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November 9, 2016

**Statement by Mr. Gokarn and Mrs. Gunaratne on Chad
(Preliminary)
Executive Board Meeting
November 11, 2016**

1. We thank staff for their informative report on the third and fourth review of Extended Credit Facility (ECF) of Chad and Mr. Sembene for his useful buff statement.
2. The economic and financial difficulties of Chad have worsened further since the Article IV consultations in July 2016, mainly due to further drop in oil fiscal revenue and government's regional peace keeping efforts. Despite the tight resource situation, the government has continued to host and support more than 750,000 refugees and displaced persons which is commendable. Amidst these difficult circumstances, efforts taken to balance the budget, contain accumulation of arrears through substantial fiscal adjustments and the progress has been made in the structural reform agenda are welcome developments. The continuation of the Fund support to Chad is instrumental in receiving other donor support as well, to overcome its economic and financial difficulties. We support the completion of the third and fourth reviews under the ECF arrangement, the waivers of non-observance of PCs on the non-accumulation of domestic and external arrears given the corrective actions taken, the authorities' requests for augmentation of access, extension of the arrangement and re-phasing of disbursements. We broadly agree with the thrust of the staff appraisal and limit our comments to the following for emphasis.
3. The continued fiscal adjustments through controlling current and capital spending will not be sustainable, as it would affect adversely on potential growth in Chad. The government has been strongly committed to controlling expenditure, as consistent with the large drop in oil revenue. This seems to be a challenging task as oil revenue in 2016 was only CFAF 25 billion compared to the expected level of CFAF 141 billion in the Article IV report in July 2016. Under this situation, a continued expenditure reduction policy would not be sustainable, as it could lead to increased social tension due to cut in current expenditure and will have an adverse impact on growth due to lack of essential capital expenditure. Therefore, the government should explore the possibilities of maintaining expenditure at a realistic level to deliver essential public services and to meet much needed capital expenditure. In the meantime, to meet the financing gap, it should be essential taking urgent measures to sell oil assets and also encouraging oil companies to raise production as they have already planned

starting from 2018. Also, measures to diversify the economy to raise non-oil revenue through its New Five Year plan should be a priority for the new government. In addition to the ECF, the budget support given by several donors such as African Development Bank, the World Bank and the European Union has been of great help in meeting the financing gap. Their continued support is essential in recovering the Chadian economy.

4. The country's New Development Plan (NDP) should focus on enhancing the role of the private sector in the economy by improving accesses to finance, developing infrastructure and doing business environment to help the diversification of the economy. Chad is 183rd out of 189 countries in the World Bank's Doing Business ranking which indicates the urgency of improving the business environment. One of the major concerns is inadequacy of financial resources available to the private sector, as reflected in low private sector credit growth of around 5 per cent. This is largely a result of high banking sector exposure to the government causing crowding out of the resources available to the private sector. ***Could staff give more details on recent performance of the banking sector credit to the private sector?***

5. The NPL ratio has been rising. The current level of 17 per cent is a serious concern in the context of ensuring continued credit flow to enhance private sector economic activities. Therefore, supervisory and regulatory requirements of the banks need to be strengthened. Also, NDP has a major role to play in developing infrastructure facilities and creating an environment conducive to attract more productive investments enabling to encourage non-oil economic activities.

6. As per the Memorandum of Economic and Financial Policies (MEFP), the government has revised its medium-term fiscal framework to accommodate low oil revenues. Also, the authorities expect an improvement in non-oil GDP by 2018. ***We invite staff to elaborate the expected areas of improvement in non-oil GDP.***

7. Measures should be taken to enhance the transparency and accuracy of budgetary oil revenue estimates which would help to maintain more accurate budget forecasts. Also, strengthening the tax administration and expediting tax policy reforms such as developing ASYCUDA software for more effective customs duty collection and introducing proposed VAT reforms would help to enhance tax revenue. Similarly, implementation of the cash flow management system and moving to a single Treasury account is required to better manage the public financing.

8. With these remarks, we wish authorities all the success in their future endeavors.