Compared to the April forecast, Chad's economic outlook has further deteriorated. The 2020 GDP forecast is down by 0.7 percent, the balance of payments deficit and fiscal deficit forecasts have deteriorated by 0.7 and 0.4 percent of GDP, respectively. We note, however, that the widening of the external and fiscal financing gaps has been much more pronounced. Notwithstanding significant new donor support, identified since April, both the fiscal and BOP financing gaps are now estimated at 7.0 percent of non-oil GDP, up from 4.6 percent three month ago. *Could staff provide a more detailed explanation of the fiscal and BOP financing gaps?*

On the fiscal side, despite additional external budget support secured over the last three months, the residual financing gap has not changed, and remains at 3.3 percent of non-oil GDP, or 3.0 percent of GDP. As external financing sources for 2020 are mostly identified, either a substantial reduction in budget expenditure or an increased domestic borrowing are needed to close this gap. Considering the size of the needed adjustment, it could be a challenging task. *Could staff comment on the most plausible ways to close the remaining financing gap under the current circumstances?*

Maintaining debt sustainability should remain a priority. Staff view the baseline level of external debt to be sustainable; however, all external debt indicators exceed their thresholds under the extreme shock scenarios. Therefore, we agree that Chad should continue to borrow only on concessional terms.

The authorities are prioritizing arrears clearance, which could be viewed as supportive for the economic activity. The arrears clearance program is financed mostly through issuance of securities and credit from banks. This will further strengthen the already tight sovereign-bank nexus. As the financial conditions in the banking system are worsening, the authorities, in coordination with the regional supervisory bodies, should closely monitor the liquidity and solvency situation in systemic banks and ensure compliance with prudential regulation.

With these remarks, we wish the authorities success.