

BUFF/ED/16/152

November 8, 2016

**Statement by Mr. Sembene on Chad
Executive Board Meeting
November 11, 2016**

On behalf of my Chadian authorities, I would like to thank Management and Staff for their continuous support and policy advice to Chad in extremely challenging times.

The sharp decline in oil prices since 2014 and the deterioration of the security situation in the second half of 2015 have significantly impacted Chad's economic and financial prospects. In addition, the country is harboring more than 750,000 refugees from neighboring countries due to security challenges, notably the multiplication of terrorist acts in the Lake Chad region. Public finances have been under extreme pressure as a result of these continuous shocks, which increased the vulnerabilities of private and financial sectors. The oil price shock intensified in early 2016 and the authorities' policy responses to the worsening environment at that time have been mainly through large additional fiscal adjustment absent substantial financial support by the international community.

Amid the exceptional size and pace of fiscal adjustment, the authorities' Fund-supported program remains on track. Performance at end-2015 and at end-June 2016 was satisfactory, and strong corrective actions were taken to address slippages in program implementation. In this light, my authorities request the completion of the third and fourth reviews under the ECF arrangement and the granting of related waivers. They also request an augmentation of access under the program, the extension of the arrangement, and the rephrasing of disbursements.

I. Recent Developments and Performance under the ECF Arrangement

As noted above, the **fiscal situation** deteriorated markedly in 2016. Oil revenue continues to fall and is projected to be 80 percent lower in 2016 compared to 2015, due notably to the lower price and production. In addition, the expected sale of oil assets has been delayed. Furthermore, non-oil revenue has been also underperforming due to the depressed domestic activities and lower exports. These negative revenue developments lead to significant financial constraints.

In response to these adverse developments, my Chadian authorities have implemented strong corrective actions since the beginning of the year and moved to a cash-based budget execution to control expenditures. They adopted a **first revision of the 2016 budget** in June 2016. As liquidity constraints grew and given the lack of available external financing, my Chadian authorities resorted to drastic spending cuts in an emergency action plan adopted in August 2016.

The **emergency action plan** consists of 16 drastic measures which my authorities started to implement, in particular those having an immediate budgetary impact. These include suppressing student scholarships, reducing some allowances for both Parliamentarians and senior officials, and restructuring a number of public agencies. The essential security spending, wage payment and debt service were given priority and antipoverty social spending was preserved.

The measures were supported by a **second revision of the 2016 budget** submitted to the National Assembly in early November 2016. This second revised budget presents more realistic assumptions and excludes the exceptional proceeds from the oil asset sale. Expenditures were reduced by 23 percent compared to 2015. Moreover, my authorities have prepared and submitted to the National Assembly a budget for 2017 which is also based on conservative assumptions.

Despite all the adjustment efforts since the beginning of this year, domestic **arrears** slightly accumulated in the first half of 2016 after a significant build up in 2015 because of liquidity problems. As the staff report indicates, the regional central bank raised the ceiling for Chadian commercial banks refinancing, and halved the level of required reserves for the CEMAC banking system. This enabled the authorities to issue a large amount of securities in the first three quarters of the year. However, the greater banks' exposure to government debt and the high private sector dependence on government procurement have increased vulnerabilities in the banking sector. In particular, non-performing loans increased to 17 percent of gross banking loans and as a result, credit to the private sector declined.

Progress has been made in the implementation of structural reforms, notably by containing expenditures executed through extraordinary budget procedures, broadening the database of taxpaying enterprises, and establishing a unit at the Treasury tasked with preparing cash management plans. Following the formation of the new government in August 2016, the annual debt management report has been finalized and published on the website of the ministry of finance; and the monitoring and reporting of oil revenue flows have been enhanced. The software used for the payment of civil servants' salaries is now operational and is generating savings beyond initial projections following the discovery of ghost workers during its implementation. In addition, an accounting and organizational audit of the payment of civil servants has been launched and, based on the results of this audit, a detailed action plan for reforming the payroll of civil service will be adopted by end-June 2017.

The preparation of the new National Development Plan (NDP), which will lay out the diversification strategy over the next five years, is about to be completed. The final draft document was discussed with all internal stakeholders in a workshop in October 6-7, 2016 and will be submitted to the government for adoption before being transmitted to the National Assembly by end-November 2016. In January 2017, the Government will organize a round table in Paris with all its technical and financial partners, in order to mobilize financing for the key priorities of the NDP.

Despite the difficult environment, program performance under the ECF arrangement has been broadly satisfactory in the period under review, with all performance criteria (PCs) met, except the periodic PC on the non-accumulation of domestic arrears at end-December 2015 and end-June 2016 due to liquidity constraints, and the continuous PC on non-accumulation of external payment arrears at end-June 2016. As already indicated above, the implementation of the structural reforms monitored under the program progressed well.

The Chadian authorities consider that prevention and clearance are key to stabilize and reinvigorate the economy. In this regard, they are implementing a global strategy to clear existing arrears and avoid their reoccurrence, with the assistance of the Fund, as clearly described in the Memorandum of Economic and Financial Policies (MEFP).

Given the additional balance of payments needs that have emerged due to the worsening exogenous shock, my authorities request i) an augmentation of access under the program in an amount equivalent to 24 percent of Chad's quota (equivalent to SDR 33.64 million or CFAF 28 billion); ii) an extension of the arrangement until end-November 2017 to accommodate for the conclusion of the sixth review and allow the disbursement of the last installment and iii) a rephasing of planned disbursements.

Financing remains a significant challenge for 2016 as financing from the regional market and the central bank is close to regulatory limits. Against that backdrop, my authorities appeal to Chad's development partners to follow through on their financial pledges for this year. It is worth stressing that given the dire economic and financial situation in Chad, my authorities were hopeful that the entire augmentation requested would be made available in full this year, instead of spreading it over two years, to address the severe financial constraints they are experiencing.

II. Program for the Period Ahead

Going forward, my authorities are determined to meet the challenges facing the country and improve the socio-economic conditions of the population. In this regard, they will continue to implement the necessary fiscal adjustment needed to address the immediate effect of the economic and financial crisis, while pursuing and expanding the implementation of structural

reforms aimed at improving the business climate and fostering economic diversification in the context of the new National Development Plan.

My authorities remain committed to a satisfactory implementation of the program. However, maintaining such a performance going forward, becomes more and more challenging. Given that oil price prospects are not positive and as the country's involvement in regional peacekeeping efforts is likely to continue, my Chadian authorities expect that the fiscal situation will remain difficult in 2017 and over the medium term.

Fiscal policy will be geared toward achieving fiscal and debt sustainability. My Chadian authorities are determined to continue on the path of strong fiscal adjustment in the context of the 2017 budget. Since the emergency measures taken in 2016 will have a full effect in 2017, they are confident that the projected fiscal deficit of 3.6 percent of non-oil GDP will be achieved. My authorities intend to use any fiscal resources in excess of those budgeted to reduce the stock of arrears and relax the spending envelope. The authorities will continue to refrain from contracting new non-concessional external financing. However, my authorities continue to stress the increasing difficulty of securing concessional financing and look forward to the Fund's continued support to assist them in their efforts to mobilize additional financing, as needed.

Given the weaker oil revenues, my authorities will step up efforts to increase non-oil domestic revenue mobilization. In particular, with the assistance of the Fund, they will pursue the strengthening of tax and customs administrations and undertake tax reforms to widen the tax base, through notably eliminating unjustified tax and customs exemptions and reforming the VAT. An audit of the exemptions, financed by the European Union, has been launched in October 2016 and will form the basis for identifying specific reform measures.

The authorities will focus on pursuing **structural reforms** already committed under the current program and on diversifying the economy, in line with the recommendations of technical assistance reports. Administrative reforms, including strengthening transparency in the oil sector will continue to be guided by the 2005 Action Plan for the Modernization of Public Finance (PAMFIP), while the diversification strategy will be guided by the forthcoming 5-year National Development Plan. The authorities intend to continue the strong collective collaboration with all the country's development partners to ensure an effective implementation of reforms.

Regarding specifically oil sector transparency, my authorities are fully committed to remain compliant with the EITI requirements and are now facilitating the work of the EITI National Committee to publish the reports for 2014 and 2015. As regards public financial management, my authorities will pursue their efforts to improve the expenditure chain and the implementation of the cash flow management system, as laid out in the MEFP. In particular, efforts to gradually reduce the use of emergency spending procedures will

continue and the ongoing development of the medium-term program budgeting framework will be pursued. As to debt management, my authorities will draw on the recent Fund TA to develop a medium-term debt management strategy.

III. Conclusion

To conclude, despite a very difficult global and regional environment, my authorities managed to maintain their ECF-supported program on track through a strong fiscal adjustment and steady implementation of the reform agenda. Given the actions taken to address the debt payment arrears that occurred during the review period and the authorities' continued commitment to the program, my authorities are requesting the completion of the third and fourth reviews under the ECF arrangement, the granting of related waivers as well as the approval of augmented access, arrangement extension and program rephasing. I would appreciate Directors' favorable consideration for my authorities' requests.

Moreover, given the weaker medium-term economic prospects for Chad and significant risks to its economic outlook, my authorities call on the country's development partners to provide highly-needed support to their ongoing efforts to address balance needs and pursue a smooth implementation of their economic program.