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November 9, 2016

**Statement by Mr. Saraiva and Mr. Bellot on Chad
(Preliminary)
Executive Board Meeting
November 11, 2016**

1. We thank staff for the comprehensive report and Mr. Sembene for the informative Buff statement. The intensifying oil shock along with the country's involvement in regional peace keeping efforts and the fight against terrorist groups severely worsened the economic and financial situations in 2015 and 2016. Despite a challenging conjuncture, the country's performance under the ECF-supported program has been broadly satisfactory. Therefore, we support the completion of the third and fourth reviews under the extended credit facility arrangement as well as the requests for related waivers.
2. Along with security concerns, the exposure of Chadian economy to commodity prices has made economic activity vulnerable and volatile, while economic growth forecasts have been revised down. It is important that structural reforms to foster non-oil activities should be implemented in the medium term in order to mitigate external shocks.
3. We commend the authorities for their efforts in implementing a fiscal package aimed at closing the financing gap, which emerged from lower oil revenue and non-materialization of an oil asset sale. Debt Sustainability Analysis highlighted the need for substantial fiscal adjustment in the next few years to preserve debt sustainability. We welcome the strong commitment to maintain a tight fiscal stance in 2017 as reflected in the fully financed draft budget for 2017 submitted to parliament. *In this regard, how does staff see the direct and indirect impacts of refugees on public finances?* Conversely, economic recovery will be adversely impacted due to cuts in government spending which is the most important engine of the non-oil private sector while investments in the oil sector already registered significant reduction. This emphasizes the criticality of the diversification agenda. In addition, authorities must

keep a constant watch on the banking sector since non-performing loans increased from 11.7 percent at end of 2014 to more than 17 percent at end-June 2016.

4. Despite the narrowing of the external balance, international reserves are estimated to gradually recover from a very low level while high risk of external debt distress remains. We expect that the augmentation of access under the ECF program will assist Chad to strengthen its external position. *Moreover, does staff foresee further support by donors if increased access is approved?*
5. We encourage authorities to continue the implementation of structural reforms as underscored by Mr. Sembene, especially those related to the diversification of the economy away from the oil sector. Other reforms to contain and clear domestic arrears, eliminating subsidies, enhancing public financial management and improving transparency in the oil sector are very important. The adoption of these measures will help create additional fiscal space to achieve development objectives set forth in the National Development Plan (NDP), which is the country's current poverty reduction strategy.
6. We concur with staff recommendations given the strong commitment of authorities for fiscal sustainability while the Fund arrangement can be instrumental to catalyze donor support to address Chad's protracted balance of payments needs.