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April 11, 2018

Statement by Mr. Gokarn and Mr. Siriwardana on Chad
(Preliminary)
Executive Board Meeting
April 13, 2018

1. We thank staff for the detailed set of papers and Mr. Sembene, Mr. Nguema-Affane and Mr. Bangrim Kibassim for their informative Buff statement.

2. **The current Extended Credit Facility (ECF) for Chad was approved in June 2017 in the midst of negative impact associated with the declined oil prices, refugee crisis and security shocks, which created significant macro-financial implications.** Since then, the program has progressed with all end-June PCs, most of the indicative targets and some of the structural benchmarks being met. On these considerations, we support the completion of the first review under the ECF and the waiver of non-observance of the continuous PC on the non-accumulation of external arrears. We commend the Chadian authorities' efforts to address these issues under difficult conditions and wish to encourage them to remain committed to the objectives of the program.

3. **However, we note with concern that, despite these developments, significant challenges remain in achieving the objectives of ECF supported program** in the midst of negative economic growth, deflationary conditions, as well as the relatively weak budgetary situation and the external position. In this regard, we want to stress the importance of the commitment to meeting external obligations on schedule. We agree with the thrust of the staff appraisal and wish to offer following comments for emphasis.

4. **The swift completion of the process related to restructuring the commercial borrowings from Glencore by finalizing the agreement in principle (AIP) reached in February 2018 is critical in restoring fiscal and debt sustainability.** This will be important to ease the financing and repayment pressures in the budget. The agreement is also expected to lower the debt service to revenue ratio in the short-term and reduce the present value of the external debt. We see this as contributing to changing the risk rating of Chadian debt to "moderate" from the distress situation at present in the debt sustainability analysis under the baseline scenario. However, we take note of staff's assessment that total public

debt vulnerabilities remain elevated, which reinforces the need to maintain a prudent fiscal policy.

5. **Strengthening fiscal consolidation also needs gradually reducing the non-oil primary deficit while supporting the recovery on non-oil growth.** This mainly entails reorientation of public expenditures and enhancement of non-oil revenues. Given the significant expenditure adjustments in the recent past, any further reduction of social spending will be counterproductive and will aggravate the social tensions. Hence, we commend the authorities' desire to prioritize poverty reduction spending in social sectors, indicated in the Buff statement, as a positive move amidst tight spending envelop. *Staff comments on the progress of addressing adverse implications of the previous austerity measures are welcome.* Directing adequate amount of resources towards education, health and priority infrastructure development is essential to enhance growth potential. Gradual adjustment in the wage bill will complement this process. The instability in oil revenue has complicated the fiscal management and budgetary planning. Hence, we support the ongoing and proposed measures to strengthen the non-oil receipts and their greater safeguarding.

6. **The continued emergence of arrears amidst fiscal adjustments in 2017 is a concern, which is also not in line with program parameters.** This requires a prudent cash and debt management with a comprehensive strategy to clear domestic arrears. We welcome the planned corrective actions in this regard with renewed commitment to strengthen public financial management. *Staff comments on the progress on auditing arrears are welcome.*

7. **Macro-financial vulnerabilities are also on the rise.** The banking system is grappling with the consequences of a government cash crunch, with consequent liquidity pressures. Non-performing loans stand very high at 28 per cent. This also raises the issue of ensuring adequate credit flows to the private sector. Strengthening of supervisory and regulatory measures is important to address these issues. *Staff comments on the strategy to address high NPLs are welcome.* Given the regional setup that Chad is operating, we note the staff's assessment that achieving program objectives also requires adequate regional policies. In this context, the measures to strengthening the banking sector as well as the reforms aimed at eliminating direct BEAC financing and loosening the bank-sovereign nexus are considered as important steps.

8. **The reversing of the contraction and maintaining a sustainable growth requires greater focus on non-oil sector through diversification.** This entails addressing a myriad of structural impediments towards facilitating private-sector led growth. This, of course, would be a medium to long-term task given the fact that competitiveness, doing business and social indicators in Chad remain well below the regional averages at present. The National Development Plan 2017-21 is important in introducing structural reforms to moving progressively into much needed sectoral transformation and diversification. The effective implementation of the NDP with specific, time-bound and measurable actions is vital to achieve desired results. *We would like to have more details about the driving factors of the growth in non-oil GDP to 4.0 per cent by 2021.*

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