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November 9, 2016

**Statement by Mr. De Lannoy and Mr. Manchev on Chad
(Preliminary)
Executive Board Meeting
November 11, 2016**

We thank staff for the report and Mr. Sembene for his candid Buff statement. Lower international oil prices and regional insecurity have severely impacted Chad's economy. We commend the authorities for responding appropriately through fiscal consolidation, developing an emergency plan, and their renewed focus on diversifying the economy. However, following cuts in current government spending, liquidity conditions have tightened and social tensions have recently increased. Therefore, the Fund arrangement remains instrumental to catalyze donor support. We support the completion of the third and fourth reviews, the requested waivers for nonobservance of the performance criteria, the augmentation of access, the extension of the current arrangement, and the rephrasing of disbursements. We also agree with staff that more needs to be done to address the economic and financial challenges. We wish the authorities success with the implementation of the reforms.

In view of the tight liquidity conditions and revenue decline, we welcome the shift toward a cash basis management of the 2016 budget. However, we are concerned that the additional increase of the domestic payments arrears could severely impact the medium term economic outlook. We agree with staff that a comprehensive strategy is needed to appropriately address the issue of accumulated domestic arrears, and we urge the authorities to ensure that repayments are in line with the available resources under realistic medium-term fiscal projections.

Increasing debt management capacity should be a priority to guarantee that the fiscal consolidation would have a limited negative impact on the poverty-reducing social spending. The authorities should refrain from considering new non-concessional loans. The Glencore loan is significantly weighing on Chad's debt sustainability as well as on its already difficult economic and financial position. The loan has been restructured at the end of 2015, and the updated Debt Sustainability Analysis shows that the net present value of the loan has increased. Non-Paris Club creditors should be encouraged to provide a complete debt cancellation, as suggested by the 2015 agreement between the Paris Club and the government

of Chad under the HIPC initiative. *Could staff elaborate on whether the comparability of treatment principle has been maintained in the case of Chad by the non-Paris club creditors?*

We encourage the authorities, in coordination with the regional regulator, to closely monitor developments in the banking system. The banking sector is affected by the direct and indirect impact of the deteriorating economic conditions and fiscal situation. We concur with staff that the sharp fiscal adjustment and the government's growing financing needs are increasing bank vulnerabilities by changing the composition of assets and liabilities. These vulnerabilities may subsequently negatively affect economic conditions in certain economic sectors.

Finally, the recent economic shock has underscored the importance of economic diversification. Diversifying the economy, and thereby decreasing the dependence on oil, is of vital importance. In that view, we support the authorities' renewed reform commitment and the preparation of a new National Development Plan. We encourage the authorities to improve the overall business environment and strengthen financial inclusion, in order to promote inclusive growth and economic diversification.