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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 18/33-1

2:45 p.m., April 13, 2018

1. Chad—First Review Under the Extended Credit Facility Arrangement, Request for a Waiver of Nonobservance of Performance Criteria, Rephasing of Disbursements, and Financing Assurances Review

Documents: EBS/18/24 and Correction 1, and Supplement 1

Staff: Bakhache, AFR; Sun, SPR

Length: 54 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
M. Mkwezalamba (AE)	
	M. Raghani (AF)
	E. Rojas Ulo (AG), Temporary
	S. David (AP), Temporary
	P. Fachada (BR)
	P. Sun (CC)
	J. Montero (CE), Temporary
	M. Sylvester (CO), Temporary
	C. Just (EC)
	A. Castets (FF)
	K. Merk (GR)
S. Gokarn (IN)	
	I. Lopes (IT), Temporary
	Y. Saito (JA)
	K. Badsi (MD), Temporary
	M. Choueiri (MI), Temporary
	R. Doornbosch (NE)
	E. Anni (NO), Temporary
	L. Palei (RU)
H. Alogeel (SA)	
	P. Pham (ST), Temporary
	P. Inderbinen (SZ)
	E. Myers (UK), Temporary
	M. Sobel (US), Temporary

T. Rumbaugh, Acting Secretary
S. Maxwell, Summing Up Officer
D. Jiang, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
World Bank Group: L. Moller. African Department: M. Ahmed, S. Bakhache, M. Ben Hassine, C. Delechat, S. Delepierre, A. Gulde, G. Leost, D. Owen, D. Robinson, A. Selassie. Finance Department: R. El Khechen Sab, O. Unteroberdoerster. Legal Department: I. Luca, N. Rendak, G. Rosenberg. Strategy, Policy, and Review Department: T. Best, D. Moore, Z. Murgasova, K. Nakatani, Y. Sun. Executive Director: A. Leipold (IT). Alternate Executive

Director: M. Siriwardana (IN). Senior Advisors to Executive Directors: N. Jost (NE), S. Maluck (GR). Advisors to Executive Directors: L. Andresen (SZ), M. Bangrim Kibassim (AF), D. Crane (US), S. Fan (CC), B. Jappah (AE), M. Mehmedi (EC), Y. Naruse (JA), L. Buteau Allien (BR).

1. CHAD—FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, REPHASING OF DISBURSEMENTS, AND FINANCING ASSURANCES REVIEW

Mr. Sembene, Mr. Nguema-Affane and Mr. Bangrim Kibassim submitted the following statement:

The authorities have continued to fulfill program commitments amid a challenging economic, social and security environment. In spite of the delayed undertaking of the first review of Chad's arrangement under the Extended Credit Facility (ECF), the program has remained on track, and its implementation is broadly satisfactory. Macroeconomic policies and structural reforms have continued to be carried out in line with program objectives—albeit with setbacks in some instances.

With the Agreement in principle (AIP) to restructure Glencore debt reached on February 23, 2018, solid financing assurances have been secured for the program, and external debt sustainability is expected to be regained. In addition to being fully in line with program parameters, the AIP provides significant benefits from the perspective of the Chadian authorities, notably by increasing maturity and lowering the interest rate and restructuring fees. Upon its implementation, it will contribute to a significant decline in Chad's debt vulnerabilities, translating into a welcome upgrade in the country's rating under staff's debt sustainability analysis.

Recent Performance Under the Extended Credit Facility

Program performance under the ECF has overall been positive with most of performance criteria, indicative targets, and structural benchmarks being met. However, the continuous zero ceiling on new external arrears has been breached because of missed and untimely minor payments to some official and private creditors. The nonobservance of this performance criterion was notably due to tight liquidity constraints and unanticipated payment processing challenges. To avoid recurrence of similar slippages, the authorities have sustained their efforts to reach a rescheduling agreement with creditors on pending external arrears, while taking steps to strengthen public financial management. While the end-September indicative target on the regularization of spending through emergency procedures (DAO) was missed, the authorities have since stepped up their efforts on this front, thus making significant progress toward the target by end-2017.

Significant inroads were made in the implementation of structural reforms, with the implementation of a number of structural benchmarks. In particular, the new National Development Plan was submitted to the National Assembly in July, 2017. Moreover, a tax policy unit was established in August by a ministerial decree and work is ongoing to make it operational as soon as possible. Reflecting the authorities' desire to enhance transparency in the oil sector, the first two quarterly oil sector notes have been published.

Other benchmarks were—or are expected to be—implemented with some delay. These include the recently adopted action plan for improving management of the wage bill as well as the planned audit of transfers and subsidies. Furthermore, work is also underway to launch the audit of domestic arrears following the recent selection of a firm, while the establishment of a single customs window in N'gueli has been delayed because of challenges involved in identifying a private operator to manage the structure.

In consultation with the staff, the authorities are requesting the replacement of the structural benchmark on establishing an anti-corruption court with the ratification of the United Nations Convention Against Corruption (UNCAC).

Policies for 2018 and Beyond

The Chadian authorities are determined to pursue prudent policies to achieve program objectives. These will continue to focus on further strengthening macroeconomic and financial stability, while pursuing the implementation of the NDP and contributing to the efforts to rebuild external buffers. The 2018 budget envisages greater mobilization of domestic resources and further containment of current spending, notably the wage bill.

On the revenue side, the authorities intend to redouble efforts to boost mobilization of non-oil revenue, notably through reform measures aimed at boosting tax and customs revenue mobilization. These will include steps to broaden the tax base, modernize tax administration, reduce tax exemptions, and implement recommendations made by recent Fund technical assistance missions to increase customs revenue. The repayment of domestic arrears will also play a useful role in this regard by helping alleviate liquidity pressures in the banking system and fostering private sector activity, thereby revitalizing the economy and enhancing the social climate.

On the expenditure side, a key priority for the authorities has been to exercise stricter control over current spending. As part of these efforts, the authorities are committed to reducing the wage bill to a sustainable level in line with staff recommendations. In this regard, they have implemented several measures to contain the wage bill, including by introducing a hiring freeze in civil services, limiting wage increases, and reducing bonuses and benefits. Partly, as a result of these moves, social tensions have exacerbated, but have subsequently weakened following agreements reached between the government and unions that helped preserve positive prospects for reducing the wage bill. Going forward, they are planning a civil service census, while exploring avenues for modernizing the payroll management system and reforming the civil service to achieve increased cost efficiency and transparency.

At the same time, actions will be taken to prioritize poverty reducing spending in social sectors. Indeed, maintaining such spending at about 30 percent of domestically financed primary expenditure, while streamlining transfers and subsidies remains among the authorities' top priorities.

The authorities intend to improve public financial and debt management to strengthen transparency and accountability and prevent arrears accumulation, with a view to supporting economic recovery and reducing vulnerabilities in the banking sector. To address the stock of external arrears, they are actively making good-faith efforts to reach an agreement with concerned creditors. At the same time, steps will be taken to develop a strategy for domestic arrears clearance based on the results of an audit that will be launched soon. As a key component of the program, such arrears clearance is expected to be facilitated through adjustment policies aimed at creating additional fiscal space.

In the same spirit, the authorities will continue to work towards more efficient cash management system and public procurement management. They will continue to reduce the use of DAO procedures which was exacerbated by the impact of recent volatile security conditions.

The authorities will strengthen the financial health and stability of the banking sector. In particular, the government will reflect on ways to improve public banks' position and contribution to the economy, including through the review of their financial situation and strategy as well as the adoption of a reorganization plan, with the assistance of the regional banking supervision body (COBAC). To foster improved access to credit, the authorities intend to promote financial inclusion by developing an enabling regulatory and institutional framework.

As a landlocked country, Chad faces significant structural challenges which the NDP launched aims at addressing. It reflects notably a long-term vision focused on governance, economic diversification, competitiveness, and private sector development. Its implementation phase has now begun, with a monitoring committee tasked with assessing progress and publishing progress reports on regular basis.

Conclusion

The Chadian authorities value their fruitful collaboration with the Fund and welcome the policy advice it has continuously provided in support of their stabilization and development policy endeavors. They also appreciated the contributions of the country's partners to the NDP financing roundtable held last September in Paris. In the face of a challenging domestic and regional context, they have demonstrated their strong commitment to the ECF-supported program objectives. However, Fund program engagement remains key to achieving these objectives and sustaining successful implementation of the CEMAC ongoing economic recovery efforts. In this light, Directors' favorable consideration of the authorities' request for the completion of the first ECF review would be critical.

Mr. Geadah and Ms. Al-Riffai submitted the following statement:

Chad is implementing a stabilization and reform program amidst challenging security conditions. In view of the satisfactory performance under the program and given the authorities' commitment to its objectives, we support the completion of the first review under the ECF arrangement. Supportive regional policies and reforms remain essential for the success of the program, particularly those aimed at instilling discipline in the conduct of fiscal policy and strengthening the banking sector. We agree with the staff appraisal and wish to make the following points.

Chad has considerable external debt, almost half of which is commercial and mostly owed to Glencore. We are comforted to see that the agreement in principle (AIP) to restructure the Glencore debt will provide significant debt relief to Chad, which is expected to generate the necessary financing for the program and to firmly reestablish external debt sustainability. We take positive note of the authorities' efforts in clearing external arrears that accumulated in early 2017, and look forward to the resolution of the newly accumulated arrears soon.

An important aspect of efforts to stabilize the fiscal situation is better management of the wage bill. As part of these efforts, we join staff in encouraging the authorities to reduce exemptions and reform the tax system, while modernizing the customs and tax administrations. We also take positive note of the commitment to reallocate expenditures towards the social sectors and infrastructure, and look forward to the implementation of plans to further mobilize non-oil revenues in the 2018 budget as well as their commitment to clear arrears.

We wish the Chadian authorities success in their stabilization efforts.

Mr. Saito and Mr. Naruse submitted the following statement:

We thank staff for the comprehensive reports and Mr. Sembene, Mr. Nguema-Affane, and Mr. Bangrim Kibassim for their informative statement. We positively note that the authorities could reach an agreement to restructure the Glencore debt. Also, we welcome the authorities' efforts to address the fiscal imbalances. For example, non-oil tax revenues improved, reflecting their collection efforts. In addition, we support the authorities' efforts on economic diversification which is necessary to create jobs, reduce poverty, and promote more inclusive and sustainable growth. Regarding the program performance, although small external arrears have been accumulated, the authorities have continued to fulfil the program commitments under the External Credit Facility (ECF) amid the oil price and security shocks. Thus, we support the completion of the first review under the ECF arrangement, and the waiver of nonobservance of a performance criterion. Going forward, we encourage the authorities to further advance public financial management reforms, address the liquidity problems in some banks, and implement a National Development Plan (NDP). Since we agree with the thrust of the staff's appraisal, we will limit our comments to the following:

Program Performance

We welcome the staff's appraisal that the performance under the ECF arrangement has been satisfactory, reflecting strong commitment by the authorities. We positively note that most program performance criteria, indicative targets, and structural benchmarks for the first review have been met. Notably, the non-oil primary balance, which is the fiscal anchor for the program, was met.

It is encouraging that an agreement in principle was reached to restructure the Glencore debt. However, we note that the authorities missed the performance criterion on the non-accumulation of external arrears. In this regard, while we positively note that the authorities have engaged in negotiations with their creditors such as India and Libya, staff also says that work is under way to resolve the technical difficulties on the arears to the private creditor. Could staff explain what kind of technical difficulties the authorities should overcome to address the arrears to the external private creditor?

Regarding the domestic arrears, we note that payments will be prioritized based on their economic and social impact, and the effect they are expected to have on the banking sector. We look forward to seeing that the authorities will adopt a comprehensive repayment strategy based on the audit results by end-October 2018 in line with a new structural benchmark.

Fiscal Policy

We encourage the authorities to remain focused on stabilizing the fiscal position and improving non-oil tax revenue. We are pleased to see that the authorities have shown commitment to continue the tight spending control, focus on redirecting resources to social sectors and public investment, and better manage the wage bill. Although the wage bill continued to increase, we note that the authorities reached an agreement with labor unions to help ensure the necessary reduction in the overall wage bill in 2018. Also, we positively note that the 2018 budget incorporates new measures to increase non-oil revenue, such as reforming the personal income tax system and not renewing some exemptions. Moreover, we welcome the authorities' NDP that targets an increase in tax revenue through broadening the tax base, improving tax collection, and encouraging compliance.

At the same time, we take note of the staff's appraisal that in the tax system, the potential for improvement is high. Thus, we encourage the authorities to further widen the tax base and improve tax and customs administrations. In addition, we agree with staff on the importance of improving public financial management. Namely, we believe that it is important to develop a more accurate cash management framework. Also, on public debt management, we understand the staff's recommendation that the authorities should limit external borrowing and provision of guarantees to concessional terms given the remaining fiscal and debt vulnerabilities. Lastly, on page 57 of the staff's report "Macroeconomic Developments and Prospects in Low-Income Developing Countries—2018" shows that Chad's public-sector debt covers both general government (central government and sub-national government) and guaranteed debt. We would appreciate it if staff could comment on the appropriateness of Chad's data coverage on debt as well as its transparency on debt exposures.

Financial Sector Policy

We agree with staff that the vulnerabilities of the banking sector require close attention and action. We take note of the staff's appraisal that the banking sector vulnerabilities have increased. For example, non-performing loans increased, deposits and credit fell, and the deposit-to-loan ratio fell. As the authorities rightly recognize in their statement, the repayment of domestic arrears will play a useful role by alleviating liquidity pressures in the banking system. In addition, we support the authorities' efforts in line with the new structural benchmarks to review the banks' strategies and preparing a reorganization plan to preserve their important role in the economy. Lastly, we note that according to the authorities' statement, the authorities intend to promote financial inclusion by developing an enabling regulatory and institutional framework. We would welcome the staff's comments on the current status of access to credit and possible policy options to promote financial inclusion in Chad.

Structural Reform

We welcome the authorities' efforts to launch the 2017-21 NDP in September 2017. Going forward, we expect its steady implementation. We support its main objective to diversify the economy and achieve sustainable inclusive growth by improving the business environment and developing value chains in the non-oil sectors. Also, we agree with staff that it is important that implementation be accompanied by transparent monitoring to help maintain the engagement of external partners and investors. Therefore, we welcome the establishment of an NDP monitoring committee tasked with assessing and publishing process reports on a regular basis.

Mr. Fachada and Mrs. Buteau Allien submitted the following statement:

We thank staff for the report and Messrs. Sembene, Nguema-Affane, and Bangrim Kibassim for their insightful statement. The Chadian authorities have made significant efforts to address the country's fiscal and external imbalances and to support economic recovery, but important challenges persist. We take note that most performance criteria, indicative targets and structural benchmarks for this first review under the ECF have been met. However, external and domestic arrears remain high as the country engages in debt restructuring, while risks of social tension persist. In this context, we support the conclusion of the review and the authorities' request for waiver of nonobservance of performance criterium on the non-accumulation of external arrears.

Overall economic growth has remained sluggish, following a decline in both oil and non-oil activities. A substantial decline in domestic demand and the liquidity constraint of the banking sector have adversely impacted the ability to provide credit. Regional trade has been disrupted by the security situation, and although there has been a trade corridor solution, external links remain fragile. Further security tensions in the region could not only lead to increased public debt but also affect the business climate and regional trade, hampering the prospects of economic recovery.

Strong tax collection efforts in non-oil activities have led to a welcome increase in revenue. As oil prices have been slowly increasing, government expenditure restraint remains central to fiscal consolidation, including containing the wage bill. Public expenditure should be prioritized to preserve the poorest and avoid hindering economic growth, particularly in non-oil production sectors. We suggest continuous implementation of Public Financial Management reforms, which can help authorities create additional fiscal room to account for possible commodity price volatility and rise in social expenses due to additional refugees or tensions. Fiscal reforms should include measures for broadening the tax base and raising public investment efficiency, and be complemented by reforms to attract private-sector investment.

The liquidity crunch has severely hampered the banking sector's ability to provide credit, while asset quality has continued to deteriorate. We welcome the interim emergency liquidity facility introduced by the BEAC to prevent further deterioration of financial conditions, which should help ease liquidity constraints. We also recommend enhanced banking supervision that could enforce remedial actions, particularly for the banks with more critical credit portfolios.

We welcome the agreement in principle for restructuring of Glencore debt. This agreement will help increase government revenues and, simultaneously, reduce risks of external arrears, while mitigating downside risks tied with oil price fluctuations. With program risks remaining on the downside, we concur with staff that continuous Fund engagement remains crucial to catalyze donor support. In parallel, Fund assistance is fundamental to support structural reform implementation required to help Chad return on the path to inclusive growth.

Ms. Barron and Mr. David submitted the following statement:

We thank staff for their comprehensive set of reports and Messrs. Sembene, Nguema-Affane and Bangrim Kibassim for their informative buff statement for Chad's first review under the Extended Credit Facility (ECF) Arrangement, Request for a waiver of Nonobservance of Performance Criteria, Rephasing of Disbursements, and Financing Assurance Review—Debt Sustainability Analysis. We support the staff's recommendations.

We note Chad's performance for the first review of its Extended Credit Facility (ECF) Arrangement under somewhat challenging macroeconomic conditions. We commend the authorities for their on-going efforts to implement policies that would ensure the program remains on track and to address their debt vulnerabilities as well as reach debt sustainability. We however note staff's assessment that efforts for debt restructuring have yet to be finalized and therefore Chad's debt is in distress. We urge staff to progress an appropriate debt management strategy. We have the following observations and comments and raise a few questions.

On the program performance, we note the authorities' efforts in meeting most of the program benchmarks. The authorities noted that the structural benchmark (SB) for setting up a single window for customs operations at Ngueli was missed due to the difficulties in identifying a private operator to manage it. We ask when and how likely this SB will be met as customs collection from this important trade route between Chad and Cameroon would greatly improve government revenue as well as foreign exchange inflows.

We also support the new performance criteria (PCs) for end-June and end-December 2018, indicative targets (IT) and six new SBs that would, amongst other things, deal with variations in external flows, strengthen banking sector resilience and build on the fight against corruption.

For the medium term, we note the authorities' economic stabilization and reform program that centers around a macroeconomic framework based on improvements in non-oil revenue, spending control and rising oil production. While the authorities are committed to tight fiscal control, we acknowledge the difficulties in controlling the wage bill. Besides the measures put in place to contain wages within the budgeted envelop, authorities could also look into ways of streamlining payroll with an integrated financial management system, as well as conducting a manpower audit to ascertain actual persons on the ground that are performing a specific job. We would welcome staff's view.

External public debt has increased significantly as a result of the switch from relatively cheaper multilateral and bilateral external debt to higher cost external commercial borrowing. Debt relief after achieving HIPC completion point in 2015 and rescheduling of debt with Glencore was insufficient. We therefore agree with staff's recommendation for the authorities to adopt and implement an appropriate debt management strategy. We also welcome the plans to restructure the Glencore debt. Finalizing the restructuring will improve the debt service to revenue and debt service to export ratios, as well as the present value (PV) of debt to exports. But we agree with staff on the need for caution on debt relief until the Agreement in Principle (AIP) for the Glencore debt restructuring is finalized. The deal negotiated in the 2018 AIP with Glencore debt restructuring, including lower interest rate and restructuring fees, is striking compared with the 2015 restructuring deal. We would therefore be interested in staff's view as to why a better deal was negotiated in 2018. Did the ECF provide some leverage in the restructuring negotiations? And are there lessons that can be learnt for other low income countries seeking to renegotiate private sector debt?

We agree with staff that economic diversification is desirable to build resilience so countries can move away from relying on a single commodity industry that is vulnerable to international price cycles.. We support the focus of the Economic Development Document on achieving diversification through improving economic fundamentals including governance and revenue mobilization.

Mr. Agung and Mr. Pham submitted the following statement:

We thank staff for their comprehensive set of reports and Messrs. Sembene, Nguema-Affane and Bangrim Kibassim for their helpful buff statement.

The sharp decline in oil revenues since 2014 continues to impair the Chadian economic situation in 2017. Growth and revenue have been revised downward, reflecting a deterioration in oil production and subdued non-oil GDP growth. Despite the challenging economic, social and security environment, the authorities have demonstrated a strong commitment to implement the ECF. Performance under the ECF program was broadly satisfactory with the first review met most of the program criteria, indicative targets and structural benchmarks. The authorities' efforts to balance the budget, contain accumulation of arrears through substantial fiscal adjustments and progress of the structural reform agenda, are welcome developments. Given Chad's performance under the program, the financing assurances and adequate commitment by national and regional authorities, we agree to the completion of the first review under the ECF arrangement, Request for a Waiver of nonobservance of Performance Criteria, Rephrasing of Disbursement and the Financing Assurances Review.

A continued substantial fiscal adjustment will be required to achieve both internal and external balance. As structural improvement in revenues would be gradual, adjustments in current spending should focus on redirecting resources to social sectors and public investment while reducing domestic debt to banks and arrears to suppliers. We welcome the authorities' recent measures to strengthen non-oil revenue mobilization by widening the tax base, modernizing tax administration and reducing tax exemptions to improve fiscal sustainability as highlighted in the buff statement of Messrs Smebene, Nguema-Affane and Bangrim Kibassim. However, we see the need to redouble efforts to tighten the spending envelop by improving the management of the wage bill and enhancing public sector productivity. We note from the report that public sector wages in Chad increased by about 3.5 percent on average over recent years. Controlling the wage bill in a sustainable manner is a challenging task given the recent social tension in Chad. Could staff please comment on the adequacy of the social safeguards related to this issue in the program?

Structural reforms to improve public financial management and to diversify the economy would be crucial for ensuring sustainable economic growth. The recent approval of the 2017-21 National Development Plan is a welcome step to diversify the economy and achieve sustainable and inclusive growth. We encourage transparency and reducing corruption risks in implementing the NDP. While we welcome the progress made with Glencore to restructure its debt, further efforts should be made to avoid accumulation of additional external debt to reestablish external debt sustainability. We stress the importance of continued repayment of domestic arrears, to help ease liquidity pressure on banks and ensure normal domestic payment flows.

Easing liquidity pressure on banks and strengthening banks' financial position are critical to ensure financial stability. We welcome the ongoing effort of the BEAC to modernize its monetary policy framework, including the introduction of new emergency liquidity mechanism to help members ease liquidity pressures. We urge the authorities to build on the recent COBAC assessment to review banks' strategy and prepare a restructuring plan. In this regard, we welcome the appointment of an external consultant to help identify specific actions.

Mr. Ostros and Ms. Anni submitted the following statement:

We thank staff for the report and Mr. Sembene, Mr. Nguema-Affane and Mr. Bangrim Kibassim for the detailed buff statement. The Fund's commitment to Chad's current ECF arrangement hinges largely upon the restructuring of the debt from Glencore Plc, making the finalization of the recent agreement in principle (AIP) critically important. Given the expected Glencore debt restructuring, refirmed budget support from donors, broadly satisfactory program performance and strong commitment from the authorities, we support the completion of the first review under the ECF arrangement, the waiver of nonobservance of a performance criterion and the financing assurances review. We are in agreement with staff's assessment and offer the following remarks for emphasis.

While the currently still pending Glencore debt rescheduling, once finalized, will grant a grace period and deliver terms which should decrease Chad's risk of debt distress to moderate, the reform program towards revenue base diversification and spending control consistent with low oil revenue must continue. The focus should be on broadening the tax base, reducing exemptions, and strengthening core tax administration, and we encourage seeking technical assistance to support these efforts. The markedly improved non-oil tax revenues in 2017 were rendered largely ineffective by the continually increasing wage bill, calling for a political will to follow through with the measures needed for sustainable controlling of the wage bill.

We welcome the National Development Plan's objectives of reducing vulnerabilities to oil price shocks and diversifying the economy, and see the medium-term growth potential from improved business environment, including through enhanced governance and transparency. These objectives have to be balanced with the critical short-term need of restoring public finances and prioritizing social safeguards. Reform efforts in public financial management are crucial in improving and strengthening the cash management framework and thereby supporting the development of a much needed, and feasible, arrears clearance plan. We share staff's view of the importance of continued engagement with external partners and investors, and limiting all external borrowing to concessional terms.

Close cooperation between the national authorities, the regional central bank BEAC, and the relevant regional regulators is essential in addressing the liquidity pressures in Chadian banks and alleviating the bank-sovereign nexus. We would welcome staff's comments on the status of Fund's TA in and overall progress of developing an adequate framework for liquidity provision to banks.

Mr. Doornbosch, Mr. Psalidopoulos, Mr. Jost, and Ms. Lopes submitted the following joint statement:

We thank staff for the insightful reports and Mr. Sembene, Mr. Nguema-Affane, andMr. Bangrim Kibassim for the helpful buff statement. We note that most performance criteria, indicative targets and structural benchmarks have been met in a very challenging environment. Furthermore, we note that staff considers financing assurances to be in place for next year. In this context, we can support the completion of the first review and would like to raise a few critical issues.

One of the main elements of the program is to reestablish debt sustainability. For that, a successful restructuring of Chad's external debt needs to be achieved. In this regard, we welcome the "agreement in principle" between the authorities and Glencore. However, we would like to ask staff to explain what exactly an "agreement in principle" means: Have all parties agreed to it? Are all the terms already set? How confident staff is that agreement in principle will become effective? Furthermore, we are quite surprised with the treatment of this restructuring in the Debt Sustainability Analysis (DSA). While the agreement is incorporated in the DSA's baseline, it does not seem to inform the debt classification. The result is counterintuitive: the mechanical application of the LIC-DSF framework puts Chad in moderate risks of debt distress, whereas the Chadian debt is considered to be in distress by staff. Has this happened in the past? Including an event in the DSA's baseline while excluding it from the risk rating? Could staff comment on the rationale for this decision?

We welcome the fact that the authorities have recognized the importance of improving governance and tackling corruption, as important elements supporting economic activity. We therefore support the inclusion of the ratification of the United Nations Convention Against Corruption as a structural benchmark, especially considering that Chad is one of the few countries in the world that has not yet done so; we look forward to its effective implementation. However, this benchmark is replacing the establishment of a special anti-corruption court. This means that, less than 9 months ago, staff considered that such measure, which implied a significant adjustment in Chad's institutional setting, was critical to achieve program goals. Now, an entirely different measure should be more adequate to achieve the same goal. This is not very reassuring. We encourage staff to more carefully reflect on which measures/reforms should be included in the program's structural conditionality and, when specific expertise might be limited, cooperation with other institutions (e.g. the World Bank) should be strengthened.

Significant vulnerabilities loom in the banking sector, where the delayed payments by the public sector and the economic contraction led to a deterioration of the quality of the assets in banks' balance sheets – the NPL ratio has reached 28 percent of gross loans in 2017. Furthermore, weaknesses in public banks can pose further risks to financial stability, and can constitute contingent liabilities to the public sector. In this context, we welcome the proposed benchmarks and encourage staff to have an in-depth analysis of the macro-financial linkages in the next Article IV.

Lastly, we agree with staff that non-oil revenue mobilization should be strengthened in an effort to improve the fiscal balance. Given the significant risks to the success of the program stemming from the difficult security situation in the region, ensuring stability in such trying times is key. We therefore encourage the authorities to strengthen the efforts to protect social spending and to implement reforms in line with the authorities Economic Development Plan. Could staff update the board on political risks to the implementation of the program?

Mr. Daïri and Mr. Badsi submitted the following statement:

We thank staff for the well-written set of papers and Mr. Sembene, Mr. Nguema-Affane and Mr. Bangrim Kibassim for their informative buff statement. The sharp fall in oil prices in 2014-16 and the associated fiscal retrenchment and social tensions, which were compounded by regional security issues and a temporary decline in oil production, have significantly impacted Chad's fragile economy. However, despite these unfavorable developments, the authorities succeeded in keeping the ECF-supported program broadly on track by meeting most performance criteria, indicative targets, and structural benchmarks. While the economy is projected to recover somewhat in 2018 and the following years, protracted weak economic activity continues to harm social environment. Inflation seems to be abating and internal and external imbalances have improved. Nevertheless, public external debt remains high, and domestic and external arrears continue to accumulate, largely reflecting delays in donor support. On the positive side, the agreement in principle reached on restructuring of the Glencore debt is a major step toward restoring fiscal and debt sustainability and unleashing donor support. We commend the authorities' commitment to refrain from contracting or guaranteeing new non-concessional external loans. We are in broad agreement with staff appraisal and support the proposed decisions.

We welcome the authorities' commitment to stabilize the fiscal position along with their determination to better manage the wage bill. The fiscal discipline that had been instilled under the previous ECF-supported program seems to be maintained, as reflected by continued tight spending control along with firm willingness to redirect resources to social sectors and public investment. We commend the authorities for their efforts aimed at boosting non-oil revenues, including through stronger tax and customs revenue mobilization, as indicated by Mr. Sembene, Mr. Nguema-Affane and Mr. Bangrim Kibassim. We look forward to the adoption by end-October 2018 of the long awaited comprehensive repayment strategy aimed at settling issues related to unrecognized arrears.

The banking sector appears adequately capitalized but suffers from a severe liquidity crunch triggered by the economic downturn, increased NPLs, and the adverse impact of outstanding arrears. We are pleased to note the authorities' awareness of the need to deepen the financial sector while developing its legal, regulatory and institutional framework. We welcome their intention to improve public banks' financial position, including through the adoption of a reorganization plan in cooperation with the regional banking supervisor, and to promoting financial inclusion, as stated by Mr. Sembene, Mr. Nguema-Affane and Mr. Bangrim Kibassim.

The recent National Development Plan, underpinned by a new poverty reduction strategy, is consistent with the ECF program. We commend the authorities for their progress on structural reforms, including in public financial management and transparency in oil operations, and welcome their commitment to ratify the United Nations Convention Against Corruption. Diversification away from oil remains one of the most pressing needs for achieving more inclusive growth and reducing unemployment. While we recognize the sizeable challenges ahead, we call on the authorities to improve the business environment, education, and social protection.

We wish the authorities continued success in their endeavors.

Mr. Sobel and Ms. Crane submitted the following statement:

We thank staff for the report and Messrs. Sembene, Nguema-Affane, and Bangrim Kibassim for the helpful buff statement. While we welcome the progress on debt restructuring and economic performance that has permitted this review to come forward, we underscore the need to redouble efforts on structural reforms and on meeting missed targets (i.e. on regularizing emergency spending procedures). We would like to highlight our appreciation for IMF staff working on Chad, a fragile state, recognizing that such work is often particularly staff intensive. We broadly agree with the thrust of the staff's recommendations.

Debt Transparency and Sustainability. The backdrop for this program has been particularly difficult, with the original, non-transparent Glencore debt arrangement and the resulting rapidly rising debt service squeezing out core spending. It underscores why Chad is a case in point for why the Fund needs ex ante debt transparency. That said, we welcome that this Glencore debt restructuring is in line with IMF debt sustainability criteria, and that it includes safeguards for changes in oil prices. We also welcome that the Ministry of Finance (in addition to the oil corporation) is a party to the agreement, giving the Ministry full visibility of the terms. The ongoing repayments over the coming decade constrain other borrowing, placing a premium on careful prioritization of development expenditure.

We encourage the bilateral creditors whom Chad has contacted about possible restructuring to respond positively to Chad's overtures. In cases like Chad where emerging creditors are involved and clear rules of the road on restructuring do not exist, we encourage the IMF to engage with creditors, familiarize them with the DSA, and help foster international good practice principles, including transparency and responsible burden-sharing. Can staff comment on whether any bilateral creditors, if repaid at face value, would be pulling resources out of Chad on a net basis when the IMF is providing exceptional financing? Are the terms of restructuring already provided by Chad's official creditors, such as China, comparable to the type of terms provided by Paris Club creditors in similar situations?

Stepping back, we note the increasing recourse to high access PRGT programs in CEMAC countries, with the IMF contributing a significant portion of the external finance despite IMF terms arguably not being sufficiently concessional for this purpose. These realties make us ambivalent about high IMF access in such cases, and cause us to question whether we are truly maximizing other more concessional sources. A clear, comprehensive external financing table (Table 6 in the December 2017 Central African Republic staff report is a good example) would be helpful for the reader to assess the situation. The staff's comments would be appreciated.

Reform Agenda. The stakes are high for Chad to use the opportunity of this high-access IMF program to steadfastly pursue fiscal adjustment and structural reforms to put the economy on a more stable footing. With higher access comes higher expectations for reforms, and less room for subsequent IMF borrowing. We were disappointed that only four of eight structural measures were met on time. We place particular emphasis on the audit of domestic arrears, which needs to be followed up with an arrears clearance strategy. In addition, we encourage the authorities to take steps to better manage the rising public wage bill, as outlined in the recently completed action plan, and follow through on tax and customs reform measures to increase non-oil revenues. We agree with staff that removing PIT and VAT exemptions that contradict CEMAC directives should be a priority.

Regional Policy Assurances. Regional policy support remains critical to the success of this program. For example, Chad's banking sector continues to face liquidity pressures and rely on BEAC refinancing, while NPLs are rising and deposits and credit both dropped in 2017. We appreciated the description in the staff report of CEMAC institutions' progress in meeting regional assurances on monetary and financial sector policy. We also took note of IMF staff's intention to further engage with CEMAC on additional policy assurances during the June CEMAC review, and welcome that the 2nd review of Chad's ECF will be contingent on satisfactory progress on critical union-level actions. Can staff provide greater specificity on the planned areas of policy discussion with CEMAC and highlight areas that are most critical with respect to Chad? As noted in the Summing Up on Program Design in Currency Unions, policy assurances will need to be clear, specific, monitorable and—where necessary—timebound.

Governance and Anti-Corruption. Creating a more conducive business environment for growth of the non-oil private sector is key to promoting economic diversification and sustainable growth in median income. Chad's weaknesses in governance and corruption relative to peers were documented in the structural competitiveness indicators in the original program request. We take note of the new structural benchmark on ratification of the UN Convention on Anti-Corruption. Timely achievement of this benchmark can lay the groundwork for additional anti-corruption steps with more concrete impact on the business environment. Does staff expect to include additional analysis and priority measures on governance and anti-corruption in the next staff report?

Mr. Merk and Mr. Braeuer submitted the following statement:

We thank staff for an informative report and Mr. Sembene, Mr. Nguema-Affane, and Mr. Bangrim Kibassim for their helpful buff statement. We broadly concur with staff's assessment. Notwithstanding the still difficult economic conditions, the program remains broadly on track. All end-June performance criteria were met and progress on the structural reform agenda is broadly satisfactory We note that economic growth is projected to recover this year based on rebounds in oil price and production as well as stabilized non-oil sector economic activity. Yet, growth is projected to remain fragile over the medium term and the outlook – as well as the program in general – remain subject to high risks. The authorities' continued strong commitment to the program, manifesting in prudent fiscal policies and ambitious structural reforms, will be of the essence to facilitate strong, robust and inclusive growth going forward.

We take note that staff proposes the completion of the second review to be "conditional" on the implementation of critical policy measures at the union level. This can be misunderstood. We would like to emphasize that the guidance given by the board on program design in currency unions needs to be observed. In the event that a requested union-level measure is not fully implemented, a decision by the Executive Board to approve the use of Fund resources would be contingent on a finding that the objectives of the program can nevertheless be met.

The recurring accumulation of payment arrears raises serious concerns and we call on the authorities to decisively and actively engage in good faith negotiations with their respective creditors, working towards a timely resolution. Nevertheless, taking into account the allegedly minor extent of the deviation and the authorities' commitment to remedial actions, we support the necessary waiver, the proposed changes to the program modalities and the completion of the first review under the ECF arrangement and the financing assurances review. In this context, we understand that "technical difficulties" as mentioned by staff only explain a relatively minor share of overall arrears and would welcome additional staff comments on the assessment of good faith efforts to resolve all arrears towards external private and official creditors.

Regarding the envisaged debt restructuring agreement with Glencore, we take note that “the […] legal documents to reflect the new terms, including the operational modalities for the payment and contingency mechanisms” remain to be finalized and the exact formulation may have a material impact on the likely reduction in the debt burden across different scenarios. Against this background, and taking note of the rather limited reduction in the present value of the debt (about 4 percent) in the current baseline scenario, could staff elaborate on the robustness of their assessment of a significant improvement in debt dynamics?

Prudent fiscal policies should provide the basis for a comprehensive strategy to timely clear domestic and external arrears. In this regard, improving public financial management (PFM) will be key to prevent the accumulation of further arrears and to strengthen control over the expenditure chain, prioritizing expenditures in line with the most pressing development needs. The latter appears especially relevant, as overruns in the already elevated wage bill remain a prime source of risk. On the revenue side, we support staffs’ view that improvements in the efficiency of tax collection, a broader tax base and increases in non-oil revenue should be of key priority. Concerning fiscal policies, staff highlights the importance of raising non-oil revenue. At the same time, staff mentions government spending as the “engine of the non-oil sector.” Could staff elaborate some more on this potential tension, especially with regard to the government’s ability to raise revenue from the non-oil sector? Further, in text table 1, we find it striking that oil revenue and real GDP growth in the oil sector seem much less correlated in the updated projections than initially estimated at program approval (e.g., in 2017, the oil sector is projected to have contracted by 16.2 percent, but revenue is still projected to have increased by 4.1 percent; a similarly large difference can be observed for 2020). Can staff explain this seemingly contradictory development?

Timely clearing domestic arrears will also contribute to easing strained liquidity positions in the domestic banking sector and help to tackle the growing non-performing loans problem. We share staff’s assessment that strengthening the financial system will be a crucial element in Chad’s economic recovery and diversification. Hence, we welcome the authorities’ commitment to identifying the sector’s vulnerabilities and encourage swift remedial actions. Domestic measures to strengthen banks will be further supported by BEAC’s overall commendable ongoing monetary policy reforms, which include a mechanism to provide emergency liquidity to qualifying banks.

We take positive note of the ambitious National Development Plan (NDP), which aims to diversify the economy and achieve more inclusive growth. However, while pursuing their commendable goals under the NDP, the authorities should carefully weigh potential risks to fiscal sustainability in their considerations. Given the already tight financial envelope, we call on the authorities to focus on the timely implementation of structural reforms and to limit further external borrowing strictly to financing on concessional terms.

We highly welcome the authorities' renewed commitment to the fight against corruption. Achieving the necessary advancements in economic diversification will require a considerable effort to strengthen the business environment, for which profound improvements in governance appear to be of the essence. Regarding the proposed change in the critical structural benchmark related to the fight against corruption, we would be interested in additional staff comments on why the establishment of a special anti-corruption court does no longer represent a desirable program goal. Does staff see the mere ratification of the United Nations Convention against Corruption—in itself a certainly welcome initial step – as an adequate substitute to the actual establishment of such an institution?

Ms. Horsman, Ms. McKiernan and Mr. Sylvester submitted the following statement:

The Chadian authorities have had a broadly satisfactory start to their ECF-supported economic stabilization and reform program amid a difficult economic, social, and security environment. Real GDP is projected to return to positive territory in 2018, liquidity pressures have eased somewhat, debt vulnerabilities have declined, and the current account has improved. As highlighted in the helpful buff of Messrs. Sembene, Nguema-Affane, and Bangrim Kibassim, the success so far reflects the authorities' strong commitment to program implementation. In this regard, we support the completion of the first review, waiver of non-observance of performance criteria, rephasing of disbursements, and financing assurances review. We limit ourselves to the following additional comments.

Continued strong commitment is needed to mitigate risk to the program. Despite the initial positive results, the economic, financial and security conditions remain fragile and subject to considerable downside risks and vulnerabilities. We encourage the authorities to remain steadfast in the implementation of program commitments going forward, which is key to catalyzing much-needed donor support. That said, we would be interested in hearing staff's views on whether the setbacks with program implementation are in part a result of capacity constraints, and how staff is supporting the authorities in capacity development?

We welcome the progress made by the authorities on the debt restructuring front. A key pillar of the program is reestablishing debt sustainability through external commercial debt restructuring. Accordingly, the progress made on reaching an agreement in principle (AIP) on the restructuring of the Glencore debt is a positive step. We encourage the authorities to continue to make best efforts to complete the debt restructuring process and regularize all outstanding arrears, given that Chad's debt remains in distress. In this context, the audit of domestic arrears is important, and we note positively that this process will be launched shortly. Furthermore, the delays in completing the First Review of the ECF and the breach of the continuous zero ceiling on accumulation of external arrears underscore the need for improved debt management practices.

Fiscal consolidation remains an important pillar going forward. We note positively the fiscal reforms included in the 2018 budget, including efforts to improve non-oil revenues and keep spending under control. We encourage the authorities to continue their efforts to better manage the wage bill and reform the tax system, including through reducing exemptions. Completing necessary public finance management reforms should also remain a priority to reduce fiscal risks, including those associated with wage bill pressures and further arrears accumulation.

The authorities have made strong efforts to reduce banking sector vulnerabilities, but more needs to be done to preserve stability and support sound economic recovery. The steps taken to reduce banking sector concerns, including paying down debts to banks and arrears to suppliers, alongside the ongoing modernization of the BEAC's monetary policy framework, are welcomed. Nevertheless, further work is needed to reduce banks' vulnerabilities in the areas of risk management, governance, and strategic planning. We welcome the authorities' plan to replicate in other banks the assessment recently conducted by COBAC in one of the banks.

Reforms to support high and inclusive growth and build resilience are critical. As a low-income fragile state, Chad will continue to face significant development challenges. Against this backdrop, we welcome the launch of the 2017-21 National Development Plan (NDP) aimed at diversifying the country's economic base and achieving sustainable inclusive growth by improving the business environment and developing value chains in the non-oil sectors. The establishment of a NDP monitoring committee is also a step in the right direction. Strong donor support is needed to help the authorities achieve their development goals outlined in the NDP.

Finally, we welcome the continued assurances of support by union-wide institutions (BEAC and COBAC). As staff has clearly highlighted, achieving program objectives also require adequate regional priorities, including ongoing efforts to maintain a tighter monetary policy stance and modernize the regional monetary and financial sector frameworks.

Mr. Alogeel and Mr. Alhomaly submitted the following statement:

We thank staff for the informative papers and Mr. Sembene, Mr. Nguema-Affane, and Mr. Bangrim Kibassim for their helpful buff statement. We support the completion of the first review under the Extended Credit Facility (ECF) and the associated decision on the basis of the satisfactory performance under the program, despite the challenging environment. We take positive note of the authorities' commitment to achieve the program's objectives and are comforted by staff's assessment that Chad's capacity to repay the Fund remains adequate. We are in broad agreement with staff's assessment and policy recommendations, and would therefore focus our comments on the following few issues for emphasis.

We welcome the progress made in clearing external arrears and the measures taken to address the debt issues by reaching an agreement in principle to restructure the Glencore debt, in line with the program parameters. That said, we encourage the authorities to step up their efforts to clear the outstanding arrears and reach a final agreement to restructure the Glencore debt, and hope that it will result in improving the risk rating of Chad's debt under the current LIC DSF methodology.

On the fiscal side, the authorities' plan to contain spending and redirect resources to social and public investment spending to reinforce sustainable growth is a step in the right direction. In this regard, we reiterate the importance of containing non-priority spending and enhancing non-oil tax revenue to support further fiscal adjustment. Towards this end, we concur with staff on the need for tax and customs reforms and strengthening the public financial management, and are encouraged by the ongoing efforts to enhance the tax administration.

Finally, priority should also be given to address the important vulnerabilities emerging from the banking sector, with a view to preserve stability. In this respect, we welcome the efforts being made by the authorities to address the liquidity issues in some banks, and look forward to the implementation of the planned measures to remedy the remaining weaknesses in the banking sector.

With these comments, we support the proposed decision and wish the authorities all the success in their future endeavors.

Mr. Lopetegui and Mr. Rojas Ulo submitted the following statement:

We would like to thank staff for a clear and concise report and Mr. Sembene, Mr. Nguema-Affane, and Mr. Bangrim Kibassim for their helpful buff statement.

We support the proposed Decision. We base our support on the authorities' efforts and satisfactory performance under the ECF arrangement in a very difficult environment. We also commend the authorities for the progress achieved in the last year in the implementation of the structural reform agenda. The staff's assessment also demonstrates the authorities' commitment to continue applying sound macroeconomic policies and inclusive reforms. We welcome the staff's view that the recent assessment of regional policies remains valid and look forward to an update by mid-year.

Under the ECF the economy of Chad is showing a slow recovery and the outlook remains challenging. After the country experienced a severe contraction in recent years, caused by the oil price shock, the economy started to rebound but social pressures and the narrow availability of internal and external resources generated uncertainty that affected the economy's performance. Economic growth is projected to recover from -3.1 percent in 2017 to 3.5 percent in 2018 and stabilize at 4.8 percent in the medium term. We concur with the report's recommendation on the implementation of policies focused on strengthening and preserving macroeconomic stability and improving non-oil activity.

We welcome the authorities' efforts to pursue the fiscal consolidation process through a tight fiscal policy to contain vulnerabilities. According to the evaluation of the ECF's performance, the ceiling on the non-oil primary balance was met with a large margin due to the efforts and commitment of the authorities to contain expenditures. Additionally, the report shows progress in prioritizing public expenditure, domestic revenue mobilization, and strengthening transparency. However, the report shows certain difficulties in creating fiscal space—notably, difficulties in containing the wage bill, generating resources to stabilize the fiscal position, and supporting non-oil activity. We support the authorities' measurements and reforms to control the wage bill, reduce exemptions, and reform the tax system with the objective of preserving the fiscal position.

Chad's total public debt indicators show vulnerabilities and the trajectory remains sensitive to internal and external shocks. The Debt Sustainability Analysis (DSA) shows that once the final agreement with Glencore debt is reached and outstanding external arrears have been cleared, the debt risk rating would be expected to be moderate, reestablishing external debt sustainability. In this regard, we would appreciate comments from staff on what are the next steps to finalize the agreement with Glencore. We support the adoption and implementation of consistent policies with the DSA aimed to maintain prudent fiscal policy and enhance the institutional framework coordination by an appropriate debt management strategy.

The banking sectors' quality and liquidity indicators aren't favorable and actions are necessary to address vulnerabilities. Banks' portfolio quality and liquidity have deteriorated due to increasing non-performing loans and deposits and credits fell as a result of the recession and the deterioration of the fiscal situation. The authorities should continue monitoring banks' performance and controlling exposure to non-performing loans and make actions based on the assessment carried out by the COBAC, reviewing banks' strategies and preparing a reorganization plan to preserve their role in the economy.

We support the implementation of structural reforms set out in the "2017-21 National Development Plan" (NDP). Chad's economy has particular characteristics, including a narrow production base, large transportation infrastructure gap, oil price shocks, and the country is involved in maintaining regional security. This plan determines strategy reforms centered on diversifying the economy in the non-oil sectors and achieving sustainable inclusive growth by improving the business climate. Additionally, this plan is in line with the ECF arrangement which helps to stabilize the fiscal position and economic recovery. We encourage the authorities to continue accelerating the implementation of economic structural reforms, strengthening institutional capacity, diversifying the economy, and improving the quality of life of the population. Continued progress on strengthening governance and anti-corruption policies remains critical.

With these comments, we wish Chad and its people success in their future endeavors.

Mr. Inderbinen and Ms. Andresen submitted the following statement:

While we support the completion of the first review under the ECF arrangement in view of Chad's challenges and the regional dimension, we note that more needs to be done to achieve program targets. Achieving debt restructuring with commercial debtors remains a critical issue for the program, and we welcome progress in this regard. We further note that program implementation was mixed, and underline that strong efforts on the structural reform agenda are needed going forward. We agree with the waiver of non-observance of the performance criterion on the non-accumulation of arrears. Our consent is based on the representations by staff that good faith efforts were made on the commercial arrears and that no objection was received on the official arrears. We also support the rephrasing of disbursements. In view of the time that has passed since the last staff mission, could staff give more details on the current economic situation of Chad?

The agreement in principle with Glencore and the involved banks is an important step towards reestablishing debt sustainability. We call for a quick finalization of the discussions. The restructuring should lead to a significant decline in debt vulnerabilities and hence to an upgrade of the Chad's risk rating. At the same time, we underline the complexity of the debt restructuring process and the considerable lack of transparency. Could staff comment on why the negotiations could not yet be finalized, despite the agreement in principle in February 2018? Could staff comment on how the details of the agreement in terms of the extension of maturities and the exact NPV reduction relate to the restructuring needs laid out in the program request?

As Chad's economic prospects over the longer-term hinge on significant progress on the structural agenda, the mixed program implementation record is worrying. While most of the performance criteria have been met, the indicative target on emergency spending procedures (DAO) was missed. Further, we note with concern that, on our count, only three out of eight structural benchmarks were met on schedule, despite the fact that more time was available due to the considerable delay of the review. Going forward, it will be key to improve structural reform implementation. In particular, it is critical to control the wage bill, based on the adopted action plan. We find it concerning that the wage bill has increased further, beyond program targets and above the levels prevailing before the program request. In this regard, we would welcome the inclusion of a structural benchmark on further reform steps on the wage bill in the next review. Could staff comment on the reasons for the increase in the wage bill compared to the levels before the program request?

While we welcome tax collection efforts, more needs to be done to improve tax revenues to avoid growth-reducing spending cuts and at the same time preserving fiscal sustainability. We welcome the strong efforts in non-oil tax collection, but note that these were nevertheless insufficient to achieve the end-year target. Going forward, the authorities' efforts to widen the tax base, improve filing, reduce exemptions and secure revenues are steps in the right direction. It will, however, be important to monitor how quickly the new tax policy unit becomes operational and can move towards implementation of these goals. More generally, we consider it key that limited progress on tax collection is not compensated by spending cuts that undermine non-oil economic activity. In particular, we underline that maintaining a sufficient level of investment in the non-oil sector is needed to help diversify the economy. Also, it is important to protect the most vulnerable to the extent possible. In this regard, could staff comment on the causes and effects of the below-target spending on transfers and subsidies and public investment? Further, we are not convinced that domestic tax collection will be boosted already this year via additional investment. Could staff comment?

Mr. Mkwezalamba, Mr. Jappah and Mr. Nakunyada submitted the following statement:

We thank staff for a detailed report as well as Mr. Sembene, Mr. Nguema-Affane, and Mr. Kibassim for their helpful buff statement.

We support completion of the first review under the ECF arrangement based on the satisfactory performance under the program; strong commitment by the Chadian authorities, including sustained debt restructuring efforts; and region-level policy assurances. We view the ECF supported program as critical to catalyze donor support and the realization of key objectives of the National Development Plan (NDP). We broadly share staff's assessment and provide the following remarks for emphasis.

Expenditure containment and revenue mobilization efforts remain vital to ensure fiscal sustainability. In this regard, we commend the authorities for tightening spending controls, while preserving priority social and public investment spending. We also welcome the authorities' efforts to contain expenditure within the budget. In this connection, we support measures implemented to contain the wage bill through hiring freezes, restraining wage increases, and streamlining employment benefits. That said, we underscore the need to accelerate full implementation of the action plan on wage bill management to create additional fiscal space. At the same time, we welcome intensified customs revenue collection efforts, and the new measures to increase non-oil revenues as outlined in the 2018 budget. We, however, emphasize that the removal of tax exemptions should aim to optimize benefits, while minimizing costs.

We welcome significant progress made in debt restructuring efforts aimed to reduce debt repayments and improve debt sustainability. Specifically, we welcome efforts to unlock substantial fiscal resources through the restructuring of the Glencore debt. Moreover, we view the recent conclusion of the Agreement in Principle (AIP) with Glencore as an important step to improve the debt outlook. This notwithstanding, we encourage the authorities to accord high priority to the clearance of domestic arrears to curtail negative spillovers to the financial sector.

Restoration of financial sector stability remains essential to promote financial intermediation and support growth. To this end, we urge the authorities to closely monitor banking sector vulnerabilities emanating from rising non-performing loans (NPLs) and tight liquidity conditions occasioned by sovereign exposures. In addition, we agree with staff on the need to take decisive action to resolve weaknesses that recently amplified vulnerabilities in the two main public banks. Against this background, we welcome the authorities' intention to review operational strategies and re-organization plans to enhance the soundness of the affected banks.

We view measures to overcome structural weaknesses as important to support durable growth. In this vein, we support the authorities' intentions to tackle competitiveness challenges, promote economic diversification, up-grade infrastructure, fight corruption, and improve the business environment, as outlined in the NDP. We also view plans to enhance the efficiency of the cotton public enterprise as a step in the right direction. We, however, encourage the authorities to follow through these plans by implementing specific actions to improve the viability and efficiency of SOEs, and reduce reliance on the budget.

Mr. Hurtado and Mr. Gonzalez submitted the following statement:

We would like to thank staff for its insightful report and Mr. Sambene for an informative buff statement.

As we noted in our November and June Grays for the Reviews Under the ECF Arrangement, the economic situation in Chad has been very difficult in the last two years. Negative forces largely outside government's control—lower oil prices and a deteriorating security situation—have taken a big toll on revenue, restricted funding for government programs and severely affected the banking system and a private sector that is overly reliant on public spending. Efforts have unfortunately not prevented a further contraction of the economy, and both external and fiscal imbalances were more negative than those targeted by the program.

On the positive side, all end-June and most end-September performance criteria and indicative targets were met. Although efforts by the authorities must be recognized—especially their actions towards fiscal adjustment and the clearance of external arrears—three of the eight structural benchmarks were not met. They include improving management of the wage bill and the audits of domestic arrears and of subsidies and transfers, all of which play a critical role in stabilizing the fiscal position and, therefore, in securing the medium-term macroeconomic framework that supports the authorities' economic stabilization and reform program.

We see success ultimately depending on fiscal adjustment, adequate debt restructuring and oil sector performance. Regarding the first, we take a positive note on the fact that budget incorporates measures not to renew some of the exemptions expiring this year and improvements to the progressivity of the personal income tax system, that efforts are underway to improve the performance of non-oil tax, and that reliance on domestic finance will be reduced further in 2018 to ease the liquidity pressure on domestic banks. But we worry that the wage bill—which has risen to almost 60 percent of current government spending—seems to be proving very difficult to control. Could staff explain the reasons for the recent rise in the wage bill and its assessment of how much could it feasibly be lowered given the spike in social unrest triggered by January's cuts in bonuses and benefits?

With respect to the second, the reported advances on debt restructuring are encouraging. Progress with international creditors, especially the Glencore debt through extensions in maturity and reductions in interest rates and restructuring fees, will be critical to ensure compliance with debt-burden indicators and to generate the necessary financing for the program. Since the report states that only a few steps remain to be finalized, we would like to ask staff when do they expect this to happen and if there are any risks the agreement could not be signed.

On oil production, which plays a significant role in economic activity and government revenue, we note it is expected to increase consistently by 2021 once technical problems with the major producer are solved and with new investment inflows. Yet, we see large variations in the annual growth rates for oil GDP of up to four times for that period (table 1). Could staff elaborate on what explains this behavior? Moreover, if oil GDP is growing, why have oil export receipts been revised downward for 2017–21?

Finally, we would like to re-emphasize a point we have made regarding other CEMAC countries. Current problems affecting members seem to have common root causes and thus would require a similar and coordinated policy response, as the report rightly points out. Yet the burden of the adjustment lays almost exclusively on fiscal policy without consideration to any exchange rate flexibility. We understand the legal and institutional difficulties in dealing with monetary unions, but think that under the current circumstances—with a current account deficit that has more than doubled to 5 percent of GDP—a policy package that included some depreciation would be more growth friendly, facilitate the speed of adjustment and help better deal with some of the social tensions the adjustment program has created.

Ms. Erbenova, Mr. Just and Mr. Mehmedi submitted the following statement:

We thank staff for the well-written report, and Messrs. Sembene, Nguema-Affane, and Bangrim Kibassim for their helpful buff statement. We support the completion of Chad’s first review under the Extended Credit Facility (ECF), the waiver for nonobservance of performance criteria (PC), and the rephasing of disbursements. We appreciate the authorities’ commitment to meet the program targets, as all end-June PCs were met and the essential agreement to restructure the Glencore debt was reached. Nonetheless, we regret that the continuous PC on the non-accumulation of external arrears was missed and the progress on the implementation of structural reforms has been mixed, as only five out of eight structural benchmarks were implemented. In view of the downside risks to the program, including worsening of the security situation, pressures on the non-productive expenditures, vulnerabilities in the banking sector, and fiscal pressures due to the upcoming parliamentary elections, we urge the authorities to remain committed to the program’s objectives to ensure fiscal and debt sustainability while also making further strides on the structural reform agenda. We broadly share staff’s assessment and policy recommendations, and provide the following comments for emphasis.

We welcome the Glencore debt restructuring but further efforts are needed to restore medium-term debt sustainability. The agreement on the restructuring of the Glencore debt, which includes a large extension of maturity, a reduction in interest rate, and a significant reduction in restructuring fees, is a welcome development which lowers the debt service burden, reestablishes external debt sustainability, and ensures that the ECF is fully financed. The inclusion of specific contingencies is assuring as it provides protection in case of lower oil receipts. Nonetheless, concerted efforts and measures are needed for clearing external arrears to private and official creditors and avoiding the accumulation of new ones. At the same time, considering that domestic arrears increased in 2017 (rather than decreased as programed), we urge the authorities to promptly complete the audit of domestic arrears and implement a comprehensive repayment strategy.

Fiscal policy should be geared towards mobilizing domestic revenues and improving the composition of the budget through containing the wage bill. Given the deterioration of the non-oil primary balance, mobilizing non-oil revenue remains key to stabilizing the fiscal position and creating space for growth-enhancing expenditures. This will require strengthening the tax and custom administrations while broadening the tax base through streamlining exemptions, including on VAT and the personal income tax. We note that the wage bill continues to increase and exceeded non-oil tax revenue in 2017. Decisive actions are needed to contain and manage the wage bill, including by eliminating ghost workers, and updating the payroll file. We underscore that enhancing the public financial management remains essential for ensuring fiscal controls and preventing the accumulation of domestic arrears. The staff's comments on the authorities' progress in improving the expenditure chain since the approval of the program are welcome. At the same time, could staff comment on the estimated fiscal costs of the upcoming parliamentary elections and how they will be accommodated within the program targets.

Banking sector vulnerabilities stemming from short-term domestic liquidity pressures and high non-performing loans (NPLs) should be urgently addressed. We note that the portfolio quality of the banking sector has deteriorated in 2017 and NPLs have surged to 28 percent. While the introduction of the emergency liquidity assistance by the BEAC is a welcome step, more progress is needed in reducing the banking sector's exposure to government securities and in clearing the domestic arrears to ease domestic banks' tight liquidity situation. We welcome the conditionality on strengthening public banks' financial position. However, we wonder whether the conditionality on the reorganization plan for the two public banks could have been more ambitious.

The staff's comments on the rationale as well as the pros and cons behind replacing the structural benchmark on the establishment of a special court for economic and financial crimes with a benchmark on the ratification of the United Nations Convention Against Corruption (UNCAC) are welcome, as they do not seem to be substitutes.

Mr. Gokarn and Mr. Siriwardana submitted the following statement:

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

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.

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.

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.

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. The staff's 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.

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. The staff's comments on the progress on auditing arrears are welcome.

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 percent. 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. The staff's 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.

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 percent by 2021.

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

Mr. Sun and Mr. Fan submitted the following statement:

We thank staff for the informative papers and Messrs. Sembene, Nguema-Affane, and Bangrim Kibassim for the insightful buff statement. It is good to note that most program performance criteria (PC), indicative targets (IT) and structural benchmarks (SB) for the first review have been met. We welcome the agreement reached in principle to restructure the Glencore debt which is in line with the program parameters. Nevertheless, the Chadian economy faces daunting challenges in stabilizing fiscal position, addressing financial sector vulnerabilities, and implementing structural reforms. In light of the authorities' strong commitment to the program, we support to completion of the first review under the ECF arrangement, the waiver of nonobservance of a PC, and rephasing of the disbursement.

We agree with staff that the fiscal strategy should remain focused on stabilizing fiscal position and supporting non-oil activities. We take positive note of the measures in spending control and the agreement between the authorities and the labor union to reduce the wage bill. More efforts are needed for the authorities to implement the action plan to improve the management of the wage bill. We concur with staff that broadening the tax base is a priority in the medium term. We encourage the authorities to reduce domestic arrears, improve non-oil revenue, strengthen customs and tax administration, and enhance public finance management.

More needs to be done to address the vulnerabilities in the banking sector. We welcome the recent assessment to review the banks' strategies. The authorities' efforts to reduce reliance on domestic financing are critical to alleviate the bank's liquidity pressure and fix the bank-sovereign nexus. To preserve financial stability, the new structural benchmarks to facilitate the review of the two public banks are necessary. With high NPLs and declining credit supply, more concrete measures at both union and national levels are warranted to improve asset quality and promote credit growth.

We agree with staff that risks to the program have declined significantly after the Glencore debt restructuring, but remain high. We support lowering the ceiling on net government financing from the BEAC in end-June 2018 to maintain fiscal discipline. We concur with staff that the completion of the second review should be conditional on the implementation of critical policy measures at the union level, and look forward to the discussion of the union-wide background paper in June.

With these remarks, we wish the Chadian authorities every success in their policy endeavors.

Mr. de Villeroché, Mr. Castets, Ms. White, Mr. Bellocq, and Ms. Myers submitted the following joint statement:

We thank staff for the comprehensive and well written report and Mr. Sembene, Mr. Nguema-Affane and Mr. Bangrim Kibassim for their insightful buff statement.

The ongoing IMF-supported program has been implemented since June 2017, while the authorities have been discussing a major debt restructuring scheme with Glencore. Despite this challenging background, most program Performance Criteria (PCs), Indicative Targets (ITs) and Structural Benchmarks (SBs) have been met for the first review and we positively note that staff considers the program has remained broadly on track at end-December 2017. Therefore, and taking also into consideration that an Agreement In Principle (AIP) was reached in February 2017 with Glencore, we support the completion of the first review under the ECF arrangement. Nevertheless, even if risks weighing on the program have come down significantly, they still remain high.

We welcome the AIP reached with Glencore which allows a significant debt restructuring. When it comes to the restructuring scheme, the present value of external debt is only slightly lowered but debt service to revenue and export ratios are significantly reduces due to longer maturities. Against this background, we positively note that the signature of the agreement set up with Glencore, as well as the clearance of external arears, should result in an upgrade of the Chadian debt to the moderate risk category during the program implementation period. Could staff indicate when such an outcome will be reached, other things equal? Still on the debt restructuring scheme, and as highlighted by staff, a few steps need to be finalized before this agreement can be signed which we hope will take place as soon as possible.

Stabilizing the fiscal position remains paramount. We welcome the measures presented in the Memorandum of Economic and Financial Policies (MEFPs) in order to strengthen non-oil revenue mobilization while paying attention to tax progressivity: expiring exemptions will not be reintroduced (it covers construction, energy and hotel sectors) while the personal income tax scale will be reformed to enhance tax progressivity. Measures presented for enhancing the expenditure chain are also welcomed, in particular the commitment to reduce DAO ("Dépenses Avant Ordonnancement"). Regarding program monitoring, we positively note that the publication of tax and custom exemptions is a Structural Benchmark (SB) which should be reached by End-June 2018. Does staff have an estimate about the amount of these exemptions in percentage point of GDP? We encourage the authorities to remain committed to the Domestic Resources Mobilization agenda as non-oil revenues were well below the staff projections last year.

Implementing a comprehensive strategy for arrears clearance will be paramount to strengthen confidence of private investors and consolidate banking sector's balance sheet. In that regard, we take good note that the authorities are committed to set up a clearance strategy of domestic arrears by-end October 2018 (Structural Benchmark). We welcome the authorities' decision to appoint a consultant for assessing the situation of public banks, as well as setting up proposals for reform (two new SB will deal with these issues).

Ensuring the political and social sustainability of the program will have to remain a key objective in the coming months. This will be critical indeed in a context in which Chad has experienced a sharp decrease of its GDP per capita for a couple of years (from US$1,239 to US$851 between 2014 and 2016). We still consider that the IMF-supported program, together with the debt restructuring, have to put an end to the vicious cycle combining government spending contraction, domestic arrears accumulation and economic growth collapse which took place until last year. This is paramount as Chad has to address many security challenges while hosting refugees, displaced persons and returnees. Enhancing access to basic services, including in remote territories, will be key in the months and years to come. In that regard, we welcome the Indicative Target (IT) set up to preserve poverty-reducing social spending.

With regard to structural reforms, we welcome the new SB related to the Ratification of the United Nations Convention Against Corruption (UNCAC).

Finally, we urge the authorities to continue to work constructively with the Fund and other multilateral partners to address the significant remaining challenges ahead.

Mr. Inderbinen made the following statement:

I am grateful to the staff for the documentation and their answers to the questions we asked in our gray statement. I would just like to add two or three points to the gray statement.

First, we welcome the agreement in principle with Glencore, as did others. On banks involved in the debt restructuring, it is now key that the deal is finalized as soon as possible. More generally, we note that the circumstances of the debt restructuring process remain somewhat in the dark, despite the answers, and I guess the staff will address this orally. We note that the authorities had started to reduce debt services to Glencore already before the discussion in June last year, which calls into question the sense of urgency that was conveyed in the program request staff paper at the time.

This underlines the more general need for increased debt transparency, particularly in a contraction of non-concessional and commercial debt in such cases. Given the complexity of the original debt contract and the lengthy renegotiation process, we will be interested in staff's answers to the questions, in particular on the net present value (NPV) of debt reduction and exact implications for the debt service, which is particularly important in this case.

Second, we underline the importance of improving governance, fighting corruption, to allow sustainable development. In this regard, we can support the request to replace the structural benchmark on the establishment of the new anti-corruption court with the ratification of the United Nations Convention Against Corruption (UNCAC), also given that Chad is one of the few countries globally that has not yet ratified the convention. We understand that a separate court may not be helpful, but nevertheless and in line with several gray statements, we were wondering what led to the decision at this time and the associated change in the structural conditionality.

More importantly, we would like to point out that ratification of UNCAC would only be a first step. Enforcing and implementing the rules would be much more important, and we would welcome the inclusion of structural benchmarks in the course of the program.

With regard to the structural benchmarks, we believe that the wage bill might also be taken into account, given the importance of the wage bill for the fiscal position, as also mentioned in the Letter of Intent. And we also note that by our count, three benchmarks have been met on time. Out of the eight benchmarks, there are five that have not been met on time. We learned that progress is being made on the launch of the audit on the unrecognized expenditure payment arrears. We also note that the authorities remain committed to the single customs window at the border with Cameroon, which we understand is also important; but there is little in the documentation that gives exact guidance or comfort on when these measures will be implemented. We learned from the buff statement that the authorities are committed to these measures. We learned from the staff's written answers that further efforts are underway, but there is nothing timebound.

We do have these structural benchmarks that are macro-critical by definition, which we have established at the request of the program. If I look back at the guidelines on conditionality, they do state that the Board when evaluating such situations, should consider factors that would give confidence that the program objectives are being achieved. I find little comfort that this is the case in the documentation, the staff's responses, or the buff statement.

One obvious way of giving such comfort is to request a prior action before the review comes. This was not done in this case. We would invite the Strategy, Policy, and Review Department (SPR) to look at this in a more general manner and to secure equal treatment among countries. We have the impression that evenhandedness of the application of the conditionality guidelines is not always given across area departments. I say this also in light of recent arrangements that we have had under the Extended Credit Facility (ECF) for the Middle East and Central Asia Department (MCD) countries.

I have a final point on the nexus between banks and government borrowing in Chad. It is important to free banks' resources to support economic activity. Maintaining strict limits on bank refinancing at the regional level remains key in this regard. An in-depth analysis of the macro-financial linkages in Chad, as proposed also by Mr. Doornbosch and Mr. Psalidopoulos, will be warranted. We also welcome the review of the bank refinancing by the Bank of Central African States (BEAC) in the context of the upcoming Central African Monetary and Economic Community (CEMAC) review.

Mr. Just made the following statement:

First, we would like to express our appreciation for the staff's work on Chad, which is a truly difficult assignment. We also thank the staff for the answers to our technical questions, and we have issued a gray statement and would like to emphasize a few points.

We take note of the authorities' commitment to meet program targets. We welcome that the Glencore debt restructuring agreement, once it becomes effective, is in line with the Fund's sustainability criteria, and includes safeguards against lower oil receipts.

Like Mr. Hurtado, Mr. Inderbinen, and Mr. Lopetegui, we underscore the importance of promptly finalizing the agreements in principle to reinstate debt sustainability. This is a positive development, notwithstanding that the NPV reduction is fairly limited, especially when looking at the medium-term development of Chad. The authorities will thus have to deliver on the fiscal and structural components of the program, so that social and political stability can be assured not only in the short term but also in the medium term.

Collateralized debt has become significant in several countries, including Chad. Gaps in information on the terms and conditions of the loans and on the extent of collateralization are very concerning, as these gaps are usually only revealed once a country experiences debt distress and begins to default. Regrettably, loan terms are complex, and often little information is available on the exposure, which often creates an uneven hierarchy of creditors that can then complicate the debt resolution and protract program discussions with the Fund.

Against this backdrop, and also to prevent a perception of free riding, like Mr. Sobel and Mr. Saito, we encourage the staff to foster international good practice principles by engaging with non-Paris Club bilateral official creditors to promote fair burden-sharing among creditors as well as transparency of contracts.

We also emphasize our longstanding call for enhancing data coverage for bilateral surveillance by extending data reporting requirements to include various levels of governments and state-owned enterprises (SOEs).

Mr. Merk emphasized that the guidance given by the Board on program design in currency unions needed to be observed. There was no automaticity, meaning that in the event that a requested union level measure was not fully implemented, a decision by the Board to approve the use Fund of resources would be contingent on the finding that the objectives of the program could nevertheless be met.

Mr. Sobel made the following statement:

We thank the staff for the report and Mr. Sembene and his colleagues for the helpful buff statement. We support the completion of the review, and we welcome the initial progress Chad has made under the program, though like Mr. Inderbinen, we believe there is a strong case for strengthened performance. We also welcome the restructuring of the Glencore debt, which is essential to help restore debt sustainability. Even with the restructuring, Chad will have remaining debt risks and will need to manage debt carefully.

On the private sector deals, it is unfortunate—and this is not the only case—when countries strike these deals that may not be sustainable and then end up having to deal with the consequences. It underscores the case for much greater upfront transparency with the Fund about debt and collecting such data in surveillance and program missions.

After reading the written responses to our technical questions, we feel that the information on external financing and burden sharing is still not sufficient for the reader. Looking at Table 4 on the balance of payments, we see that for 2018, the projected exceptional financing is CFAF 74 billion, of which the IMF program contributes CFAF 81 billion; Heavily Indebted Poor Countries Initiative (HIPC) debt relief contributes another CFAF 25 billion, while repayment of external arrears is negative CFAF 32 billion. Our questions about the size of the Fund program, high access, and the burden sharing, naturally stem from this information.

Text Table 1 in the Debt Sustainability Analysis (DSA) shows that non-traditional creditors hold much of the stock of debt, and that arrears to Libya, India, Congo, and the Islamic Development Bank are significant. We welcome that China has rescheduled. But frankly, there is not enough detail on the overall external financing picture—including all relevant creditors, terms, maturities, and new financing—to understand whether it makes sense for Chad to pay in full on the original schedule or to shift the debt profile or take more aggressive action. Chad also highlights the rising role of non-traditional creditors and why we need greater clarity and action by the staff on these debt issues, as well as the importance of the non-traditional creditors following sustainable lending practices, so I echo Mr. Just’s remarks in this regard.

Finally, we look forward to the answer to our question No. 6. More generally, we view the issue of regional policy assurances as important for Chad, as well as for all CEMAC countries, and we welcome the upcoming Fund policy discussions with CEMAC on critical union-level policies. This is a matter of increasing importance, particularly in light of the Board's promulgation of its policy on program design in currency unions.

Mr. Castets made the following statement:

I thank the staff for the comprehensive and useful set of reports, as well as for the answers to our technical questions. I also thank Mr. Sembene and his colleagues for the useful buff statement.

As Mr. Sobel noted in his gray statement, this chair appreciates the strong engagement of the staff with Chad and the authorities in a difficult context. We know that working with fragile states is sometimes difficult and often time-consuming. For the support of international institutions such as the Fund, it is nevertheless critical for these countries, and the resources allocated to these countries, must be appropriate.

We issued a gray statement with Ms. White and Ms. Myers, so I will only make a few points for emphasis. The first one is that we support this first review of the ECF arrangement, as the program has remained broadly on track and as the agreement in principle with Glencore was reached recently. This agreement must now be finalized and signed as soon as possible. We welcome the fact that under the debt restructuring scheme that is presented in the report, public debt is expected to return to the moderate risk category during the program implementation period, and financing needs will be much lower due to the re-profiling of the debt. As Mr. Just recalled, there will also be some need for fiscal consolidation, and we look forward to greater domestic revenue mobilization efforts.

We take good note of the measures that will be taken with regard to tax exemptions, but we would like to underline that the program has to be as ambitious as possible in that respect while remaining realistic. Moving forward and beyond the next review, we would like the staff to indicate the concrete measures that could be expected regarding domestic resource mobilization by the end of the program implementation period.

Another point is on the social and political sustainability of the program, which still necessitates close attention from the staff. We are pleased that the indicative target on social spending has been met, and we read in the memorandum of understanding a clear presentation of which types of spending are covered, and we thank the staff for this useful presentation. Nonetheless, we had some questions about this indicative target, notably whether it covers only current spending or only investment spending or both. I ask the staff to elaborate on that and also on the level that has been determined in the program.

On governance, I would like to echo Mr. Inderbinen. We are glad to see the structural benchmark of the ratification of the UNCAC convention. We are also glad to see that the quarterly data on oil production is now published by the Chadian authorities, which is significant progress, but we should keep moving forward.

Finally, we also encourage the authorities to remain committed to the clearance of domestic arrears and to step up the clearance strategy for the domestic arrears as expected under the program. This is key to strengthen economic growth and to consolidate the banking sector, another aspect that is well addressed in the report.

The staff representative from the African Department (Mr. Bakhache), in response to questions and comments from Executive Directors, made the following statement: [1]

I thank Directors for the gray statements and the interventions. We have answered the vast majority of the questions in writing. I would like to make a few remarks on two issues that came up in the gray statements that were also raised in the Board. This is on the Glencore restructuring and the regional policy settings and how those regional policies matter for Chad. After that, I will take up some of the issues that came up in the oral interventions.

First, on the main subject of the Glencore restructuring, there were many questions with common themes regarding the nature of the agreement in principle, what remains to be done before the final agreement is signed, the impact on the risk rating, and lessons to be drawn.

The agreement in principle set the main parameters of the restructuring that has a material impact on the debt sustainability and the financing for the program. These parameters include the large extension of maturity, reduction in the interest rate, reduction in fees, and those that are expected to lead to a large reduction in the debt service to revenue starting 2018. Those terms will

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

help keep the threshold below the Low-Income Country Debt Sustainability Framework (LIC-DSF) level.

I should emphasize that the restructuring was anchored on the DSA, and the DSA spelled out objective criteria that were conveyed to the authorities' advisors on the financing of the program and on bringing the threshold—I mentioned the debt service revenue issue—back below the LIC DSF level. The fact of the matter is that according to the DSA, there is no stock of debt issue in Chad, and this is why the restructuring has led to a big drop in the debt service to revenue ratio and a minor reduction in NPV, because this was a result of these parameters. We could not set a NPV target consistent with the LIC-DSF framework in our policies at the Fund.

Moving to the second point, the two main steps that remained after the signing of the agreement in principle—and that needed to be done before the signing of the final agreement—were, first, the consent of Glencore's creditors to the terms of the agreement in principle. The debt is financed by a large group of banks, and the consent of those banks was needed. The second was the finalization of the legal documents to reflect the new terms and the operational modalities for the payment and the cash sweeps and the contingencies that are included in the agreement. Now all Glencore's creditors have consented to the terms of the agreement in principle. That happened about two or three weeks ago. Chad's legal advisors have confirmed that the legal documents are under preparation, and the final agreement is likely to be signed sometime in May. Chad's advisors confirmed to us that they do not expect any change in the terms of the agreement. It is also not expected that the exact modalities of implementation will have any material impact on the burden of the debt.

Now on the impact of the restructuring on the risk rating, running the LIC-DSF shows that all the relevant ratios are below the LIC-DSF thresholds. The decision to maintain Chad's risk rating at distress reflects that the final agreement has not been signed, and there were some arrears that emerged recently. The decision was to keep it at debt distress; and this is consistent with the treatment of previous cases, for example, Grenada, Myanmar in 2012, and Côte d'Ivoire in 2011. We followed precedent in the judgment that we exercised.

On the lessons that can be drawn from this restructuring, it is clear that the Fund program was a key anchor for the restructuring and helped focus the negotiations. In addition, the experience suggests that engaging internationally recognized legal and financial advisors is key for the success of negotiations.

Being close to the process, we have seen this in action since the beginning of the discussions.

Finally, I should also say that the experience of Chad shows that it is feasible to introduce contingencies in debt restructuring not only to provide an upside to the creditors, which is common, but also downside contingencies that help safeguard sustainability, and hopefully this could be done in other cases. We believe this is an important lesson that is in line with the Fund's desire to see contingencies introduced into debt restructuring.

Moving to the question of the regional policies and assurances, I should point out that the CEMAC region mission is currently in the preparatory stage. In the field, the mission will discuss with the regional authorities, BEAC, the Central African Banking Commission (COBAC), the regional supervisory authorities. The mission will discuss the common regional policy settings, and it will set policy assurances where needed. The regional policies include monetary and supervisory policies for the CEMAC region that are supportive of the common goal of rebuilding the region's reserves and strengthening its financial system.

For Chad, policy assurances that have already been implemented have been important in instilling disciplines in the context of fiscal policy by eliminating direct BEAC financing to governments. These are what we used to call statutory advances. Measures to strengthen the banking sector and the introduction of a lender-of-last-resort facility have been particularly critical in supporting Chad's stabilization and reform efforts.

Finally, regional reserve accumulation and sufficiently tight and effective regional monetary policy have been critical and will continue to be so, as this underpins the restoration of Chad's external viability.

Turning to questions raised in the Board, there was the issue of implementing structural reforms on time, and advancing reforms on time is one of the challenges that we face in dealing with fragile countries like Chad. These are exactly the issues that were highlighted in the recent Independent Evaluation Office (IEO) report, so we live with that, and we try to work with it and achieve the objectives that are set under the program. I also want to point that out again—and I am happy to take this up bilaterally—that four out of eight relevant structural benchmarks were implemented.

With regard to the question about the share of the Fund's financing and for the program, we will look at the presentation. The presentation and the balance of payments serve a purpose, but at the time when the program was designed, the share of Fund financing in total and filling the gap was about 18 percent. The exceptional financing from restructuring was set at the time at about 40 percent or so of the total financing required for the program. Nonetheless, we will take a close look at the presentation to make sure that it does not seem like the Fund has taken the big share of the financing. Instead, we want to highlight that it is part of a broader contribution by multilateral and bilateral donors, and this shows up in the fiscal table, and I am happy to also point this out more clearly bilaterally.

There was a question on social spending and what is included in the target for social spending. We set the target based on spending by social ministries—the Ministry of Health and Ministry of Education—regardless of where this shows up, whether it is goods and services or transfer and so on, but again we are happy to take this up in more detail bilaterally.

Mr. Castets asked the staff whether the magnitude of the domestic resource mobilization measures were commensurate with the program's targets.

The staff representative from the African Department (Mr. Bakhache), in response to further questions and comments from Executive Directors, made the following statement:

This is one of our main preoccupations in this program, and this is an issue we will be discussing with the authorities at every stage. we see some signs of improvement in non-oil revenue in general, including early this year, but this will need to be confirmed in the context of our next mission. In spite of that improvement, the yield of the tax system remains quite weak, and the potential for improvement is large. We do think there is a significant amount of effort that still needs to be done, both on the administration side and on the policy side of this issue, to meet the program target of about 0.5 percent improvement annually.

At this time, the staff believes that the priority should be given to measures with the highest impact, so we are looking at measures to widen the tax base; and in this case the tax exemptions are the low hanging fruit. There have been many studies done on tax exemptions. We will take those up, including something that was done by auditors last year. We will discuss those with the authorities to identify specific measures to help reduce exemptions.

Enhancing VAT collection and compliance is ongoing, and TA will be directed toward this area. There is the issue of collaboration between the different administrations to reduce leakage through the system. We will take those up with the authorities during upcoming missions, and we will discuss with them more longer-term type of measures such as a property tax, because this is one of those taxes that could potentially have a high yield but currently has a limited impact on revenues.

Mr. Inderbinen made the following statement:

We are grateful for those clarifications by the staff, and we fully appreciate the difficult circumstances in this fragile context. That comes out well in the buff statement by Mr. Sembene and his colleagues as well, so it is not as if that we were unaware of this. On the structural component, it could be strengthened. Looking at the nature of the benchmarks in substance, many of them are preliminary steps; there is a launch of an audit on the arrears; there is a launch of an audit on potential sources of saving transfers and subsidies; adoption of an action plan on the wage bill; and then the benchmarks that we are establishing by the decision today. Likewise, we have publication on the tax exemptions, the ratification of UNCAC, hiring external consultants, adopting clearance strategy for the arrears once the audit is done then. These are preliminary steps. These are not things like actually clearing the arrears or actually passing anti-corruption measures through the parliament, so these are very preliminary. Our understanding is the context is captured in this nature of the benchmarks.

My point, and I would invite SPR to comment on this, is that although many of these were not implemented or not implemented on time, there is little in the document that gives the overall context of when this will be done. Even in a fragile context, one could have more timebound measures that the Board could be presented with, a prior action or another, that would give more context and more confidence that the program objectives are still on track, because the benchmarks by definition are macro-critical. The majority have not been implemented on time, and there is little explanation of what will happen going forward in concrete terms, and yet we are asked to reach the conclusion in this review that the program is well on track. I welcome the staff's comments on that.

Mr. Doornbosch made the following statement:

I thank the staff for the answers to our questions and for its work in Chad, which is greatly appreciated given the difficult circumstances. I have two questions for clarification, and the first is on the reduction of the net present value (NPV). The staff indicated that the restructuring of Glencore debt was anchored on the DSA and so the debt was in distress, and the restructuring helps to bring it back to moderate risk. But at the same time, I understood that there was not much reduction in net present value, so does it mean that the distress is basically pushed back to a later date? It makes sense that if this debt is brought from distress to moderate risk, there must be a substantial reduction in net present value, so I wonder if the staff could elaborate on that.

The second one is on the timing of this Board meeting. I was wondering why the Board meeting was not timed to take place after the completion of the debt restructuring? The staff said it is expected to be completed in May. We could have had the Board meeting in May. Is there a reason why we have the meeting today?

The staff representative from the African Department (Mr. Bakhache), in response to further questions and comments from Executive Directors, made the following statement:

I would like to take up the issue of the structural benchmarks. Again, most of the relevant structural benchmarks have been met, with some of them having minor delays. Out of the seven or eight benchmarks—whichever way you want to count them—the ones that have not been met are the launch of the audit of unrecognized expenditure payment arrears and the audit of transfers and subsidies. Both are expected to be implemented soon. The audit of the unrecognized payment of arrears is quite important. We know that the firm has been identified and the financing has been identified, so it will happen soon. If the situation in Chad was different, then we would say the delay would have a significant impact; but the fact of the matter is that this delay will not have a material impact on the ground because, frankly, there is not yet financing to clear those arrears. We do not consider this delay to be detrimental to achieving the program objectives. I just wanted to clarify this point.

Similarly, with regards to identifying potential sources of savings in transfers and subsidies, we believe the delay will not have a major impact.

I hope that this gives the Board confidence about these measures, and many of these measures are steps toward an objective. For instance, when it comes to one of the important measures that was taken, this adoption of an action plan on the wage bill, the fact of the matter is that real measures have been taken already. The wage bill for January and February was reduced significantly relative to what it was at the end of last year, and the level of the wage bill is even below what is needed to stay within the envelope. The challenge is to stay on track with those measures to keep them in place.

On the issue of the reduction of the present value and why the debt in Chad was in distress, the debt in Chad is in debt distress because of the ratio of debt service to revenue. It is not the stock issue, and you could see from the DSA that there is no breach other than of the debt service to revenue ratio. The objective of the restructuring was to bring this debt service below the threshold and ensure that the program is adequately financed. These two objectives have been achieved, and now once this agreement is signed, we can move the risk rating to moderate, provided other conditions that we have discussed are in place.

Why not wait until the agreement is fully signed? We go on the basis of securing financing for the program, and we believe this agreement in principle has secured the financing for the program. The agreement is applicable, and becomes effective basically at the beginning of this year. There is no debt service that is now being paid under the parameters of the old contract, so we are confident that the program is fully financed, and we are also confident that there will not be changes in the terms that will affect the financing of the program or the debt sustainability.

The staff representative from the Strategy, Policy, and Review Department (Ms. Sun), in response to further questions and comments from Executive Directors, made the following statement:

I would like to address the conditionality issue from the policy perspective. It is essentially a judgment call. We look at the whole package, the program performance of all.

On the structural side, a critical mass of the structural conditionalities have been implemented, and some will be done soon. This assessment has also been done in the context of the significant progress on Glencore debt restructuring, which helped restore Chad's debt sustainability, and also in the context of the performance against the performance criteria in the program. The staff came to the assessment that the program objective has been safeguarded and the performance has been on track, and that is why we recommend the completion of this first review.

Mr. Sobel noted that the exceptional financing columns of Table 4 could give the appearance that IMF high access funds were being used in large part to take out external arrears. It gave rise to an undue appearance question that needed to be taken seriously by the Board.

Mr. Raghani made the following concluding statement:

On behalf of our Chadian authorities, I thank Directors for their support for the completion of the first review of the program under the ECF. I also thank the mission chief, Mr. Bakhache, and his team for the dedicated work and constructive policy dialogue with the authorities. As always, I will convey Directors' comments and recommendation to the Chadian authorities.

As recognized by Directors, the program is being implemented in a difficult context marked by challenging economic and security conditions and high debt service to creditors. Despite this unfavorable environment, the Chadian authorities remain strongly committed to the program and its objectives. They took corrective measures and adjustment policies where needed, thereby keeping the program on track. In addition, the completion of an agreement in principle to restructure the Glencore debt was a key milestone in the efforts to restore debt sustainability.

The Chadian authorities share Directors' views that pursuing fiscal consolidation is critical for fiscal and debt sustainability. In this regard, fiscal policy will be geared toward further mobilization of domestic revenue, particularly in the non-oil sector, and streamlined public expenditures while preserving priority social spending.

On the spending front, they agree that strengthening further management of the wage bill will be important. To this end, a number of actions are underway, including developing a plan to clean the payroll system and carrying out an audit of diplomats and a census of civil servants.

On the revenue front, reforms to customs and tax administrations are bearing fruit. These include those aimed at establishing a VAT and property tax and a tax unit. The Chadian authorities agree with Directors on the need to strengthen public financial management. Making in-roads in this direction will help to prevent arrears accumulation. They continue to take steps to enhance budget execution, including through improvements in the expenditure chain. Another priority will be to ensure stricter control over the use of exceptional spending procedures, with a view to reducing them significantly by end-2018. In addition, a comprehensive domestic arrears clearance plan is being developed, which will notably support the economic recovery and strengthen resilience.

As regards external debt, the implementation of the agreement in principle reached with Glencore will help make significant progress toward assuring debt sustainability. Steps are being taken to finalize the agreement, which is expected to be completed soon. At the same time, the authorities will sustain their efforts to further improve debt management, including by developing an efficient debt management strategy. Our authorities are also mindful that sustainable economic growth and recovery will depend largely on the stability and development of the financial system. For this reason, they will spare no efforts to address vulnerabilities in the banking sector, including flows related to asset quality, governance, and business models. To this end, they will continue to collaborate closely with regional authorities whose support will remain critical to overcome the economic crisis and growing liquidity pressures facing the banking sector.

As noted by the staff, the regional authorities continue to implement policy actions needed to support the steps being taken by Chad and other CEMAC members in the context of the Fund-supported program. Finally, the authorities will pursue structural reforms aimed at fostering economic diversification and strengthening governance consistent with the recent revised national development plan. In particular, improvement in the business climate, enhancing the competitiveness of the Chadian economy, and fighting corruption continue to rank high in the authorities' reform agenda. That being said, continued financial and technical support of partners will be essential to a successful reform process, given the context of fragility, weak capacity, difficult security environment, and the significant drop in revenue following the decline in international oil prices. Such support will also be critical for the success of the regional strategy to safeguard macroeconomic and external stability.

To conclude, I reiterate the authorities' strong commitment to the program and their appreciation for Directors' approval for the conclusion of the first review under the ECF-supported program.

The following summing up was issued:

Directors recognized that the economic, financial, and social situation in Chad remains challenging, despite some signs of stabilization since the ECF arrangement was approved in June 2017. They welcomed Chad's satisfactory performance under the arrangement noting that macroeconomic policies and structural reforms have continued to be carried out in line with program objectives, albeit with some delays. Directors noted, however, that additional efforts are needed to strengthen the fiscal position, safeguard financial stability, and implement structural reforms to foster more inclusive and sustainable growth.

Directors commended the authorities for reaching an agreement in principle to restructure their external debt with a private creditor, and encouraged them to sign the final agreement as soon as possible. They welcomed the terms of the agreement, including a longer maturity, a lower interest rate, and lower fees, which are expected to generate the necessary financing for the program and restore debt sustainability. They also welcomed the agreement's mechanisms to safeguard debt sustainability under downside scenarios. Directors stressed the importance of debt transparency and encouraged the authorities to limit external borrowing to concessional terms given the remaining fiscal and debt vulnerabilities.

Directors commended the authorities for preserving the fiscal adjustment undertaken over the past two years, while starting to clear some of the domestic arrears. They noted that, despite earlier efforts, external arrears have accumulated on obligations to official and private bilateral creditors, and encouraged the authorities to resolve them. Directors emphasized the importance of redoubling efforts to better manage the wage bill, which has increased recently. They also saw scope for further efforts to widen the tax base and improve tax and customs administration.

Directors encouraged the authorities to accelerate the pace of reforms, especially in the areas of public financial management and non-oil revenue mobilization, which are critical for the success of the program. They recognized the vulnerabilities of the banking sector and supported the authorities' strategy to address them. Directors encouraged the authorities to complete the external audit of domestic arrears and to prepare a plan for their clearance. They welcomed the new National Development Plan, and stressed the importance of diversifying the economy, strengthening the business environment, and enhancing governance to support inclusive growth.

Directors noted that Chad's program is supported by the implementation of policies and reforms by the regional institutions that were critical for the completion of the first review of the program. These comprise the implementation of the five policy assurances provided in the June 2017 Letter of Policy Support, and continued commitment in the follow-up Letter (as specified in paragraph 38 of the staff report). They agreed that staff would provide an assessment of regional policies as part of future program reviews or in the next union-wide background paper, and seek additional policy assurances from the regional authorities where needed. Directors also noted that completion of the second review will continue to be conditional on the implementation of critical policy assurances at the union level. In the event that such measures are not fully implemented, the use of Fund resources by the member would be contingent on a finding that the objectives of the member's program can nevertheless be met. Such a finding would be based on an assessment that the shortfall in policy implementation is minor or temporary, or that sufficient corrective action has been taken.

The Executive Board took the following decision:

Chad—First Review Under the Extended Credit Facility Arrangement, Request for a Waiver of Nonobservance of Performance Criteria, Rephasing of Disbursements, and Financing Assurances Review

1. Chad has consulted with the Fund in accordance with paragraph 4(b) of the arrangement for Chad under the Extended Credit Facility (ECF) (EBS/17/64, 06/19/2017) (the "ECF Arrangement") to review program implementation and to reach understandings regarding the conditions for further disbursements.

2. The letter dated March 30, 2018 from the Minister of Finance and Budget (the "March 2018 Letter") together with its Memorandum of Economic and Financial Policies (the "March 2018 MEFP") and the Technical Memorandum of Understanding (the "March 2018 TMU") shall be attached to the ECF Arrangement, and the letter dated June 16, 2017 from the Minister of Finance and Budget, together with all of its attachments, shall be read as supplemented and modified by the March 2018 Letter and its attachments.

3. Accordingly, the ECF Arrangement for Chad shall be amended as follows:

a. Paragraph 2(c) of the ECF Arrangement shall be amended to read as follows:

"(c) the third disbursement, in an amount equivalent to SDR 35.05 million, will be available on or after April 15, 2018, at the request of Chad and subject to paragraphs 4 and 5 below;"

b. New paragraphs 2(d) and (e) shall be included in the ECF Arrangement to read as follows:

“2(d) the fourth disbursement, in an amount equivalent to SDR 35.05 million, will be available on or after October 15, 2018, at the request of Chad and subject to paragraphs 4 and 5 below.”

“2(e) the fifth disbursement, in an amount equivalent to SDR 28.04 million, will be available on or after April 15, 2019, at the request of Chad and subject to paragraphs 4 and 5 below.”

c. Paragraph 4 of the ECF Arrangement shall be renumbered as 4.A, and Paragraph 4.A(b) shall be amended, with respect to the third disbursement, to replace the references to “paragraph 42 of the MEFP” with “paragraph 40 of the March 2018 MEFP”

d. A new paragraph 4.B of the ECF Arrangement shall be inserted to read as follows:

“4.B. Chad will not request the fourth disbursement under this arrangement specified in paragraph 2(d) above:

(a) if the Managing Director of the Trustee finds that, with respect to the fourth disbursement, the data as of June 30, 2018 indicate that:

(i) the floor on the non-oil primary budget balance;

(ii) the floor on customs revenue;

(iii) the ceiling on net domestic government financing (excluding BEAC);

(iv) the ceiling on net government financing from the BEAC; or

(v) the ceiling on the stock of domestic payment arrears by the government;

as set out in Table 1 of the March 2018 MEFP and further specified in the March 2018 TMU was not observed; or

(b) until the Trustee has determined, with respect to the fourth disbursement, that the third program review, referred to in paragraph 40 of the March 2018 MEFP, has been completed."

e. A new paragraph 4.C of the ECF Arrangement shall be inserted to read as follows:

"4.C. Chad will not request the fifth disbursement under this arrangement specified in paragraph 2(e) above:

(a) if the Managing Director of the Trustee finds that, with respect to the fifth disbursement, the data as of December 31, 2018 indicate that:

(i) the floor on the non-oil primary budget balance;

(ii) the floor on customs revenue;

(iii) the ceiling on net domestic government financing (excluding BEAC);

(iv) the ceiling on net government financing from the BEAC; or

(v) the ceiling on the stock of domestic payment arrears by the government;

as set out in Table 1 of the March 2018 MEFP and further specified in the March 2018 TMU was not observed; or

(b) until the Trustee has determined, with respect to the fifth disbursement, that the fourth program review, referred to in paragraph 40 of the March 2018 MEFP, has been completed."

f. Paragraphs 5(a) and 5 (b) shall be amended to replace the words “Table 1 of the MEFP and further specified in the TMU” with “Table 1 of the March 2018 MEFP and further specified in the March 2018 TMU”.

4. The Fund decides that the first review specified in paragraph 4(b) and the financing assurances review specified in paragraph 5(d) of the ECF Arrangement are completed, and that Chad may request the second disbursement referred to in paragraph 2(b) of the ECF Arrangement, notwithstanding the nonobservance of the continuous performance criterion on the accumulation of new external payment arrears by the government and nonfinancial public enterprises, specified in paragraph 5(a) of the ECF Arrangement, on the condition that the information provided by Chad on the performance under this criterion is accurate. (EBS/18/24, 4/2/2018)

Decision No. 16351-(18/33), adopted
April 13, 2018

APPROVAL: April 17, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook and Risks

1. In view of the time that has passed since the last staff mission, could staff give more details on the current economic situation of Chad?

- The staff report reflects data and information received during the October/November mission and subsequently including during several video conferences with the authorities. Final data for end-December 2017, and preliminary data for the first quarter of 2018 will be analyzed in the context of the second review mission.

2. We see large variations in the annual growth rates for oil GDP of up to four times for that period (table 1). Could staff elaborate on what explains this behavior? Moreover, if oil GDP is growing, why have oil export receipts been revised downward for 2017–21?

- After a sharp contraction (-16.2 percent) in 2017, oil GDP is expected to rebound from this low base (+16 percent) this year, after which it will increase steadily in the next two years and pick-up in 2021 thanks to the introduction of a new extraction technology. Oil exports will follow the oil GDP trend, taking into account the terms of the AIP to restructure Glencore debt, which excludes four million barrels/year from government exported oil, that will be sent to the domestic refinery and used for domestic consumption, explaining the downward revision to oil export receipts.

3. We would like to have more details about the driving factors of the growth in non-oil GDP to 4.0 percent by 2021.

- Economic activity is expected to recover gradually starting this year and over the medium term with non-oil GDP growth reaching 4 percent by 2021. This will be driven by improvements in the fiscal position, as well as in the private sector. It is expected also that the increase in oil FDI and improved resilience of the banking sector would help support non-oil activity.

4. Given the significant risks to the success of the program stemming from the difficult security situation in the region, ensuring stability in such trying times is key. We therefore encourage the authorities to strengthen the efforts to protect social spending and to implement reforms in line with the authorities Economic

Development Plan. Could staff update the board on political risks to the implementation of the program?

- The authorities have shown their strong commitment to the program. While social tensions have risen recently and could have derailed the reform efforts, the authorities took steps to alleviate the tension while sticking to the reform agenda (reaching agreement with labor unions). Moving forward, while the risk of further increase in social tension remains, the authorities' commitment to the program is an important mitigating factor. In addition, further security tensions in the region could lead to an escalation in military operations which could weigh on the budget.

Program Issues

5. The authorities noted that the structural benchmark (SB) for setting up a single window for customs operations at Ngueli was missed due to the difficulties in identifying a private operator to manage it. We ask when and how likely this SB will be met as customs collection from this important trade route between Chad and Cameroon would greatly improve government revenue as well as foreign exchange inflows.

- The authorities agree that this measure is important to improve customs collection. They are in discussions with potential private operators to manage the single window, but they have not given a precise date for completing these discussions. This will be taken up at the time of the next mission.

6. Can staff provide greater specificity on the planned areas of policy discussion with CEMAC and highlight areas that are most critical with respect to Chad?

- To be taken up orally at the Board meeting

7. We note the increasing recourse to high access PRGT programs in CEMAC countries, with the IMF contributing a significant portion of the external finance despite IMF terms arguably not being sufficiently concessional for this purpose. These realties make us ambivalent about high IMF access in such cases, and cause us to question whether we are truly maximizing other more concessional sources. A clear, comprehensive external financing table (Table 6 in the December 2017 Central African Republic staff report is a good example) would be helpful for the reader to assess the situation. The staff's comments would be appreciated.

- The share of IMF financing in 2017-19 is about 30 percent of total donor budget financing which is similar to the share that prevailed in 2015-16. It is projected to decline to about 20 percent in 2020.

Structural Reforms (Governance)

8. Does staff expect to include additional analysis and priority measures on governance and anti-corruption in the next staff report?

9. Regarding the proposed change in the critical structural benchmark related to the fight against corruption, we would be interested in additional staff comments on why the establishment of a special anti-corruption court does no longer represent a desirable program goal. Does staff see the mere ratification of the United Nations Convention against Corruption – in itself a certainly welcome initial step – as an adequate substitute to the actual establishment of such an institution?

10. The staff's comments on the rationale as well as the pros and cons behind replacing the structural benchmark on the establishment of a special court for economic and financial crimes with a benchmark on the ratification of the United Nations Convention Against Corruption (UNCAC) are welcome, as they do not seem to be substitutes.

- Discussions with the authorities, and evidence of limited capacity and external assistance, led to the conclusion that establishing an anti-corruption court is premature, particularly as the foundations of an anti-corruption regime are not in place. In this regard, the ratification of the UNCAC is a cornerstone of anticorruption efforts. It would particularly facilitate international cooperation and allow Chad to be subject to an external review mechanism. Going forward, as part of a realistic strategy and mindful of the limited capacity, staff intends to follow up in the context of the ECF reviews on steps taken to effectively implement key provisions of the UNCAC and the FATF standards including the enactment of legislation to criminalize acts of corruption and the establishment of an asset declaration regime for senior officials. The staff will take up these issues with the authorities in the context of upcoming reviews.

11. We encourage the authorities to remain steadfast in the implementation of program commitments going forward, which is key to catalyzing much-needed donor support. That said, we would be interested in hearing staff's views on whether the setbacks with program implementation are in part a result of capacity constraints, and how staff is supporting the authorities in capacity development?

- Four out of eight SBs have been met. Among the four SBs which were missed one was implemented with delay (the adoption of an action plan to improve management of the wage bill), two are expected to be met soon (the launch of the audit of unrecognized expenditure payment arrears and the launch of audit to identify potential sources of saving in transfers and subsidies) and one later during the program. These delays reflect different factors including capacity constraints. The staff provides support to the authorities on these and other issues including at the Chad team level, the resident representative, or functional departments level.

External Arrears

12. ***Could staff explain what kind of technical difficulties the authorities should overcome to address the arrears to the external private creditor?***

- These arrears occurred because of a technical problem in making the payments through the Banque de France (BDF). The authorities are working with the BDF to resolve the issue including by providing the required documentation.

13. ***In this context, we understand that "technical difficulties" as mentioned by staff only explain a relatively minor share of overall arrears and would welcome additional staff comments on the assessment of good faith efforts to resolve all arrears towards external private and official creditors.***

- The authorities have reached out to the relevant creditors in writing (Congo, Equatorial Guinea, and India). For Libya, given the difficulties in reaching the relevant counterparts, the Chadian authorities have contacted a Libyan/Chadian owned commercial bank to seek contact with the relevant counterparts in Libya.

14. ***Can staff comment on whether any bilateral creditors, if repaid at face value, would be pulling resources out of Chad on a net basis when the IMF is providing exceptional financing? Are the terms of restructuring already provided by Chad's official creditors, such as China, comparable to the type of terms provided by Paris Club creditors in similar situations?***

- The program does not assume any official sector involvement, i.e., it assumes payment of all external debt service. If the authorities reschedule any of these obligations it would lead to a flow relief. The rescheduling of the debt with China entailed an extension of maturity and a grace period.

Glencore Debt Restructuring

15. ***The deal negotiated in the 2018 AIP with Glencore debt restructuring, including lower interest rate and restructuring fees, is striking compared with the 2015 restructuring deal. We would therefore be interested in staff's view as to why a better deal was negotiated in 2018. Did the ECF provide some leverage in the restructuring negotiations? And are there lessons that can be learnt for other***

low-income countries seeking to renegotiate private sector debt?

16. *We welcome the "agreement in principle" between the authorities and Glencore. However, we would like to ask staff to explain what exactly an "agreement in principle" means: Have all parties agreed to it? Are all the terms already set? How confident staff is that agreement in principle will become effective?*

17. *Could staff comment on why the negotiations could not yet be finalized, despite the agreement in principle in February 2018? Could staff comment on how the details of the agreement in terms of the extension of maturities and the exact NPV reduction relate to the restructuring needs laid out in the program request?*

18. *We are quite surprised with the treatment of this restructuring in the Debt Sustainability Analysis (DSA). While the agreement is incorporated in the DSA's baseline, it does not seem to inform the debt classification. The result is counterintuitive: the mechanical application of the LIC-DSF framework puts Chad in moderate risks of debt distress, whereas the Chadian debt is considered to be in distress by staff. Has this happened in the past? Including an event in the DSA's baseline while excluding it from the risk rating? Could staff comment on the rationale for this decision?*

19. *The Debt Sustainability Analysis (DSA) shows that once the final agreement with Glencore debt is reached and outstanding external arrears have been cleared, the debt risk rating would be expected to be moderate, reestablishing external debt sustainability. In this regard, we would appreciate comments from staff on what are the next steps to finalize the agreement with Glencore.*

20. *Progress with international creditors, especially the Glencore debt through extensions in maturity and reductions in interest rates and restructuring fees, will be critical to ensure compliance with debt-burden indicators and to generate the necessary financing for the program. Since the report states that only a few steps remain to be finalized, we would like to ask staff when do they expect this to happen and if there are any risks the agreement could not be signed.*

21. *We positively note that the signature of the agreement set up with Glencore, as well as the clearance of external arears, should result in an upgrade of the Chadian debt to the moderate risk category during the program implementation period. Could staff indicate when such an outcome will be reached, other things equal?*

22. *Regarding the envisaged debt restructuring agreement with Glencore, we take note that "the […] legal documents to reflect the new terms, including the operational modalities for the payment and contingency mechanisms" remain to be finalized*

and the exact formulation may have a material impact on the likely reduction in the debt burden across different scenarios. Against this background, and taking note of the rather limited reduction in the present value of the debt (about 4 percent) in the current baseline scenario, could staff elaborate on the robustness of their assessment of a significant improvement in debt dynamics?

To be taken up orally at the Board meeting

Other Debt Related Issues

23. On page 57 of the staff's report "Macroeconomic Developments and Prospects in Low-Income Developing Countries—2018" shows that Chad's public-sector debt covers both general government (central government and sub-national government) and guaranteed debt. We would appreciate it if staff could comment on the appropriateness of Chad's data coverage on debt as well as its transparency on debt exposures.

- Chad provides data on central government domestic and external public and publicly guaranteed debt in line with the technical memorandum of understanding. Following the misreporting case last year, the authorities made improvements in the reporting of external debt service to ensure timely and transparent reporting.

Wage Bill Management

24. While the authorities are committed to tight fiscal control, we acknowledge the difficulties in controlling the wage bill. Besides the measures put in place to contain wages within the budgeted envelop, authorities could also look into ways of streamlining payroll with an integrated financial management system, as well as conducting a manpower audit to ascertain actual persons on the ground that are performing a specific job. We would welcome staff's view.

- An audit of the payroll was conducted last year, allowing the authorities to initiate the streamlining of the payroll file, starting within six pilot ministries (Foreign Affairs, Education, Sports and Youth, Health and National Police). This included notably the removal of ghost workers, civil servants above the retirement age or underaged. In addition, the authorities have launched a number of actions including an audit of diplomas, a census of all civil servants and the implementation of biometric technology to ensure the presence of each civil servants on its work place.

25. We note from the report that public sector wages in Chad increased by about 3.5 percent on average over recent years. Controlling the wage bill in a sustainable manner is a challenging task given the recent social tension in Chad. Could staff

please comment on the adequacy of the social safeguards related to this issue in the program?

- Managing the wage bill in the current tense social situation is challenging, as shown by the surge in social tension in January and February following the cuts in bonuses and benefits. Since then pressures have abated, notably after the unions and the government reached an agreement including among other things on the necessity of keeping the wage bill within the budgeted amount. In order to protect social spending in the budget, there is an indicative target in the program on poverty reducing social spending, which has been met in end-June as well as end-September 2017.

26. Could staff comment on the reasons for the increase in the wage bill compared to the levels before the program request?

- The wage bill envelope in the 2017 revised budget amounted CFAF 348 billion, while preliminary data at end-December suggest a total wage bill for 2017 around CFAF 377 billion. Although the authorities took some actions to control new hiring, freeze wage increases and reduce bonuses of civil servants, those were partly rescinded notably for military personnel. In consequence, the decline in the monthly wage bill in the second half of 2017 was not sufficient to meet the budgeted envelope. The authorities took further measures within the 2018 budget to ensure that 2018 wage bill target would be met.

27. Could staff explain the reasons for the recent rise in the wage bill and its assessment of how much could it feasibly be lowered given the spike in social unrest triggered by January's cuts in bonuses and benefits?

- The increase in the wage bill as a share of non-oil GDP and primary spending over the past two years resulted from the sharp recession and the fiscal consolidation (reduction of all other spending categories), while the wage bill increased in nominal terms. The authorities have started to take strong measures to control the wage bill, both in the short term and in the long term. Preliminary data show a reduction in the wage bill in January and February in line with the 2018 budget, which would need to be confirmed during staff's next mission.

Fiscal Policies

28. Concerning fiscal policies, staff highlights the importance of raising non-oil revenue. At the same time, staff mentions government spending as the "engine of the non-oil sector." Could staff elaborate some more on this potential tension, especially with regard to the government's ability to raise revenue from the non-oil sector? Further, in text table 1, we find it striking that oil revenue and real GDP

growth in the oil sector seem much less correlated in the updated projections than initially estimated at program approval (e.g., in 2017, the oil sector is projected to have contracted by 16.2 percent, but revenue is still projected to have increased by 4.1 percent; a similarly large difference can be observed for 2020). Can staff explain this seemingly contradictory development?

- While government spending has been the key engine for non-oil growth, there is potential to improve non-oil revenue by enhancing tax and customs administrations, widening the tax base, and increasing tax compliance.

- The sharp revision of oil GDP growth in 2017 (to -16.2 percent) led to lower oil revenues (4.1 percent of non-oil GDP compared to 6.4 percent at the time of the program approval). Oil revenue is a combination of direct receipts from the oil companies, sales revenue net of operational cost and sales revenue to the refinery. The relatively small impact of the decline in oil production on oil revenues is explained by (i) relatively high tax revenues compared to staff initial projections and (ii) lower than expected operating costs leading to higher government oil sales revenues.

29. We underline that maintaining a sufficient level of investment in the non-oil sector is needed to help diversify the economy. Also, it is important to protect the most vulnerable to the extent possible. In this regard, could staff comment on the causes and effects of the below-target spending on transfers and subsidies and public investment? Further, we are not convinced that domestic tax collection will be boosted already this year via additional investment. Could staff comment?

- Below than expected spending on transfers and subsidies, public investment and (to a lesser extent) goods and services, enabled to offset the higher than budgeted wage bill. It is therefore likely that the impact on activity was small.

- The program targets an increase in non-oil revenue each year of about 0.5 percent of non-oil GDP. The authorities have already implemented measures to help achieve this target. Initial indication suggests that measures within the 2018 budget have begun to yield results. This will need to be confirmed during the upcoming mission. The staff will continue to work with the authorities to identify further measures in subsequent reviews.

30. The staff's comments on the authorities' progress in improving the expenditure chain since the approval of the program are welcome. At the same time, could staff comment on the estimated fiscal costs of the upcoming parliamentary elections and how they will be accommodated within the program targets.

- The authorities are aware that sound and transparent public financial management is critical, and are receiving technical assistance in this area (including to limit the use of emergency spending, improve wage bill budgeting, and clearing domestic arrears). Progress has been recorded in 2017 as the use of emergency spending declined (from about 22 percent of total spending to about 18.5 percent). In addition, the regularization of emergency spending, which is essential to prevent the accumulation also increased, from 28 percent at end-2016 to about 50 percent at end-June and end-September 2017, and initial indications show that it continued to increase in the fourth quarter.

- The staff will discuss the financing of the parliamentary elections with the authorities in the upcoming mission.

31. The staff's comments on the progress of addressing adverse implications of the previous austerity measures are welcome.

- Chad went through a dramatic fiscal adjustment between 2014 and 2016, leading to a reduction in the non-oil primary deficit by about 12 percent of GDP. This adjustment had severe consequences for the economy as well as on social outcomes. Acknowledging that further reducing public spending was not feasible, the program supported by the ECF aims at allowing for a gradual increase in government spending without jeopardizing the fiscal position, and progressively improving the economic and social situation for the Chadian people. In addition, the program includes an indicative target to protect poverty reducing social spending, which has been met so far.

32. 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. The staff's comments on the progress on auditing arrears are welcome.

- The authorities have selected an external auditor and the African Development Bank has agreed to finance the audit. The audit is expected to start soon.

33. Regarding program monitoring, we positively note that the publication of tax and custom exemptions is a Structural Benchmark (SB) which should be reached by End-June 2018. Does staff have an estimate about the amount of these exemptions in percentage point of GDP?

- Estimating the revenue loss from tax exemptions in Chad is challenging, and would need to be done on convention by convention basis. Nonetheless, several TA reports have identified tax exemptions as a major source of revenue loss. The staff will discuss with the authorities in upcoming mission specific actions to take to reduce exemptions.

Financial Sector, Monetary and Exchange Rate Policies

34. We note that according to the authorities' statement, the authorities intend to promote financial inclusion by developing an enabling regulatory and institutional framework. We would welcome the staff's comments on the current status of access to credit and possible policy options to promote financial inclusion in Chad.

- Access to financial services, is low in Chad and has worsened during the crisis as banks' soundness deteriorated. Short-term priority is given to address banks' ongoing liquidity stress. Beyond that, reforms should aim to improve households' access to financial services, especially in rural areas. In addition, at the regional level and coordinated with the regional supervisor, focus should be given to strengthening legal, regulatory, and institutional frameworks and effective enforcement of laws to protect property rights and creditor's rights.

35. We would welcome staff's comments on the status of Fund's TA in and overall progress of developing an adequate framework for liquidity provision to banks.

- The IMF is assisting the BEAC in its efforts to reform the monetary policy framework through various TAs. This includes: the introduction of the emergency liquidity assistance, modernizing the liquidity forecasting framework and the reform of the collateral system. Currently a TA mission is advising the authorities on ways to improve resilience of two public banks in Chad under liquidity stress.

36. We welcome the conditionality on strengthening public banks' financial position. However, we wonder whether the conditionality on the reorganization plan for the two public banks could have been more ambitious.

- The staff considers that the timeline set for conditionality in the banking sector is adequate given the urgency of the situation in banks. External auditors are expected to be hired in about three months and the audit is expected to be done in five months.

37. The staff's comments on the strategy to address high NPLs are welcome.

- Under the program, structural benchmarks have been set to improve the financial position of the two public banks facing liquidity difficulties including high NPLs. An external audit is planned with a view to develop a reorganization plan for these banks including to resolve NPLs, reduce liquidity risks and dependence on BEAC refinancing, and improve profitability.