



Executive Board Minutes 20/81-1

July 22, 2020–9:30 a.m.

Chad - Request for Disbursement Under the Rapid Credit Facility and Cancellation of the Extended Credit Facility

Documents: EBS/20/123 and Sup.1

Staff: Gemayel, AFR; Gray, SPR

Length: 35 minutes

ISSUED: June 15, 2022

APPROVAL: June 23, 2022

CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors noted that the twin Covid-19 pandemic and terms of trade shocks continue to severely impact the Chadian economy. They noted that the macroeconomic outlook has further deteriorated, with greater economic contraction and higher balance of payments and budgetary financing needs than at the time of the first RCF. The risk to the outlook is tilted to the downside.

Directors welcomed the authorities' measures to halt the community spread of the virus and mitigate the impact of the crisis. They noted that the key measures adopted focus on scaling up health-related spending, protecting the most vulnerable, and supporting households and businesses. Directors welcomed the authorities' commitment to the transparent use and monitoring of emergency resources.

Directors supported the envisaged fiscal loosening in 2020 as it helps save lives and supports those that are most affected by the pandemic. They noted that the IMF emergency assistance will support the authorities' policy response and catalyze donor support.

Directors emphasized that once the crisis abates, the authorities should stand ready to gradually unwind the temporary emergency measures. They also emphasized that fiscal adjustment will be needed in the medium term, especially since oil prices are expected to remain low, including by allowing temporary expenditure measures to expire. In this regard, a number of Directors regretted that Chad's current ECF-arrangement could not be completed and encouraged the authorities to continue close engagement with the Fund when conditions permit. Directors underscored that public debt vulnerabilities remain high and that the authorities should continue to refrain from non-concessional borrowing consistent with their commitments under the DSSI and the terms of the World Bank's Sustainable Development Financing Policy.

EXECUTIVE BOARD DECISION

The Executive Board took the following decision:

Chad - Request for Disbursement Under the Rapid Credit Facility and Cancellation of the Extended Credit Facility

1. The Fund notes the cancellation by Chad, as of the date of this decision, of the Extended Credit Facility arrangement for Chad (EBS/17/64 (6/19/17).
2. Chad has requested a loan disbursement in an amount equivalent to SDR 49.07 million (35 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.
3. The Fund notes the intentions of Chad as set forth in the letter from the Minister of Finance and Budget, dated July 15, 2020, and approves the disbursement in accordance with the request. (EBS/20/123, 07/15/20)

Decision No. 16856-(20/81), adopted
July 22, 2020

EXECUTIVE BOARD ATTENDANCE²

M. Furusawa, Acting Chair

Executive Directors

M. Raghani (AF)

R. Kaya (EC)

A. Buisse (FF)

R. von Kleist (GR)

S. Bhalla (IN)

M. Mouminah (SA)

P. Inderbinen (SZ)

Alternate Executive Directors

W. Nakunyada (AE), Temporary

B. Lischinsky (AG)

C. White (AP)

P. Fachada (BR)

Y. Liu (CC), Temporary

A. Arevalo Arroyo (CE), Temporary

A. McKiernan (CO)

F. Spadafora (IT), Temporary

M. Shimada (JA), Temporary

M. El Qorchi (MD)

W. Abdelati (MI), Temporary

L. Voinea (NE), Temporary

J. Sigurgeirsson (NO)

L. Palei (RU)

K. Tan (ST)

D. Ronicle (UK)

P. Pollard (US), Temporary

G. Bauche, Acting Secretary

H. Malothra, Summing Up Officer

A. Bala, Board Operations Officer

M. Eddy, Verbatim Reporting Officer

Also Present

African Department: S. Abdelrazek, M. Ben Hassine, E. Gemayel, M. M-Ahmed, J. Ntamatungiro, D. Owen, A. Selassie, J. Toujas-Bernate. Communications Department: A. Nyikuli. Finance Department: G. Fernandez, C. Kadama. Legal Department: Q. Li, I. Luca. Monetary and Capital Markets Department: S. Makamba. Office of Executive Directors: T. Cham, C. Clapham, G. Preston. Strategy, Policy, and Review Department: W. Gray, R. Green. Statistics Department: Y. Cao. World Bank Group: F. Tchana Tchana.

² For countries in each constituency, please see the Constituency Codes in the annex.

Executive Director: A. Andrianarivelo (AF), L. Levonian (CO), A. Mahasandana (ST).
Alternate Executive Director: R. Alkhareif (SA), K. Chikada (JA), S. Geadah (MI),
A. Guerra (CE), C. Just (EC), O. Odonye (AE), P. Rozan (FF), F. Sylla (AF). Senior
Advisors to Executive Directors: R. Goyal (IN), S. Keshava (SA), T. Nguema-Affane (AF),
L. Smith (CO), A. Tolstikov (RU). Advisors to Executive Directors: P. Al-Riffai (MI),
M. Bangrim Kibassim (AF), M. Bernatavicius (NO), S. Chea (ST), J. Essuvi (AE), I. Fragin
(GR), A. Grohovsky (US), Z. Huang (CC), G. Khurelbaatar (AP), C. Moreno (AG),
K. Osei-Yeboah (MD), F. Rawah (SA), A. Urbanowska (SZ), A. Zaborovskiy (EC),
E. Comolet (FF).

DISCUSSION RECORD³

The Acting Chair (Mr. Furusawa):

The COVID-19 pandemic and the terms of trade shocks continue to severely impact the Chadian economy. Since the first Rapid Credit Facility (RCF) in April, the country's macroeconomic situation has further deteriorated, with greater economic contraction and higher balance of payments and budgetary financing needs.

Financing under the request of the RCF should support the authorities' policy response, as well as catalyze donor support. The authorities have taken measures to halt the community spread of the virus and mitigate the impact of the crisis.

In the gray statements, Directors have welcomed the authorities' commitment to the transparent use and monitoring of emergency resources and emphasized that, once the crisis abates, the authorities should stand ready to gradually unwind the temporary emergency measures. In addition, noting that public debt vulnerabilities remain, Directors have underscored the need to refrain from non-concessional borrowing.

The staff representative from the African Department (Mr. Gemayel):

To start, I would like to take this opportunity to thank the Chadian authorities for the constructive dialogue with the team under very difficult and challenging circumstances. I would like to thank Mr. Raghani and his office for the excellent collaboration.

I would also like to thank Directors for their gray statements. We provided written responses yesterday to the technical questions, so I would like to address two policy questions that remain unanswered. Before doing so, I would like to update the Board on one development. After issuing the staff report, a major government reshuffle was announced on July 14. From the Fund's perspective, the economic team remains unchanged, which should provide continuity in terms of engagement and commitment with the Fund.

Going back to the gray statements, let me address the two unanswered set of questions: first, on options for closing the financing gap and the second on the RCF, the cancellation of the ECF, and the successor arrangement.

On the potential financing to close the gap, we discussed with the authorities several options. First, there is still the possibility of additional external budget support, including from the World Bank. They have not yet decided on an amount, but they are considering a second DPO later this year.

³ Edited for clarity.

The second option is with respect to the oil revenues. According to our assumptions, the current oil prices are about \$5 higher than the WEO, so there could be room there for more revenues.

The third option is domestic financing. As we have alluded in the staff report, the authorities could rely on domestic financing to clear some of the domestic arrears.

The fourth option is using the funds in the Savings and Stabilization Fund that they have started early this year. The last option is to cut non-priority spending, especially in goods and services and, if need be, domestically financed investment.

The second set of questions pertaining to the RCF, the cancellation of the ECF, and the successor arrangement. Since the emergence of the pandemic, the authorities have focused mainly on halting the community spread of the virus and mitigating the economic and social fallout of the crisis.

In addition, the inability to formulate a plan and any forward-looking policies in the current volatile environment combined with logistical constraints, particularly on the authorities' side—and here, I mean the total lockdown associated with inadequate Internet connectivity, particularly during the current rainy season—has made it impossible to complete the sixth and final review under the ECF, and, hence, the authorities' request to cancel the existing arrangement and to request an RCF.

Now, a few Directors have raised a legitimate question, whether there is a potential negative signaling effect by cancelling the ECF. We do not see any negative effects for two reasons. Firstly, in the attached Letter of Intent (LOI), the authorities remain committed to fiscal adjustment over the medium-term, including refraining from concessional borrowing, as well as other important commitments that we have been discussing with them over the past years under the current program.

And, second, even if the ECF was not cancelled, the Letter of Intent of the sixth review would have had, most likely, similar commitments as the RCF, and there would not be any future performance criteria or indicative targets set to allow for a formulated program, given that this is the last review and the program would expire by end-September. Therefore, it would be the same.

With respect to the successor arrangement, as the pandemic subsides and the uncertainty surrounding the duration and scale of the crisis lessens, the staff believes that holding comprehensive policy discussions on substantive macroeconomic issues and critical reforms will be more feasible.

Regarding the size of the successor arrangement, it is difficult to determine at this stage the size of the new arrangement, as it will depend,

among other things, on Chad's financing needs, the strength of the program, and the level of outstanding credit to the Fund.

On the outstanding credit to the Fund, Chad has already reached 299 percent of its quota in terms of cumulative limit under normal access. As long as Chad is assessed to be at a high risk of debt distress, it would normally not benefit from exceptional financing and, therefore, it would be constrained by the 300 percent of quota of cumulative limit. Under the existing rules, there would need to be consideration of some debt workout for Chad to be able to benefit from exceptional access.

Mr. Inderbinen:

We issued a joint gray statement together with Mr. Chikada and Mr. Shimada.

Like others, we regret that the sixth review under the ECF was not feasible and the arrangement was cancelled, but we take good note of the staff's explanations, which we find very helpful in providing additional context. We are encouraged, looking forward, by the authorities' intention to engage with the staff on a possible successor arrangement. We think it would be critical to follow through on the country's medium-term adjustment agenda.

Engagement on a further UCT program would send a positive signal on Chad's commitment to macroeconomic stability and sound policies. I also took good note of Mr. Gemayel's assessment that the recent changes in government positions will not impact this commitment.

Like Mr. Tan, Mr. Mouminah, Mr. Guerra, and others, we would like to emphasize the importance of post collaboration with the regional bodies, particularly in light of a worsening condition in the banking sector. We welcome that the authorities have started paying off government arrears to banks and are planning to recapitalize one of the two ailing public banks. Efforts to resolve ailing banks and to strengthen financial systems, however, seem notoriously difficult, both in Chad's case and in other Fund-supported programs for the SAMU countries. We would, thus, suggest that staff seek clearer and more explicit commitments by the regional authorities on the financial sector issues when discussing a new arrangement in the context of the policy assurances that will be sought by the regional authorities.

On fiscal policy, we welcome the authorities' continued commitment to transparency in the COVID-related spending, like the ex-post audit, and we encourage the authorities to stay the course of improving governance and anti-corruption policies in a broader context as well.

Much needed work to enhance the PFM framework more broadly, is of particular importance as well for the staff to engage with when discussing a successor arrangement, including further measures to limit the extraordinary or the emergency spending under the so-called EAO scheme, which is outside

the ordinary budget procedures. We do recall it has been a recurrent issue under the previous and now-cancelled arrangement. Because this might also relate to the emergency spending more broadly, we would like if the staff could provide an update on the next steps that have been taken to rein in this type of extraordinary expenditure.

Mr. von Kleist:

We issued a gray statement, so I can be quite brief. We support Chad's request for the disbursement under the RCF and the cancellation of the current arrangement under the ECF, even though, as others, we regret that it went off-track.

We would have seen merit in considering, instead of the RCF, the UCT-quality program with a view to closer engagement with the Fund to strengthen policies, which is very important, and we thank the staff for their helpful comments in this context. And since I do not see a change of the current rules regarding access, they should start discussing debt options with the authorities if the Fund support is being sought.

Looking ahead and considering Chad's high and rising risk of overall debt distress, irrespective of a future Fund program, determining a fiscal adjustment will be the key to ensure a sustainable recovery. And, lastly, as others, we emphasize the critical importance of transparency and proper use of financial resources, especially some of the non-conditional RCF resources also, and we appreciate the authorities' commitment in this area.

Mr. Buisse:

We issued a joint gray statement with Mr. Ronicle, so I will make only three points for emphasis. First, we support the request under the RCF and cancellation of the ECF of Chad for a country that is a part of both the SAMU and CEMAC countries. In this context, emergency financing is critical. We, therefore, welcome the commitments of the authorities to transparency in the use of COVID-related financing and the explanation in the answers to our questions that these transparency safeguards are indeed being implemented as planned in the first RCF disbursement. This is key to ensure that Fund financing can really be catalytic.

Second, we thank the staff for their comments on the residual financing gap this morning. We would have one question: whether the staff has been able to closely monitor the liquidity cash situation of Chad. This would be, of course, very useful to get a sense of the timeliness of the additional financing needs of the country.

Lastly, and not surprisingly, I suppose, we have committed to access already at 299 percent of quota. Strong and meaningful engagement of Chad with the Fund would benefit from a revision of normal cumulative access rules later this year. Since staff notes that disbursement under the ECF

program was cancelled we are looking forward to the resumption of the UCT program discussion later this year in a timely and administered manner. It is true that it is always somewhat disappointing when a country has to cancel its UCT program in order to receive emergency financing, but I am very much reassured by the commitment of the authorities to seek a new UCT program in the future. This is key to address the country's long-standing vulnerabilities and to support the external sustainability of this macro region.

Mr. Nakunyada:

We issued a gray statement supporting the proposed decision, but we would like to emphasize the following points.

Given the deterioration in the macroeconomic outlook for Chad, we see a compelling case for a second RCF disbursement. In addition, we want to support their decision to cancel the ECF arrangement, particularly given the difficulties in securing a timely decision for the commitments under the sixth review.

Second, we want to support the authorities' intention to pursue fiscal consolidation to restore fiscal and debt sustainability, in line with the CEMAC convergence criteria.

Lastly, we would urge the authorities to rely more on concessional borrowing to avoid the worsening of public debt dynamics. We also note the accommodative policy staff adopted by the BEAC and COBAC geared to sustain the flow of liquidity into the financial system and limit the economic fallout from the pandemic. Nevertheless, we urge the authorities to strengthen their supervisory and prudential capacity to help mitigate banking sector vulnerabilities amplified by the sovereign bank nexus.

Finally, we commend the authorities' commitment to ensure transparency and accountability in the use of COVID-related resources.

Mr. Alkhareif:

We have issued a gray statement in which we support the authorities' request for the RCF, given the urgent balance of payments need. It is indeed unfortunate that the ECF arrangement has been cancelled towards the end of the program, but we understand that, given the global context, such a program would be difficult to achieve.

We encourage the authorities and the staff to work closely to ensure a constructive dialogue and engagement and to promote Upper Credit Tranche arrangements in the near future.

I also thank Mr. Gemayel for clarifying the options available for the authorities to close the remaining financing gap. We agree with him that

cutting down priority spending while protecting social spending will be important.

We positively note the authorities' request for the Debt Service Suspension Initiative (DSSI) under the G-20 initiative, which should help unlock some of the fiscal space for social and health spending.

We cannot overemphasize the importance of maintaining a credible fiscal consolidation plan over the medium term. We very much welcome the authorities' commitment to fiscal adjustment, as highlighted by Mr. Raghani's buff statement. But given the high risk of debt distress, we encourage the authorities to commit to borrowing on concessional terms. The Fund should provide any necessary support to strengthen the debt management capacity of the country.

Finally, I would like to associate myself with the comments made by Mr. Inderbinen on the need to enhance anti-corruption efforts and improve public financial management. I also would like to echo the point raised by Mr. Buisse in welcoming the authorities' commitment to transparency and ensure respective use of emergency financing.

Mr. Ronicle:

We issued a joint gray statement with Mr. Buisse, but I have three comments, which I want to cover briefly.

First, an observation: the papers could have been more helpful for us on debt sustainability. Chad is at high risk of debt stress, but the debt sustainability analysis (DSA) did not explain in depth the basis for the judgment. I found it to be unhelpful, particularly in this case, given Chad is up against access limits and yet is interested in a successor program. Obtaining high access is going to be crucial to it, therefore, understanding what drives the assessment that they are at high risk of debt success is fundamental. For me, it did not come through in the papers.

Now, perhaps as a Board member, I can be expected to know the access inside out and, therefore, not worry about it too much, but these papers are also for public consumption. An ordinary reader picking up these papers would not be able to understand how the staff had arrived at that conclusion. This is something to reflect on, given there are likely to be more countries than just Chad in this situation in the future.

Second, Chad needs further reforms in fiscal governance and structural reform, just to name a few policy areas. Now, a successor program is obviously a well-structured way of making it happen, but given that it not certain that it will be possible, I wondered if the staff could share their thinking with us on the steps they would take in the absence of a formal program, for example, through capacity development.

Finally, I have a question. I wonder if the staff could clarify for us whether the additional social protection spending is going to be channeled through existing social programs or is being established in parallel.

Ms. Pollard:

I was not going to speak, but I want to echo a couple points made by others, particularly Mr. Inderbinen, Mr. von Kleist, and Mr. Alkhareif. Echoing Mr. Inderbinen, we very much would like to see explicit commitments of the regional authorities and certainly if there is a follow-on UCT, and we very much welcome the safeguard commitments that the authorities have agreed to.

We, like Mr. von Kleist, are concerned about the high risk of debt distress and think that the authorities should start discussing their debt options with their creditors. And in our view, we see the 300 percent of access as being a binding commitment absent a debt operation.

The staff representative from the African Department (Mr. Gemayel):

In terms of the PFM strategy and the emergency procedures that Mr. Inderbinen raised, there is a PFM strategy that was adopted earlier this year. They are receiving a technical assistance from us and the World Bank in this area. Nevertheless, this emergency spending is under control, in line with the program, but they have not yet been regularized as much as we would like. The interaction with the authorities, in terms of the TA, was postponed during the first few months of COVID. Now, we have started providing technical assistance again, remotely at least. But, it is definitely on our radar and will definitely figure prominently in a successor arrangement.

Mr. Buisse raised the question on liquidity positions. I am not sure whether Mr Buisse meant liquidity with respect to the access to liquidity by the central government or the donor financing and liquidity. I assume it is the former. The authorities are in discussion with the BEAC, particularly for the clearance of the 110 billion of domestic arrears that we have mentioned. They are in discussions with the BEAC and COBAC to see whether the banks that would be playing a vital role in terms of clearing these arrears could get some form of liquidity. We are encouraging them to continue to discuss with the regional bodies, and hopefully it will be sorted out in the next few weeks, because they do need to start this clearing strategy as it is a large amount of 110 billion. It is about a fifth of the arrears that were identified by the audit and discussed in the strategy approved by the end of 2019.

On the DSA, we went minimalistic because in April we had a full DSA. I take the point that for a lay reader, they would want a comprehensive picture. There are two factors: first, in April we went for the DSA and, second, in the interest of moving very quickly for the RCF, we went with this approach, which is in line with the Fund and the World Bank policies with respect to the DSA.

On Mr. Ronicle's question, in case there is no program, certainly our engagement with the authorities will continue through advice and capacity development. We have regular video-conference meetings with them, not only to discuss the RCF but issues outside of it. On average, we have a meeting with them once a week to discuss any issues that come up or are of critical importance, or just to keep up the engagement with the authorities.

The social protections are part of the social program. It is a part of the social protection scheme that they have to address and help the population. They will be a part of the governance scheme that they have put in place, in terms of the governance structure in ensuring that this money is not being wasted.

Mr. Raghani:

Let me begin by expressing our sincere appreciation for the staff, management, and the Board for their support to Chad with additional measures under the RCF. I also appreciate Directors' candid views and forceful policy recommendations, which I will faithfully convey to the Chadian authorities. Meanwhile, I would like to offer a few remarks before concluding.

I wish to underscore that the Chadian authorities' relentless efforts to reinforce the health sector, preserve lives, and support the most vulnerable have been particularly challenging. This is due to structural weaknesses of the health system, the significance of the informal sector, and the greater mitigation costs arising from a protracted pandemic. The RCF assistance will be helpful to alleviate the burden on public finances.

I would like to reiterate the authorities' strong commitment to transparency in the use of emergency resources. As highlighted in our buff statement and in the staff's written responses, important measures have been taken, including the creation of dedicated accounts, steps for the publication of relevant documentation on contract procurements, and associated audits.

Regarding the ECF cancellation, difficulties for a comprehensive review process have been the main factors leading to this decision. That said, the authorities remain fully committed to their macroeconomic stability and debt sustainability objectives going forward. They intend to work closely with the Fund staff toward a successor ECF arrangement as soon as feasible to strengthen macroeconomic stability, promote inclusive growth, and pursue their structural reform agenda.

On the necessary fiscal consolidation, when the crisis subsides, the authorities' plan to accelerate non-oil revenue collection over the medium-term and to streamline expenditures. It is important to recall that the wage bill and subsidies have increased to account for the restoration of some benefits to public workers decided prior to the pandemic, to accommodate hiring in the

health sector, but also to address the resurgence of terrorist attacks and other security-related challenges.

Colleagues have stressed the importance of preserving debt sustainability, which is well taken. The authorities remain committed to a prudent borrowing policy and continue to count on Fund TA to strengthen debt management. The announced clearance of domestic arrears should also help improve bank balance sheets and facilitate a strong recovery. On external debt, the authorities will make all efforts to reach agreements with creditors on arrears and hope that the country can benefit from participation in the DSSI.

To conclude, let me thank, on behalf of my Chadian authorities, the mission chief, Mr. Gemayel, along with his team, for their dedication and the very productive policy discussions.

The Chair adjourned the discussion.

ANNEX

- Gray Statements
- Staff's Responses to Executive Director's Technical Questions
- Constituency Codes

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

BUFF/ED/20/128

July 20, 2020

**Statement by Mr. Raghani and Mr. Bangrim Kibassim on Chad
Executive Board Meeting 20/80
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 6th 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.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.

GRAY/20/2617

July 20, 2020

**Statement by Ms. Levonian, Ms. McKiernan, and Mr. Sylvester on Chad
(Preliminary)
Executive Board Meeting 20/80
July 22, 2020**

We thank staff for their concise report and Messrs. Raghani and Bangrim Kibassim for their insightful Buff statement. The impact of the twin COVID-19 pandemic and terms of trade shock on Chad's economy is turning out to be more severe than initially anticipated. With financing needs now estimated at around 7.0 percent of GDP, compared to 4.6 percent at the time of the first Rapid Credit Facility (RCF) request in April, it is evident that the situation has deteriorated sharply. Strong external support is needed to help address the urgent financing needs. **In this context, we support the country's second request for assistance under the RCF equivalent to 35 percent of its quota (SDR 49.07 million).** We offer the following additional comments.

The authorities' focus on mitigating the social and economic impact of the pandemic is appropriate. While fiscal loosening remains warranted to accommodate COVID-19 pressures, we echo staffs' view that temporary emergency measures should be gradually unwound as the crisis subsides. It is unfortunate that uncertainty around the scale and duration of the pandemic has led to a cancellation of the ECF arrangement in its final stage. We support the country's intention to request a successor arrangement as fiscal adjustment will be necessary over the medium term. It will be important to reignite reform momentum in areas such as domestic revenue mobilization and efficient spending, while protecting poverty reducing measures. The commitments made to transparency in all COVID-19-related spending are welcome, and, in the longer term, we encourage Chad to remain focused on strengthening its governance and anti-corruption practices. It is regrettable that legislative elections have again been delayed, and we strongly encourage their timely and transparent rescheduling as soon as feasible.

Maintaining debt sustainability should remain a key priority. Prior to the onset of COVID-19, Chad was already experiencing a high-risk of debt distress. Pandemic pressures have now amplified this risk considerably, leaving debt even more vulnerable. We take note of staff's assessment that the country's debt remains sustainable, but caution that ongoing uncertainty may mean current underlying assumptions are overly optimistic. In light of this,

it is important to ensure that the remaining financing gap is filled on a concessional basis. We support staff's advice that Chad should continue to commit to a zero limit on non-concessional borrowing consistent with its agreement under the G-20 DSSI and the terms of the World Bank's Sustainable Development Financing Policy.

Finally, strong external support will be paramount in addressing Chad's development challenges going forward. Chad is a fragile country and maintaining its development momentum will require sustained support from the Fund and other development partners in terms of financing, capacity development, and policy advice.

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GRAY/20/2618

July 20, 2020

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

We thank staff for the well-written reports and Messrs. Raghani and Bangrim Kibassim for their helpful Buff statement.

We support Chad's request under the Rapid Credit Facility (RCF) in the amount of SDR 49.07 million and cancellation of the Extended Credit Facility (ECF) arrangement. Chad's economy continues to be severely disrupted by the twin shocks of the Covid-19 pandemic and the collapse of international oil prices. With the growth outlook projected to further deteriorate, the ill-equipped healthcare system and fragile socioeconomic conditions pose significant challenges to the authorities and large balance of payment and financing needs. We welcome the additional steps taken since RCF-1 to mitigate the impact of the ongoing crisis and hope that the latest RCF arrangement will continue to play a catalytic role in securing additional resources from other multilateral and bilateral partners to help Chad weather the crisis. With this, we would like to offer the following comments for emphasis.

We welcome the authorities' request for debt service suspension under the G20 debt service suspension initiative (DSSI) and debt service relief under the Catastrophe Containment and Relief Trust. We also understand the authorities' temporary relaxation of the fiscal deficit to ensure adequate government spending for healthcare and other priorities given the urgent financing needs to support the poor and most vulnerable. While debt is assessed to be sustainable and the capacity to repay the Fund is adequate, the risk of overall debt distress remains high, with significant downside risk in the event of the most extreme scenario. In this context, we agree with staff on the need for the authorities to commit to a zero limit on non-concessional borrowing consistent with their commitments under the DSSI and return to their medium-term fiscal consolidation measures once the crisis abates. Notwithstanding the progress made on external arrears since RCF-1, continued efforts to strengthen revenue mobilization, rationalize spending as well as enhance public financial management and transparency will be equally important.

Close coordination with regional bodies and proactive supervision are warranted in light of worsening banking sector vulnerability. We welcome the measures by the BEAC and COBAC to ease monetary policy and cushion the banking sector, including the utilization of the capital conservation buffer and adoption of a restrictive policy for dividend distribution. *Could staff elaborate on the role of the regional bodies on domestic arrears clearance?* While we take due note of the central bank's issuance of the FY 2019 audited financial statements and the Ministry of Finance monthly repayment of arrears owed to the two large public banks, we join staff in encouraging the authorities to remain vigilant of any buildup of risks within the banking sector build up through effective banking supervision and governance.

We note the motivation for the cancellation of the ECF arrangement and the authorities' interest for a successor arrangement. While the duration and scale of the pandemic remain highly uncertain, it is imperative that staff work expediently with the authorities to overcome the associated difficulties in continuing comprehensive policy discussions given the context of rising regional and domestic insecurity and already fragile social situation facing Chad. *Staff's comments are welcome.*

With these comments, we wish the Chad authorities success in their endeavors.

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GRAY/20/2619

July 20, 2020

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

We thank staff for the reports and Messrs. Raghani and Bangrim Kibassim for their helpful Buff statement. Unfortunately, the economic and social situation in Chad turns out to be worse than staff's projections three months ago, and urgent balance of payments financing needs have widened to 7.0 percent of non-oil GDP. It is also disappointing that the authorities are cancelling the Extended Credit Facility (ECF) arrangement in view of the uncertainty around the duration of the pandemic and the difficulty of holding comprehensive policy discussions under the current circumstances. Considering the dire economic outlook and humanitarian situation, **we can support the request for additional disbursement under the Rapid Credit Facility (RCF) for Chad in the amount of SDR 49.07 million (35 percent of quota).**

Targeted measures to protect lives and address the urgent needs related to the COVID-19 outbreak, are critical. As the health system has reached its limits, additional financing should aim at addressing the most important bottlenecks, including the virus testing capacity, medical equipment, and personnel. While we welcome the higher than initially envisaged donors' support, the residual financing gap of 3.3 percent of non-oil GDP remains significant, putting a premium on the stronger catalytic role of the RCF. We emphasize the importance of cost-effectiveness, transparency, and targeting of budget expenditures in these challenging circumstances. *Could staff further comment on how the transparency-related commitments have been observed over the period since the first RCF disbursement in April?*

A credible policy mix should be in place to address the growing challenges related to the post-COVID-19 economic developments. Staff's outlook includes large fiscal and external financing gaps with unidentified sources, but debt has been assessed as sustainable with high risks of external and overall debt distress. Increasing pressures in the banking sector, oil price volatility, and security-related threats would add to the already dire outlook. We note the authorities' interest in a

successor ECF arrangement, which is expected to be discussed in the fall. *Can staff comment on how they plan to overcome the difficulties, which made impossible the completion of the current ECF's final review.* We broadly support the thrust of staff's policy recommendations aimed at putting fiscal policy on a sustainable path as the COVID-19-related shock abates.

We wish the people of Chad all the best in overcoming these challenging times.

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GRAY/20/2620

July 20, 2020

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

1. We thank staff for the report and Messrs. Raghani and Bangrim Kibassim for their insightful statement. Chad continues to be affected by the COVID-19 pandemic and by low oil prices. While acknowledging the swift policy response by the authorities to the twin shocks, the economic outlook has continued to deteriorate in recent months, notwithstanding the approval by the Executive Board in April of a disbursement under the Rapid Credit Facility (RCF). We take note that the actual implementation of the COVID-19 contingency plan, including measures to alleviate the hardship on households and businesses, has been costlier and more complex than anticipated. We also acknowledge the technical difficulties in completing the final review under the current Extended Credit Facility (ECF). Against this backdrop, we support the authorities' request for a new disbursement under the Rapid Credit Facility (RCF) equivalent to 35 percent of quota and the cancellation of the ECF. In parallel, we welcome the intention of the authorities to request a successor program and initiate conversation with staff in the coming months.

2. **The fiscal situation remains difficult amid pressing social and security needs.** While the authorities' response to cushion the impact of the pandemic remains appropriate, we underscore the need to resume fiscal consolidation and reinforce debt sustainability once the crisis abates. We therefore welcome the authorities' commitment to meet the CEMAC convergence criterion over the medium term, including by strengthening domestic revenue mobilization, controlling the wage bill, and reducing non-priority recurring expenditure.

3. **Preserving public and external debt sustainability should remain top priorities.** Given that the risk of debt distress remains high, we urge the authorities to continue to abstain from non-concessional borrowing. In this regard, we support the authorities' approach to address the external financing gap, including by reaching out to bilateral and multilateral partners and seeking debt relief. We also welcome progress on clearing external arrears, including the near completion of negotiations with an Asian bank.

4. **The deterioration of the liquidity and capital position of the banking sector is concerning.** We welcome the measures taken by BEAC and COBAC to ease monetary policy and cushion the banking sector in response to the COVID-19 outbreak. However, these measures appear still insufficient to safeguard financial stability. Therefore, we join staff in highlighting the importance of strengthening supervision and monitoring liquidity and the solvency situation of banking institutions Separately, we are encouraged by the initiation of the clearance of government arrears to the two large public banks and the plans to recapitalize one of them by the end of this month.

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GRAY/20/2621

July 20, 2020

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

1. We thank staff for the concise report as well as Mr. Raghani and Mr. Bangrim Kibassim for their insightful Buff statement.
2. The macroeconomic outlook for Chad has deteriorated further, reflecting the severe effects of the dual COVID-19 pandemic and commodity price shocks. As a result, additional balance of payments and budgetary needs have emerged since the approval of the first RCF in April 2020, with heightened risk of macroeconomic disruption. Against this background, **we support the authorities request for additional emergency support under the RCF equivalent to 35 percent of quota.** Further, considering the high level of uncertainty regarding the duration and magnitude of the pandemic and the associated difficulties in securing timely commitments under the 6th review, we support the proposed decision to cancel the current ECF program, which is due to expire in September 2020. That said, we are encouraged by the authorities' intention to request a successor program to support the medium-term adjustment and recovery agenda.
3. **We support the temporary loosening of fiscal policy to cushion the vulnerable households and businesses as important to preserve lives and livelihoods and avert a deeper recession.** That said, expenditure pressures from the wage bill and security spending to address rising regional and domestic conflict, should continue to be closely monitored. Looking ahead, we support the authorities plans to strengthen domestic revenue mobilization given subdued international oil prices and streamline expenditures while preserving priority social spending. Once the crisis abates, the authorities should consider the timely unwinding of the temporary expenditure measures in an orderly manner.
4. **We view the authorities' intention to pursue fiscal consolidation in the medium term, as warranted to preserve fiscal and debt sustainability in line with the CEMAC convergence criteria.** To this effect, we urge the authorities to continue to refrain from non-concessional borrowing to avoid the worsening of public debt dynamics and to prioritize fiscal consolidation once the crisis abates. That said, we commend the authorities for their

efforts in clearing domestic arrears to improve suppliers and banks' balance sheets, while making good faith efforts to clear external arrears.

5. The worsening banking sector vulnerabilities emanating from the sovereign-bank nexus and high dependence on oil, remain a concern. Specifically, we note the rising risks to bank liquidity, capital adequacy, and deteriorating asset quality. In this context, we urge the authorities to closely collaborate with regional bodies and vigilantly monitor liquidity and solvency risks, while enforcing appropriate prudential regulations. We also urge the authorities to strengthen governance and risk management. Further, we commend the authorities for their efforts to clear arrears and recapitalize the large public banks. In addition, we welcome measures taken by the BEAC in easing monetary policy and cushioning the banking sector from the repercussions of the COVID-19 crisis. At the same time, we positively note the progress made by BEAC in implementing the recommendations of the 2017 safeguards assessment.

6. We commend the authorities' commitment to ensure full transparency and accountability in the use of COVID-related resources. In this connection, we welcome the authorities' intention to publish procurement contracts on the website of the Ministry of Finance and Budget, including by providing details of the beneficial owners. Further, we are encouraged by the plans to conduct an ex-post compliance audit on all emergency spending procurement procedures to the health and other sectors.

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GRAY/20/2622

July 21, 2020

**Joint Statement by Mr. Psalidopoulos, Mr. Rashkovan, Mr. Spadafora, and Mr. Voinea
on Chad
(Preliminary)
Executive Board Meeting 20/80
July 22, 2020**

We would like to thank Mr. Gemayel and his team for an insightful report and Mr. Raghani and Mr. Bangrim Kibassim for their informative Buff statement. As we broadly concur with the staff's assessment, we offer a few comments for emphasis.

- **We support the Chadian authorities' request for a disbursement under the RCF equivalent to 35 percent of quota** to provide timely fiscal support to the economy in the face of the severe impact of the Covid-19 pandemic coupled with a deterioration of terms of trade. We would like to stress the importance of the RCF serving as a catalyst for further external financing: as emphasized by the DSA, the outlook includes large unfinanced fiscal and external financing gaps for several years. **We are concerned that Chad's additional RCF request may be a harbinger of a second wave of RCF/RFI financing from current recipients.** *We would like to invite staff to be more concrete on the expected additional financing from multilateral and bilateral partners for the large residual financing gap. In addition, it could also be important to prepare contingency measures in the event of financing shortfalls.*
- The current request would bring total disbursements under the RCF to 95 percent of quota in 2020, taking outstanding credit to 299 percent of quota, just within the normal cumulative access limit for the PRGT. For the release of these funds, Chad requests the cancellation of its ongoing ECF that is in its final stage and that overall has shown good performance. **While we understand the practical considerations of this strategy, we would like to stress the importance of Chad's commitment to the broad objectives under the ECF.** *Can Staff provide a risk assessment of this strategy to cancel the current ECF, put in place emergency financing and follow up with a new ECF after the initial crisis period? Do Staff consider the fact that Chad will be unable to access further lending within the access limits as a risk to its ability to raise other funds?*
- **We agree with staff that the fiscal loosening in 2020 is appropriate to temporarily provide priority to saving lives and helping those mostly affected by the pandemic.** We also welcome the acceleration of the clearance of domestic arrears to suppliers. At

the same time, we concur that the authorities should stand ready to gradually unwind the temporary emergency measures when the crisis subsides. Over the medium-term, given that oil prices are expected to remain low, fiscal adjustment will be needed, with priority to strengthening domestic revenue and rationalizing spending while protecting poverty-reducing expenditure.

- We thank Staff for the updated DSA that assesses **Chad's risks of external and overall debt distress as high but considers debt to be sustainable**. Nonetheless, we would like to express our concern with regard to the substantial vulnerabilities from Chad's debt burden and the pressure they may put on the recovery. It is of the utmost importance that Chad remain committed to a zero limit on non-concessional borrowing and to monitoring and timely addressing public debt vulnerabilities. *Can Staff elaborate on how vulnerabilities will continue to be monitored and addressed? Do Staff see particular refinancing risks emerging in the next couple of years or vulnerabilities in Chad's debt schedule that it plans to help address?*

Finally, we welcome the authorities' commitment to strengthening transparency around all COVID-related expenditures, including through the establishment of a dedicated Treasury account to mobilize financial contributions to fight the pandemic, and to conducting an ex-post audit. With these remarks, we wish the Chadian authorities' success in addressing these challenges.

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GRAY/20/2623

July 21, 2020

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

We thank staff for the well-focused report and Mr. Raghani and Mr. Bangrim Kibassim for their helpful Buff statement. We are in broad agreement with the staff appraisal and would limit our remarks to a few issues.

1. **We support the authorities' request for additional disbursement under the RCF to help address urgent BoP needs as well as cancellation of the ECF arrangement in view of the high degree of uncertainty.** It is unfortunate to note that near-term macroeconomic outlook has deteriorated further compared to what had been previously anticipated, which underscores the need for continued efforts to mitigate the fallout arising from the shocks. In this connection, we welcome the additional measures deployed since RCF-1 aimed at supporting impacted businesses and households and the authorities' commitment to allow temporary expenditure measures to expire once the crisis abates.
2. **To close the remaining financing gap, continued engagement with donors and development partners to secure additional external support remains critical.** In this connection, we positively note the authorities' request for debt service suspension under the G20 DSSI. Furthermore, identifying contingency measures and cutting back on non-priority spending, while protecting social spending, would be important considering the high global uncertainty. Separately, we welcome the authorities' commitment to transparency and ensuring effective use of emergency resources, including the plan to incorporate COVID-19 spending in the supplementary budget and publishing relevant ex-post audit reports. We take positive note of the staff's assessment that Chad's capacity to repay the Fund remains adequate, albeit with some risks.
3. **We underscore the importance of pursuing credible fiscal consolidation plan in the medium term to safeguard fiscal sustainability.** Here, we welcome the authorities' commitment to fiscal adjustment over the medium-term, including through stepping up revenue mobilization efforts and rationalizing spending, with a view to complying with

CEMAC convergence criterion. The wage bill is weighing considerably on public finances and we encourage the authorities to contain it over the medium term. Also, in view of high risk of debt distress, we encourage the authorities to remain committed to borrowing on concessional terms while stepping up their efforts to further strengthen debt management. We underscore the importance of maintaining close dialog and engagement between staff and the authorities in the period ahead.

4. **Safeguarding financial stability remains important in light of the current vulnerabilities.** In this context, we encourage the authorities to work closely with regional bodies to monitor the health of the banking sector and stand ready to take necessary measures to ensure its financial viability and capacity to support the economy, including by accelerating arrears clearance.

With these remarks, we wish the authorities every success in their policy endeavors.

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GRAY/20/2624

July 21, 2020

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

We thank staff for the well-written set of reports and Mr. Raghani and Mr. Bangrim Kibassim for their Buff statement. The COVID-19 pandemic and drop in international oil prices continue to hit the Chadian economy, which is confronting a series of daunting challenges even before the pandemic outbreak. We take positive note that the Fund's emergency financing in April has helped to catalyze additional support from other multilateral and bilateral donors. Given the widen balance of payments financing gap, we support the authorities' request for a second disbursement under the Rapid Credit Facility (RCF).

On fiscal policy, we continue to support the measures that the authorities have taken to help businesses and households. A supplementary budget reflecting the temporary increase in the fiscal deficit is appropriate. The authorities' commitment on strengthening transparency of COVID-related expenditures is commendable. Chad's public debt remains sustainable, but risks of external and overall debt distress are high. We welcome the authorities' commitment to prudent borrowing and take positive note of the progress made in clearing both domestic and external arrears.

On the financial sector, we continue to support the measures taken by the regional central bank and financial regulatory agencies. With banking sector's vulnerabilities worsened, we join staff in encouraging the authorities to closely monitor the banking sector and ensure the compliance of prudential regulations. *We note that part of the fiscal deficit will be financed by credit from banks. Staff's comments on its impact on financial stability and the potential crowding out effect on credit to private sector are welcome.*

On program modality, with the ECF program approved in 2017 on track and its broadly satisfactory implementation, we are regretted to see the authorities request to cancel it amid this highly uncertain situation. *Could staff elaborate more on the reasons of request for a second RCF instead of the augmentation of access of the last disbursement of ECF?* We underscore the importance of communication regarding this cancellation, to avoid any misunderstanding by the market.

With these remarks, we wish the authorities every success in their policy endeavors.

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GRAY/20/2625

July 21, 2020

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

Since the time of the first RCF request in April the economic situation has deteriorated. As such, the financing gaps have widened considerably and risks to debt sustainability remain high. Therefore, we support this request for 35 percent of quota, building on the previous disbursement of 60 percent of quota, and hope that it will catalyze other much-needed concessional financing. We also support the cancellation of the ECF, although we are disappointed that the final review could not be completed and welcome the authorities' intention to return to a successor ECF arrangement later this year. There is a significant unfinished structural reform agenda from the ECF which we hope can be a focus for a future program.

We commend the authorities' efforts to contain the spread of the virus and support the economy where possible, including the additional measures taken since the time of the first RCF, particularly the food distribution program. We also support the BEAC's and COBAC's monetary policy loosening and efforts to cushion the impact on the banking sector. Given limited fiscal policy space, we can support the temporary fiscal loosening but any measures undertaken must be targeted and high impact. For example, on the wage bill it might have been more prudent to provide increases only for the bottom-end of the distribution. As debt sustainability concerns are heightened, we also reinforce staff's call for zero non-concessional borrowing. We appreciate that the authorities have requested treatment under the DSSI from both public and private creditors. *Additionally, as the initial RCF already catalyzed some donor support, staff comment on where further support may come from would be welcome, particularly since a residual financing gap remains.*

We welcome the commitments of the authorities to transparency, including using a trust fund to mobilize contributions, reporting on COVID-related spending the supplementary budget, publishing procurement contracts, and committing to an ex-post audit. *Could staff comment*

on the initial experience with these efforts since the first RCF, for example on publishing procurement contracts?

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GRAY/20/2626

July 21, 2020

**Joint Statement by Mr. Inderbinen, Mr. Chikada, Mr. Shimada, and Ms. Urbanowska on
Chad
(Preliminary)
Executive Board Meeting 20/80
July 22, 2020**

We thank staff for the informative report, and Messrs. Raghani and Bangrim Kibassim for their helpful Buff statement.

We support the authorities' request for disbursement under the Rapid Credit Facility (RCF) to address the Covid-19 shock. Due to the economic disruptions related to the pandemic, Chad's substantial external and fiscal financing needs have further increased since April, amid a challenging security situation. Access under the RCF is necessary to continue to support macroeconomic stabilization and catalyze additional sources of support urgently needed to cover the residual financing gap, whose magnitude has not changed since Chad's first RCF in April. This second RCF, amounting to 35 percent of quota, will bring cumulative access to 299 percent of quota, just below its limit. While we concur that the cancellation of the Extended Credit Facility (ECF) arrangement is appropriate under the current circumstance, we underscore the importance of the authorities' intention to remain engaged with the Fund regarding a successor arrangement. A prospective new Fund-supported arrangement should aim at reintroducing an appropriate policy anchor for the recovery phase. *Could staff elaborate on the difficulties related to securing timely commitments under the sixth ECF review, as well as the potential negative signaling effect from the ECF cancelation?*

The authorities' policy priorities appear broadly adequate. We welcome the authorities' immediate response to the pandemic and the new round of measures taken to support households, which appear to be more targeted at the most affected. The new measure to clear arrears of SMEs to suppliers is a sensible effort to prevent destruction of socially valuable business capital and to contain potential amplification of solvency problems at the systemic level. We welcome that this measure was introduced based on the clearance strategy adopted in January (which was also a structural benchmark of the ECF). The payments should be

prioritized on the basis of their economic and social impact, and the expected effect on the banking sector, also taking into account financial stability policies at the regional level. We would like to stress the importance of ensuring transparency and good governance in relation to emergency spending, and we welcome the authorities' commitment in this regard. We regret that it was not possible to contain the increase in the wage bill. This would have provided more policy room to address the current crisis. Considerations on the wage bill should be part of the staff's report on a potential successor arrangement request. We welcome the authorities' commitment to return to the medium-term adjustment path, once the crisis abates. Finally, we reiterate the importance of close collaboration between the CEMAC and national authorities, especially in the area of financial stability.

Debt is sustainable, but risks remain high. We take note of the assessment that debt remains sustainable contingent on identifying sufficient concessional financing to close financing gaps. Chad is at a high risk of debt distress. We take note that the debt-to-revenue ratio breaches its threshold under the baseline scenario from 2021 through 2027. Given the very challenging fiscal situation, the authorities' commitment to return to the medium-term fiscal adjustment path once the crisis abates is key, including by allowing temporary measures to expire. In light of high risk of external debt distress, we consider it important to adhere fully to the key recommendation concerning the zero limit on non-concessional debt and to improve debt management. Should downside risks materialize, the authorities will likely need to identify additional measures and approach creditors and development partners for additional support. We also take note that the risk to Chad's capacity to repay is tilted to the downside. We would like to empathize the importance of this key financial safeguard, namely the access limits and the member's capacity to repay, especially in repeat-RCF requests.

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GRAY/20/2627

July 21, 2020

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

We thank staff for an insightful report and Mr. Raghani and Mr. Bangrim Kibassim for a helpful Buff statement. **We support Chad's request for disbursement under the Rapid Credit Facility and cancellation of the current arrangement under the Extended Credit Facility.**

Nevertheless, we have some concerns about the signal sent by the cancellation of the ECF-supported program and the authorities' decision to use the available PRGT resource-envelope to the limit under another RCF. We acknowledge the authorities' interest in short-term financing given fiscal financing needs stemming from lower oil prices, higher security spending and Covid-19-related needs. However, we would have seen merit in a UCT-quality program to maximize the catalytic role of the Fund's engagement and to establish stronger safeguards regarding sustainability (given the high risk of debt distress) as well as adequate use of freed-up resources (the wage bill has increased markedly compared to 5th review). A UCT-quality program could also have enabled a closer engagement with the Fund with a view to continuous monitoring of the sustainability of policies and the transparent use of funds. *Additional staff comments on whether such considerations have played a role in discussions with the authorities would be welcome.*

We broadly agree with the staff appraisal and would like to make the following remarks:

- **We acknowledge that the Chad continues to be affected by a threefold shock**, consisting of a public health challenge, the persistence of low international oil prices, as well as a strained security situation, given Boko Haram's activities in the country. Therefore, we note that the currently elevated fiscal financing need, resulting in an overall financing gap in the amount of CFAF 365.7 billion (7 % of GDP) for 2020, seems broadly justified, according to staff, to cushion the economic consequences from these multiple shocks.

- **We emphasize that prudent fiscal policies are of the essence; in particular, adjustments seem warranted regarding fiscal revenues and the public wage bill.** Determined fiscal adjustment seem especially relevant given that Chad's already previously high risk of overall debt distress has continued to rise and the current economic outlook is fundamentally uncertain. We note that staff's DSA assumes an improvement in the primary balance by more than 2 percentage points until 2025. *Could staff elaborate which measures are likely to / should underpin this improvement?*
- **With regard to the remaining CFAF 170.5 billion (3.3 % of GDP) of unidentified financing for 2020, we encourage the authorities to continue active discussions with donors on additional concessional support and to identify short-term budgetary savings in non-priority areas.** We also support staff in stressing that any further non-concessional borrowing should be avoided to protect debt sustainability.
- **We welcome that the authorities have made progress in clearing domestic and external arrears** and note staff's assessment that the authorities are currently negotiating in good faith on the remaining amounts outstanding. Subject to budgetary constraints, increased attention should also be paid to continuous clearance of arrears towards domestic suppliers and banks, given the stimulating economic effects these would likely entail.
- **We note that the LoI includes the following sentence: "We intend to request a successor arrangement and initiate discussions with Fund staff in the fall".** However, as elaborated on above, the authorities are reaching the normal cumulative access limit under the PRGT, while cancelling the existing ECF arrangement. *Could staff explain how one should interpret the above sentence and elaborate on whether the authorities have indicated a preference with regard to the modalities of a new program?*
- **We support the authorities' commitment to transparency measures for emergency-related spending.** These include inter alia an independent third-party audit and making public beneficial owners in procurement processes as well as delivery reports for goods and services related to emergency financing. In this context, we would be grateful to hear from staff how such measures were implemented and what can be learned from the information published by the authorities going forward.

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GRAY/20/2628

July 21, 2020

**Statement by Mr. Guerra and Ms. Arevalo Arroyo on Chad
(Preliminary)
Executive Board Meeting 20/80
July 22, 2020**

We thank staff for the comprehensive report and Messrs. Raghani and Bangrim Kibassim for their insightful Buff statement. The impact of the twin-shocks posed by the pandemic and the drop of oil prices has continued to significantly affect Chad. The authorities' response to the crisis has been adequate, but as the outlook has further deteriorated, higher financing needs have emerged since the initial request under the Rapid Credit Facility (RCF). Against this backdrop, **we support the authorities' request for disbursement under the RCF of SDR 49.07 million (35 percent of quota)** and take note that the authorities will cancel the current Extended Credit Facility (ECF) arrangement. We welcome the authorities' intention to possibly request a new ECF arrangement in order to support their medium-term adjustment and recovery agenda.

As the crisis intensified, the prioritization of health and social expenditures has been adequate to support the most vulnerable households. We agree with staff that given the current context, fiscal loosening in the short term is justified to respond to the crisis, but as the crisis recedes, the temporary measures should be scaled back and efforts towards securing a sustainable fiscal path should restart. We welcome the authorities' proactive response to the crisis focused on helping businesses and the most vulnerable households. We support the authorities' efforts towards strengthening transparency related to the emergency financing spending.

We take note that debt continues to be deemed sustainable notwithstanding high external and overall debt distress. However, given the deterioration of the outlook and the cancellation of the ECF arrangement, we encourage the authorities to continue efforts towards securing debt sustainability as soon as the crisis recedes. As the financing needs

remain substantial, IMF emergency financing has been effective in catalyzing donor support and we note that the authorities have requested debt service suspension under the G20 DSSI, and debt service relief under the CCRT. Nonetheless, we consider that filling the remaining gap with concessional support is important and agree with staff that a zero limit on non-concessional borrowing would be desirable.

As banking sector vulnerabilities have weakened further, we echo staff’s call and encourage authorities to closely monitor developments in close coordination with the regional bodies. We consider that regional measures from BEAC and COBAC to ease monetary policy, enhance liquidity, and cushion the banking sector have been appropriate. We note the Ministry of Finance’s actions regarding arrears prepayment to two large public banks and the planned recapitalization of one of them. However, given the latest data showing liquidity and collateral constraints, worsening of the capital adequacy ratio, and increase in overdue loans, it is important that the authorities, together with BEAC and COBAC, remain attentive to risks building up and ensure compliance with prudential regulations.

Given the importance of regional policy actions in support of current programs in CEMAC countries, we encourage staff to continue engagement at national and regional levels. *Does staff have plans to prepare an updated version of the background note outlining the regional response to the COVID19 shock in CEMAC countries?* We emphasize the importance of continuous engagement with country authorities and regional bodies on policy advice, as needed, to preserve external sustainability of the CEMAC region and debt sustainability of each CEMAC country. In addition, we stress the importance of maintaining support in terms of capacity development to Chad and other CEMAC countries.

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GRAY/20/2629

July 21, 2020

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

We thank staff for their focused report and Mr. Raghani and Mr. Bangrim Kibassim for their helpful Buff statement. We note the deteriorating economic outlook, elevated balance of payments and budgetary financing needs and challenging health situation since approval of the first disbursement under the Rapid Credit Facility in April. We support Chad's request for further financial support from the IMF through a second disbursement under the RCF with the aim of reducing the economic disruption caused by the COVID-19 pandemic.

We commend the authorities for their swift and proactive actions to reduce the negative economic impact from the COVID-19 pandemic for businesses and households, including through their effort in clearing arrears and through the introduction of a food distribution program and solidarity and youth entrepreneurship funds. Fiscal loosening continues to be appropriate in 2020, but it is unfortunate that, due to heightened uncertainties, Chad is unable to successfully conclude the ECF program. Temporary emergency measures will need to be unwound as the pandemic recedes and we strongly encourage Chad to follow through on its intention to request a successor program to support the necessary adjustment.

The two RCF disbursements combined cover only around thirty percent of Chad's financing need. We therefore hope that the second disbursement will build on the success since the first in catalyzing additional donor support to fill the gap. With Chad now close to the normal cumulative access limit of the PRGT, *could staff share their thoughts on the elements, size and timing of the possible successor program?*

We note that public debt vulnerabilities are high, but that capacity to repay the Fund remains adequate. We agree that the authorities should continue to commit to no non-concessional borrowing.

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GRAY/20/2630

July 21, 2020

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

We thank staff for the informative report and Mr. Raghani and Mr. Bangrim Kibassim for their helpful Buff statement. While we are somewhat concerned that the authorities decided to ask for a cancellation of the current ECF program, **we support the authorities' request for assistance under the RCF amounting to SDR 49.07 million (35 percent of quota)**, as the authorities have also indicated that they intend to seek for a successor Fund arrangement later this year.

The authorities' decision to opt for a second disbursement under the RCF instead of completing the next review under the ECF might not be an optimal choice. Higher reliance on the emergency facilities, instead of the UCT-quality programs, could undermine the Fund's catalytical role. In this context, we welcome the authorities' decision to seek for a successor UCT-quality arrangement later this year. *We would be interested to hear from staff about the current prospects for additional financing.*

We note that Chad's risk of external and overall debt distress remains high. We welcome the authorities' decision to participate in the DSSI and CCRT initiatives. However, we note that staff's DSA assumes a debt relief from the CCRT through April 2022. *Staff's comments on whether this fully meets the spirit of staff's practices regarding assurances would be welcome? We would also appreciate staff's view on Chad's experience with the DSSI, as it is one of the few so far, to have asked for private sector participation in the DSSI?*

In the context of governance vulnerabilities, we welcome the authorities' decision to publish all procurement contracts, along with the names of the beneficial owners. We particularly welcome the commitment to an independent third-party audit of COVID-19 expenditures. *Could staff give their preliminary assessment of the Chadian authorities' progress in implementing their commitments to safeguards under the previous RCF disbursement and CCRT?*

We wish the authorities every success in these challenging times.

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GRAY/20/2631

July 21, 2020

**Joint Statement by Mr. Buisse, Mr. Ronicle, Mr. Rozan, Ms. Clapham, and Mr. Comolet
on Chad
(Preliminary)
Executive Board Meeting 20/80
July 22, 2020**

We thank staff for the excellent paper and Mr. Raghani and Mr. Bangrim Kibassim for the insightful Buff statement.

Prior to the ongoing economic crisis, Chad's performance under the ECF arrangement was satisfactory, contributing to the stabilization of the CEMAC region. However, the economy of Chad has been severely disrupted by the twin Covid-19 pandemic and terms of trade shocks. The drop in international oil prices has reduced export proceeds and government revenue, leading to larger fiscal and external financing needs than at the time of the RCF-1 disbursement, compounding existing factors of fragility and a difficult security environment. In light of this background, **we strongly support the authorities' request for a second Rapid Credit Facility (RCF) disbursement, equivalent to 35% of quota (SDR 49.07 million).**

In light of the cancellation of the ECF, and the need for the country to resume over time its needed macroeconomic and structural reforms, we also very much welcome the fact that the authorities indicated that they intend to request a successor arrangement. Addressing structural reforms is necessary and will require ownership. Strong engagement with the Fund, in terms of advice, capacity development and catalytic financial assistance, will continue to be key going forward. With cumulative access already at 299 percent of quota, strong and meaningful engagement of the country with the Fund would benefit from a revision of normal cumulative access rules later this year. *Access beyond normal cumulative access limits will require access under the high access framework – could staff be precise on what in the current DSA leads to debt being considered at high risk of debt distress, given past strong program performance and the authorities' historical ability to service debt at these levels under the baseline? And could they provide details on the calibration of the DSA stress scenarios, including the path for oil prices, exports and growth? In*

addition, could staff elaborate on their current technical assistance efforts in the country?

The crisis is severely hitting the public sector. In this context, we welcome the fact that the authorities will report all COVID-19 related spending in the supplementary budget and conduct an ex post audit on the emergency procurement procedures. *Could staff give an update on the implementation of the transparency measures agreed as part of the RCF-1 disbursement?* Staff notes that a supplementary budget is being prepared and it is critical that it is adopted in a timely manner. Moreover, considering the impact of the crisis on the public finances, with increasing public expenditure and shrinking revenues, we agree that social spending should be prioritized, in particular direct support to households. It is also critical that cuts in non-priority expenditure do not overly affect security spending. *Could staff elaborate on its assessment of the preliminary cost of measures to contain Covid-19, as it appears rather high for a low-income country?* In addition, it appears that the residual financing gap for 2020 remains the same as it was projected to be at the time of RCF-1. *Could staff elaborate on the breakdown of external and domestic options to bridge the financing gap as mentioned in paragraph 11?*

We agree with staff that banking sector vulnerabilities have worsened, and that particular attention is to be paid to the bank-sovereign nexus. It is therefore key that the BEAC and COBAC safeguard clearance and repayment of public debts, as well as closely monitor banks' exposure and liquidity, in a context where banks are to be involved in supporting the authorities' crisis mitigation plan. We also commend the authorities for advancing plans to restructure and recapitalize public banks.

Chad's risks of external and overall debt distress remain high, but debt is sustainable according to staff. The commitment of the authorities to a zero limit on non-concessional borrowing is all the more critical as downside risks abound. *In particular, could staff elaborate on the ramification for Chad of the debt contract contingency mechanisms with Glencore and whether there have been any preliminary discussions with non-official creditors in the context of the DSSI?* We welcome the progress made on external arrears and the acceleration on domestic arrears clearance.

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GRAY/20/2632

July 21, 2020

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

We thank staff for the report and Mr. Raghani and Mr. Bangrim for the helpful Buff statement. The macroeconomic outlook has deteriorated relative to what was anticipated in mid-April, which is consistent with downward revisions in other countries. In addition, Chad is seeing a continuing terms of trade shock, as oil prices and demand remain low. The pandemic has also added pressure to an already fragile social situation and difficult security environment. Having delivered timely and proactive response to Covid-19, there is a need for larger budgetary and balance of payments financing, both of which are substantially higher than earlier estimated. We support the request for additional access of 35 percent of quota, under the RCF-2, to supplement the 65 percent of quota received in April.

In the April staff report, the authorities had requested a rephrasing of disbursements to allow more time to meet the requirements for the last amount of the ECF, that would have been subject to observance of end-December 2019 performance criteria and completion of the sixth review. The April staff report said that “Preliminary data indicates that prior to the pandemic outbreak, performance under the ECF arrangement had been on track.” The current staff report refers to “practical difficulties of holding comprehensive policy discussions.” We would appreciate staff elaboration on the status of end-December PCs and any other outstanding measures that prevented completion of the sixth review. One of the reasons given, for cancellation of the ECF, is to allow the authorities to have higher access under the RCF. If it were possible to complete the last ECF review, it would give a stronger signal to obtain access from both the ECF and RCF for the same total amount of 35 percent of quota.

Having said that, we welcome the intention to request a successor ECF arrangement this year, even though it is not clear how these discussions could be held if it is not possible to hold comprehensive policy discussions. *Staff explanation would be appreciated.* We would also seek clarification on the potential size of a future ECF arrangement, given the constraint they have under the normal cumulative access limit, which is now binding. In terms of a

future program, we agree with staff on the need for the authorities to temporarily loosen fiscal policy to accommodate the significant revenue loss and emergency spending. However, as the crisis abates, the new ECF will need to include a fiscal adjustment by strengthening revenue mobilization and rationalizing spending, while protecting poverty reducing expenditure. *In this regard, we note that the public sector wage bill is weighing heavily on public finances—which is revised upward from 6.7 to 7.7 percent of GDP for 2020. We would welcome some comparison or benchmarking with peer countries.*

Chad's lockdown measures appear to have been effective since the number of new cases has significantly declined since mid-June, which led to the relaxation of containment measures in early June. We take positive note of the measures taken to help businesses absorb the economic impact of the pandemic and the efforts to support households. *Regarding the latter, the authorities intend to create a Solidarity Fund for the vulnerable population. How soon would this Fund be created and become operational, and does Chad have a database of vulnerable households?*

We welcome the authorities' efforts in reducing domestic arrears and in addressing external arrears. We also welcome the fact that RCF-1 has helped mobilize donor financing and hope that RCF-2 will also facilitate further financing relative to the cancelled ECF. Additional donor financing remains critically needed to meet the remaining financing gap, an additional 3.3 percent of GDP in 2020. In this regard, the suspension of debt service that was agreed with Paris Club and G20 creditors provides a welcome contribution. We trust that staff will return to us with a view on financing needs in 2021.

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GRAY/20/2633

July 21, 2020

**Statement by Mr. El Qorchi and Mr. Osei Yeboah on Chad
(Preliminary)
Executive Board Meeting 20/80
July 22, 2020**

We thank staff for the report and Mr. Raghani and Mr. Bangrim Kibassim for the insightful statement. We concur with staff analysis, which highlights the devastating impact of the pandemic on the Chadian economy, and **support the request for additional disbursement under the exogenous window of the Rapid Credit Facility (RCF)**. The request will bring Chad's total disbursement to 95 percent of its quota, well within its cumulative access limit for PRGT resources, and help close the outstanding balance of payment and financing gaps.

Swift and proactive policies to contain the health risk and alleviate the impact of the pandemic on vulnerable sectors of the economy are critical. In that regard, we commend the authorities' National contingency plan to expand the health system capacity and offer incentives to small businesses to boost economic activities. The tense security environment coupled with the oil shock is hindering fiscal effort to support vulnerable groups. Nonetheless, the authorities ought to preserve social safety net as a core tenet of the response strategy. We take positive note of BEAC and COBAC accommodative policy initiatives aimed at boosting banking sector liquidity to mitigate the impact of the pandemic shock. That said, with heightened banking sector fragility, the authorities should strengthen banking supervision and stand ready to take additional prudential measures should the situation worsen.

We welcome the authorities' declared commitment to transparency regarding all Covid 19-related spending, which could catalyze urgently needed additional donor assistance to finance the residual funding gap. The authorities' prudent initiative aims to publish all procurement contracts and conduct post-covid-19 audit of all spending, consistent with good governance and anti-corruption practices. We note that risks to debt distress have risen, even though debt remains sustainable under the baseline scenario. In this context, the post-crisis policy stance should aim at enhancing domestic revenue mobilization and instituting expenditure reprioritization to forestall macroeconomic stability and boost inclusive growth.

With these, we wish the authorities every success.

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GRAY/20/2635

July 21, 2020

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

We thank staff for the report and Mr. Raghani and Mr. Bangrim Kibassim for the informative Buff statement.

We note the further deterioration of the macroeconomic outlook and higher balance of payment (BOP) and budgetary needs since RCF-1 (which was complemented with assistance from CCRT), despite the authorities' appropriate response to the pandemic. Against this background, **we support the authorities' request for a second disbursement under the Rapid Credit Facility (RCF-2) equivalent to 35 percent of quota** and hope it will play a catalytic role with other development partners to finance the remaining gap (RCF-1 and RCF-2 disbursements are expected to fill near 30 percent of the estimated 2020 BOP financing gap).

We support the cancellation of the Extended Credit Facility given the difficulties in securing timely commitments under the 6th review. We note the program was due in September 2020, and we encourage the authorities to consider a successor program. Also, if conditions permit, we consider it would be desirable to attempt complying with the commitments of economic stabilization and debt sustainability. We take positive note of the request for debt service relief under the G20 DSSI.

We are aware of the near-term urgencies to save lives and address the pandemic's challenges. In this regard, we support the fiscal loosening strategy being followed, while encouraging the authorities to maintain close monitoring of expenditure spending, especially those coming from the wage bill. We welcome the intention for fiscal consolidation, and as the effects of the pandemic abate, we encourage the authorities to begin planning the strategy for fiscal consolidation. In this regard, and taking into consideration the important remaining budgetary needs, the authorities should refrain from non-concessional borrowing.

Monetary loosening is pertinent, as is supporting the banking sector. Efforts to clear arrears are very welcome, as well as monitoring liquidity and solvency risks and capitalizing large public banks. Nevertheless, staff highlights that vulnerabilities in the sector have worsened, reflecting the tight sovereign-bank nexus and high dependence on oil. This is a development that the authorities should

pay close attention to, and in this regard, we commend them for indicating that safeguarding financial stability remains a top priority.

We acknowledge that overall debt is in high risk of distress, but debt is sustainable. Also, we take note that the capacity to repay the fund remains adequate, but risk is to the downside amid an uncertain outlook.

Finally, the commitment to enhancing transparency underscored by Mr. Raghani and Mr. Bangrim Kibassim in their Buff statement is a positive development. In particular, we welcome the setting up of a special treasury account to track the COVID-19 related expenditure as transparency and accountability should be ensured.

With these remarks, we wish the authorities every success in their policy endeavors in this difficult time.

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GRAY/20/2636

July 21, 2020

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

1. We thank Staff for the report on Chad and Mr. Raghani and Mr. Bangrim Kibassim for a helpful buff statement.
2. We observe that the ongoing pandemic has severely hit Chad's economy. Nation-wide lockdown, adverse movement in terms of trade with a decline in international oil prices, and increased pandemic related expenditure have resulted in a significant widening of the resource gap. Although in April 2020, Board had approved financing under the Rapid Credit Facility (RCF) for an amount equivalent to 60 percent of its Quota, the resource gap has widened since then with further worsening of pandemic and economic conditions. The resource gap has increased to 7.0 percent of non-oil GDP as compared with 4.6 percent assessed in April 2020.
3. Now Chad has requested additional financing under RCF for an amount equivalent to 35 percent of its Quota and for canceling its current ECF program due to uncertainty about conducting the review.
4. Authorities have taken steps to support businesses and households with relief in taxes, suspension of utility payments, and arrears' clearance. We notice that since the approval of first RCF financing, additional measures including food distribution program, spending on health equipment, and creation of solidarity fund for vulnerable sections, have been implemented. Apart from these arrears to suppliers have been cleared. Significantly, financing sanctioned in April catalyzed support from other sources, including World Bank, AfDB, the EU, and France.
5. We welcome authorities' commitment to strengthen transparency around all COVID-related expenditures with the creation of a dedicated Treasury account. Authorities will report all COVID-19 related spending in the supplementary budget and publish the full text of procurement contracts on the Ministry of Finance and Budget website,

including the names of the beneficial owners of awarded legal persons within 30 days of their conclusion. An ex-post compliance audit by a reputable international auditing firm has been proposed.

6. Although Chad's risks of external and overall debt distress remain high with all external debt risk indicators exceeding respective thresholds under the most extreme shock scenarios, as per Staff assessment, debt remains sustainable, and capacity to repay the Fund remains adequate. Chad has requested debt service suspension under the G20 debt service suspension initiative (DSSI) and debt service relief under the Catastrophe Containment and Relief Trust (CCRT). Debt service to the IMF would peak in 2026 at 2.0 percent of exports and 7.4 percent of revenue.
7. We encourage authorities to follow Staff policy recommendations. As the crisis abates, the economy needs to be brought back to the fiscal consolidation path by rationalizing spending, allowing lapsing of temporary expenditure measures, and strengthening domestic revenue mobilization. Moreover, authorities should remain committed to zero non-concessional borrowings.
8. We align with the Staff and support Chad's request for assistance under the RCF in the amount of SDR 49.07 million (35 percent of Quota).

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GRAY/20/2637

July 21, 2020

**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.

Chad

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/20/80—July 22, 2020

Fiscal Policy

1. **We would like to invite staff to be more concrete on the expected additional financing from multilateral and bilateral partners for the large residual financing gap. In addition, it could also be important to prepare contingency measures in the event of financing shortfalls.**
2. **As the initial RCF already catalyzed some donor support, staff comment on where further support may come from would be welcome, particularly since a residual financing gap remains. We would be interested to hear from staff about the current prospects for additional financing.**
3. **Could staff elaborate on the breakdown of external and domestic options to bridge the financing gap as mentioned in paragraph 11?**
4. **As the initial RCF already catalyzed some donor support, staff comment on where further support may come from would be welcome, particularly since a residual financing gap remains?**

To be addressed orally.

5. **We emphasize that prudent fiscal policies are of the essence; in particular, adjustments seem warranted regarding fiscal revenues and the public wage bill. Could staff elaborate which measures are likely to / should underpin this improvement?**

Staff assumes that following fiscal loosening this year, the authorities will need to undertake a gradual fiscal adjustment starting 2021 by unwinding the temporary emergency measures, strengthening domestic revenues mobilization, and rationalizing spending (especially the wage bill and subsidies) while protecting poverty reducing expenditure.

6. **Could staff provide a more detailed explanation of the fiscal and BOP financing gaps?**

The widening of the financing gap relative to the initial RCF is mainly due to (i) lower non-oil revenues due to lower GDP growth and the impact of the containment measures, and (ii) higher spending due to measures to help households and businesses.

7. **Could staff elaborate on its assessment of the preliminary cost of measures to contain Covid-19, as it appears rather high for a low-income country?**

A preliminary estimate of measure to contain Covid-19 is about 5.9 percent of non-oil GDP, which will be covered by donors' support and domestic budgetary resources.

8. **We note that the public sector wage bill is weighing heavily on public finances—which is revised upward from 6.7 to 7.7 percent of GDP for 2020. We would welcome some comparison or benchmarking with peer countries.**

Chad's wage bill has risen to 7.7 percent of non-oil GDP – equivalent of 6.6 percent of GDP. It is somewhat above CEMAC average but below SSA average.

Wages (in percent of GDP)

	2018	2019	2020	2021
Chad	5.21	5.61	6.59	6.35
Cameroon	4.68	4.46	4.68	4.61
Central African Republic	4.84	4.87	5.25	4.75
Congo, Republic of	4.88	4.75	6.89	6.43
Equatorial Guinea	2.32	2.74	3.47	3.30
Gabon	7.48	6.94	7.44	7.02
CEMAC Average	4.90	4.90	5.72	5.41
SSA Average	7.08	7.14	7.73	7.52

9. **We note that part of the fiscal deficit will be financed by credit from banks. Staff's comments on its impact on financial stability and the potential crowding out effect on credit to private sector are welcome.**

The Ministry of Finance is setting up a mechanism with local banks and is in consultation with the two regional institutions to define the modalities of clearing an amount of CFAF 110 billion of domestic arrears, which currently includes (i) the issuance of securities (CFAF 25 billion), and (ii) credit from banks (CFAF 85 billion). This mechanism will allow banks to substitute credit to the government for arrears-linked non-performing assets (credit from banks will be used to repay suppliers who have non-performing loans with banks due to these arrears). Overall, this should improve banks' balance sheets and their ability to provide financing to the private sector.

Program Issues

10. **Could staff elaborate more on the reasons of request for a second RCF instead of the augmentation of access of the last disbursement of ECF?**
11. **Could staff elaborate on the difficulties related to securing timely commitments under the sixth ECF review, as well as the potential negative signaling effect from the ECF cancellation?**
12. **Some concerns about the signal sent by the cancellation of the ECF-supported program and the authorities' decision to use the available PRGT resource-envelope to the limit under another RCF. Additional staff comments on whether such considerations have played a role in discussions with the authorities would be welcome.**
13. **On the motivation for the cancellation of the ECF arrangement and the authorities' interest for a successor arrangement, Staff's comments are welcome.**

14. **Can staff comment on how they plan to overcome the difficulties, which made impossible the completion of the current ECF's final review.**
15. **We note that the Lol includes the following sentence: "We intend to request a successor arrangement and initiate discussions with Fund staff in the fall". However, as elaborated on above, the authorities are reaching the normal cumulative access limit under the PRGT, while cancelling the existing ECF arrangement. Could staff explain how one should interpret the above sentence and elaborate on whether the authorities have indicated a preference with regard to the modalities of a new program?;**
16. **Do Staff consider the fact that Chad will be unable to access further lending within the access limits as a risk to its ability to raise other funds?;**
17. **With Chad now close to the normal cumulative access limit of the PRGT, could staff share their thoughts on the elements, size and timing of the possible successor program?;**
18. **We would also seek clarification on the potential size of a future ECF arrangement, given the constraint they have under the normal cumulative access limit, which is now binding.**
19. **We welcome the intention to request a successor ECF arrangement this year, even though it is not clear how these discussions could be held if it is not possible to hold comprehensive policy discussions. Staff explanation would be appreciated; Can Staff provide a risk assessment of this strategy to cancel the current ECF, put in place emergency financing and follow up with a new ECF after the initial crisis period?**

To be addressed orally.

20. **The current staff report refers to "practical difficulties of holding comprehensive policy discussions." We would appreciate staff elaboration on the status of end-December PCs and any other outstanding measures that prevented completion of the sixth review.**

Performance under the ECF program was broadly satisfactory: All but one end-December quantitative performance criteria (QPCs) have been met and considerable progress has been achieved on the structural reform agenda despite some delays: only two out of the six structural benchmarks have not been yet implemented (The implementation of the audit's recommendations for the 47 exemptions and the allocation of new resources to the tax directorates in charge of large and medium firms).

Debt Issues

21. **Can Staff elaborate on how vulnerabilities will continue to be monitored and addressed? Do Staff see particular refinancing risks emerging in the next couple of years or vulnerabilities in Chad's debt schedule that it plans to help address?**

The main channel for engagement on vulnerabilities will be the follow-on program with discussions likely to begin this fall.

Refinancing is not the primary risk for Chad's external debt, as most is long-maturity, concessional debt used for project finance, not budget support.

22. Could staff elaborate on the role of the regional bodies on domestic arrears clearance?

The authorities adopted a clearance strategy for domestic arrears early this year which, was shared with the regional institutions (COBAC and BEAC). The authorities are now in consultation with the two regional institutions to define the modalities of clearing an amount of CFAF 110 billion of domestic arrears this year through the issuance of securities and credit from banks, including eligibility for the BEAC refinancing and implications for banks balance sheets.

23. Staff's comments on whether this fully meets the spirit of staff's practices regarding assurances would be welcome? We would also appreciate staff's view on Chad's experience with the DSSI, as it is one of the few so far, to have asked for private sector participation in the DSSI?

In its decision effective April 14, 2020, Executive Directors agreed that the CCRT has sufficient financial resources to deliver a first tranche of grants for debt service relief to all 29 countries (including Chad) with outstanding credit to the Fund that are potentially eligible for CCRT assistance over the next 6 months. Directors would consider committing additional tranches, up to two years through April 13, 2022, in light of the availability of CCRT resources at the end of each tranche period. The DSA's assumption, which notes that such relief is subject to availability of resources, is consistent with the Board's decision. This is similar to the treatment of expected but not yet approved MDB financing. Although CCRT relief is included as a financing source under the program, the amounts are relatively small. They would need to be replaced by other sources or adjustment if future CCRT debt relief tranches are not approved.

Regarding the DSSI, on June 9, an MOU was signed with Paris Club creditors. Positive responses were received from China (all debts except the refinery) and the Kuwaiti Fund. Responses to their technical propositions are expected soon.

24. Could staff be precise on what in the current DSA leads to debt being considered at high risk of debt distress, given past strong program performance and the authorities' historical ability to service debt at these levels under the baseline? And could they provide details on the calibration of the DSA stress scenarios, including the path for oil prices, exports and growth?

The key indicator for Chad's high-risk determination is the ratio of debt service to revenue, which exceeds the LIC DSA threshold of 14 percent (please see Figure 1 in the DSA).

The DSA has six stress tests, but two are the most relevant. The first is the commodity price shock, under which prices are assumed to drop by one standard deviation, or 35% below the current WEO baseline, from 2021-2026. That means in 2021 the Brent oil price goes from \$36.1 to \$23.5. We also customize this shock, so the Glencore debt payments shift according to the adjustors in the 2018 renegotiated Glencore debt contract, and oil revenues are more

accurately modeled. The second is the export price shock. In this scenario export prices drop by one standard deviation, or 21%.

Growth path for DSA stress scenarios						
	2020	2021	2022	2023	2024	2025
commodity price shock	-7.7	7.3	6.4	5.4	5.6	6.1
export price shock	-7.7	5.4	5.4	7.3	7.1	7.1

25. Could staff elaborate on their current technical assistance efforts in the country?

Chad has received TA in debt management from the World Bank and the IMF. In particular, a joint mission in late 2018 helped draft a medium-term debt strategy (MTDS), which was published as an annex to the 2019 budget law. Following a misreporting incident in 2018, the monitoring of debt service payments was strengthened under the ECF and, no arrears have been accumulated since 2019, and significant progress has made in regularizing relations with external creditors. However, debt management remains weak, due to inadequate human resources and administrative fragmentation of debt management responsibilities between the Ministry of Finance and the Ministry of Planning.

26. In particular, could staff elaborate on the ramification for Chad of the debt contract contingency mechanisms with Glencore and whether there have been any preliminary discussions with non-official creditors in the context of the DSSI?

The Glencore contingency mechanism has already provided cushion for Chad's debt service, and under the baseline, it would continue to provide cushion through 2023. Deferred principal payments will cause debt service to rise towards the end of the contract, which matures in 2027.

Chad requested DSSI treatment from all creditors, including non-official creditors. We are unaware of any reply from non-official creditors.

Governance Issues

27. **Could staff further comment on how the transparency-related commitments have been observed over the period since the first RCF disbursement in April?;**
28. **We welcome the commitments of the authorities to transparency, including using a trust fund to mobilize contributions, reporting on COVID-related spending the supplementary budget, publishing procurement contracts, and committing to an ex-post audit. Could staff comment on the initial experience with these efforts since the first RCF, for example on publishing procurement contracts?;**
29. **Could staff give their preliminary assessment of the Chadian authorities' progress in implementing their commitments to safeguards under the previous RCF disbursement and CCRT?;**
30. **Could staff give an update on the implementation of the transparency measures agreed as part of the RCF-1 disbursement?**

Since April, the authorities have been strengthening their commitment for a transparent use of COVID 19 related financing. The following actions were taken:

- A "Special Fund for the fight against the Coronavirus" was created to keep separate accounts for COVID-19 expenses and to provide separate reporting of these expenses;
- A donors committee, which includes representatives from the Chadian authorities, is having biweekly meetings to follow up on the pandemic situation and COVID 19 donors financing; and
- The draft supplemental budget law under preparation will reflect all health and economic costs resulting from the pandemic.

Other Issues

31. **Does staff have plans to prepare an updated version of the background note outlining the regional response to the COVID19 shock in CEMAC countries?**

An update is under preparation. We plan to circulate it for information to the Board next week.

32. **The authorities intend to create a Solidarity Fund for the vulnerable population. How soon would this Fund be created and become operational, and does Chad have a database of vulnerable households?**

The national solidarity fund has yet to be established. A suitable database of vulnerable households will need to make the fund achieve its objectives. In this context, with the help of the World Bank, since 2018 the national statistics agency (INSEED) has been conducting a survey on consumption and the informal sector in Chad (ECOSIT), to be published very soon. This important work includes a deep analysis of poverty in Chad that should be useful for the fund's work.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain, and República Bolivariana de Venezuela

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States