

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

GRAY/16/3343

November 9, 2016

**Statement by Mr. Geadah and Mr. Al-Kohlany on Chad
(Preliminary)
Executive Board Meeting
November 11, 2016**

We thank staff for their report and Mr. Sembene for the helpful Buff statement. Chad's economy is expected to contract in 2016, and public finances have been sharply impacted by the decline in oil prices and the challenging regional security situation. Despite this difficult situation, the authorities met most program targets and have undertaken corrective actions to keep the program on track. We, therefore, support the proposed decisions and are particularly in favor of the flexibility in access under the ECF. Looking ahead, we concur with staff that continued fiscal consolidation, stronger public financial management controls, and further reforms toward diversifying the economy should remain the focus of the program. We note from Mr. Sembene's statement that, while the authorities remain committed to the program, maintaining satisfactory performance becomes more and more difficult. *We would welcome staff elaboration on the risks going forward.*

The program target on the non-oil primary fiscal balance was met largely by dramatically cutting domestically-financed investments and transfers. We commend the authorities on the revisions to the budget in 2016 which underpinned this performance. We support the authorities' drive to place increased emphasis on improving non-oil tax revenue, especially given the projected weakness in oil revenues. A priority in this regard is to widen the tax base, including by reducing exemptions, improving large taxpayer's compliance, and strengthening tax and customs administrations. We are reassured by Mr. Sembene's statement that the authorities are confident that the projected fiscal deficit of 3.6 percent of nonoil GDP will be achieved. We also note from the statement—as well as from the staff report—that Chad is hosting 750,000 refugees from neighboring countries. *Staff comments on the economic effects of harboring refugees, including on public finances, would be appreciated.*

The reduction in the deficit was accompanied by a continued accumulation of arrears. We welcome the corrective measures taken to contain arrears, including the implementation of

cash based spending and stronger PFM controls, and note the authorities' plan to implement an independent audit of unverified domestic arrears. We concur with staff that the authorities need a comprehensive plan to clear arrears. Progress in this area would help to improve the financial position of the private sector and strengthen banks through a reduction in non-performing loans.

We welcome the authorities' emphasis on diversifying the economy. To this end, the focus of the upcoming National Development Plan (NDP) on improving competitiveness is appropriate. We encourage the authorities to identify and implement measures to improve the business climate, facilitate the creation and development of businesses, including the reduction of infrastructure bottlenecks, and improving access to financial services. In light of the limited domestic revenues projected over the medium term and Chad's high investment needs, we encourage the authorities to prioritize public spending plans within the NDP and to enhance spending effectiveness and efficiency.