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Chad: Staff Monitored Program

This paper on the Staff-Monitored Program for Chad was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on June 24, 2009**.** The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Chad or the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND

CHAD

Staff-Monitored Program

Prepared by the African Department
(In consultation with other departments)

Approved by Mauro Mecagni and Dhaneshwar Ghura

June 24, 2009

- **Discussions on a staff-monitored program (SMP)** were held in N'Djamena during April 2-15, 2009 and in Washington during April 23-28, 2009. The mission met with the Prime Minister, the Ministers of Finance, Economy and Plan, Infrastructure, and Petroleum, the National Director of the Central Bank of Central African States (BEAC), Members of the Finance Commission of the National Assembly, other senior officials, and representatives of the private sector, trade unions, civil society and the donor and diplomatic community.
- **The staff team** included Messrs. Josz (head), Melhado, Camara (all AFR) and Simone (FAD), and was assisted by Mr. Karangwa (resident representative). Mr. Sacerdoti (AFR) joined the mission during the last days. Mr. Mamadou (OED) participated in the meetings.
- **The last Article IV consultation** was concluded on January 28, 2009. Directors noted the authorities' interest in a SMP and encouraged them to demonstrate the improvements in fiscal policy and public financial management in 2009 needed to proceed towards such a program as quickly as possible.
- **SMP**. The cornerstone of the SMP is the implementation of a revised 2009 budget in light of lower oil revenue. In the attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP, Attachment I), the authorities indicate their intention to implement a SMP during April-October, 2009. The SMP sets quarterly indicative targets at end-June and end-September and several structural benchmarks that will monitor the execution of the revised 2009 budget and progress in public financial management.

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EXECUTIVE SUMMARY

Mired in a chronically unstable security situation, Chad has experienced difficulties in transforming the oil production, which started in 2003, in productive spending with lasting impact on growth and poverty reduction. So far, oil production has fueled a fiscal expansion that has placed public expenditure on an unsustainable path and weakened financial discipline. This poor policy performance has strained relations with donors.

The global financial crisis has affected Chad mainly through the sharp decline in oil prices. Oil revenue is expected to drop sharply in 2009 because of the fall in prices and the advancement of oil tax payments from 2009 to 2008. This fall in oil revenue will trigger a sharp deterioration of the fiscal position in 2009, which necessitates a fiscal adjustment.

In this challenging environment, the Chadian authorities have requested a staff-monitored program (SMP) during April-October 2009 to demonstrate improvements in fiscal policy and public financial management. The objective is to re-establish their economic management and reform credentials with international development partners, with a view to increasing donor support for their Poverty Reduction Strategy.

The cornerstone of this SMP is the implementation of a revised budget for 2009 based on a realistic oil price assumption. A key component of this budget is the rescheduling of investment expenditure over the next few years with a view to completing the large number of projects that have already been started. The revised budget also raises non-oil revenue, reduces expenditure in areas that are not critical for the implementation of the Poverty Reduction Strategy, and accommodates higher military expenditure in light of the tense security situation. The SMP also aims to signal a clear return to an orderly budgetary framework by curtailing the use of exceptional budgetary procedures.

These efforts will be firmed up in the 2010 budget, which the government will prepare in consultation with its development partners and introduce to Parliament prior to the end of the SMP.

There are clear risks stemming from capacity constraints, election-driven spending pressure, and the fragile security situation. Nevertheless, the staff recommends approval of the SMP, given the authorities' commitment to improve financial management under challenging circumstances.

I. BACKGROUND

1. **Chad's chronically unstable security situation hinders growth and poverty reduction.** Ranked 170th on the United Nations' Human Development Index, Chad is among the poorest countries in the world. It has experienced conflict for all but four of the past thirty years. Most recently, Chad has been embroiled in conflict with Sudan and has endured several major rebel assaults on its capital. The Darfur crisis and instability in Central African Republic have driven about 300,000 Sudanese refugees into Chad, adding to some 180,000 internally displaced persons. Legislative elections, which were originally set for 2009, have been rescheduled for 2010 and presidential elections are planned for 2011.

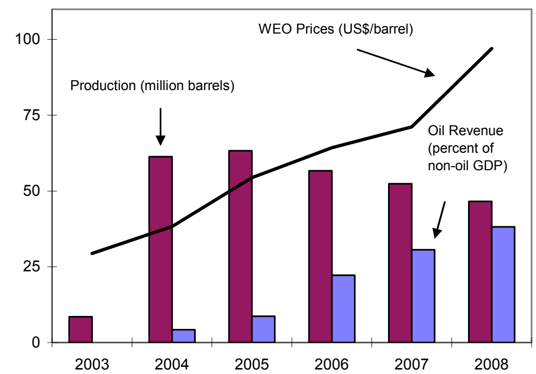
2. **Chad's key medium term challenge is to seize the opportunity provided by oil production since 2003 to increase the growth potential of the non-oil sector and reduce poverty**. Oil revenue provides a unique opportunity for Chad to lay the foundation for sustained growth and lasting poverty reduction. However, seizing this opportunity requires prudent fiscal policy, anchored in a medium term framework, and strong public financial management. This is important because oil revenue is volatile, as the drastic fall of oil prices since the summer of 2008 illustrates, and temporary, as production from the Doba basin is expected to diminish gradually until it becomes negligible by 2030.

3. **So far, the start of the oil production has fueled a fiscal expansion that has set public expenditure on an unsustainable trend** (Figure 1)**.** Annual public expenditure has doubled since 2003 (reaching 43 percent of non-oil GDP in 2008). The oil revenue has financed an increase in public spending in priority areas highlighted by the Poverty Reduction Strategy Paper (PSRSP), but also in military spending owing to the tense security situation. The non-oil primary deficit has widened to a level (29 percent of non-oil GDP in 2008) that is much higher than its long-run sustainable level (estimated in the low single digits) necessary to transform the oil bonanza of the next 25 years into a permanent stream of income.[1] The international economic and financial crisis has triggered a sharp reduction in oil revenue, compared with the levels of the past few years, which requires a fiscal adjustment and provides an opportunity to start reducing expenditure to a more sustainable level.

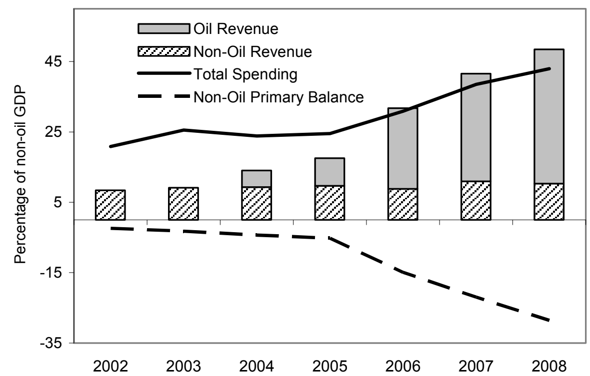
[1] For estimations of the sustainable non oil primary balance in Chad, see IMF Country Report No. 09/68; Chad: 2008 Article IV Consultation - Staff Report; Box 1, p.13 and IMF Country Report No. 09/67; Chad--Selected Issues; Chapter II.

Figure 1. Chad: Impact of Oil Production on Fiscal Policy and Public Financial Management, 2002–08

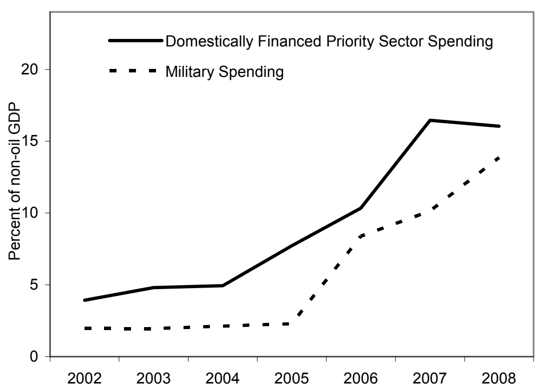
The start of oil production has radically improved government revenue...



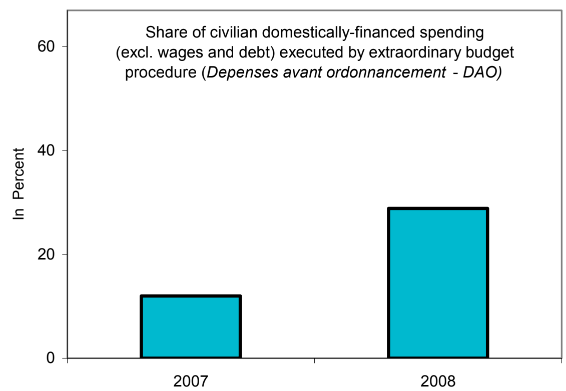
…financing a huge increase in government spending ...



… in priority PRSP spending but also military spending given the tense security situation ...



… while normal budget procedures have been increasingly bypassed.



Sources: Chadian authorities and staff estimates.

4. **This fiscal expansion has strained absorptive capacity and public financial management.** Concerns over absorptive capacity are prompted by the fast growth of investment spending[2] and the insufficient attention to the multi-year implications of investment decisions, including inadequate allocation for recurrent spending in health and education. Concerns over public financial management (PFM) relate to weak links between annual budgets and the PRSP, the limited role of line ministries in defining the composition of their budgets, the weak procurement practices, and the frequent bypassing of normal budget procedures since oil revenue has started to flow (Figure 1).[3]

5. **In light of this backdrop of strained PFM, Chad's record of performance under Fund supported programs in recent years has been weak and relations with development partners have been problematic**. The last PRGF arrangement (February 2005-May 2008) expired without the completion of any review. A SMP negotiated in July 2008 was not approved by Fund management because of early fiscal slippages. As a result of problems in the amount and quality of spending in priority sectors financed with oil revenue, the World Bank asked Chad to prepay all oil pipeline-related loans in September 2008. However, the Bank reopened its field office (closed after the February 2008 rebel attacks) in January 2009 and the authorities are discussing with the Bank its re-engagement outside the oil sector.[4]

6. **The government adopted a new poverty reduction strategy paper (PRSP) in April 2008.**[5] The PRSP highlights the importance of fiscal sustainability, sound public financial management, and high quality spending of oil revenue to promote diversification of the economy, increase growth, and reduce poverty. The government presented the new PRSP to donors for their support in May 2009.

7. **Against this background, the government has requested a new SMP to establish a track record of policy performance.** As encouraged by Executive Directors during the 2008 Article IV Consultation,[6] the Chadian authorities want to demonstrate a turnaround in fiscal policy and public financial management. The objective is to pave the way for a new arrangement under the Poverty Reduction and Growth Facility (PRGF), which could lead to

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[2] At end-April 2009, the authorities had launched investment projects in an amount equivalent to 35 percent of non-oil GDP or about four times the credit allocation for domestically financed investment in the 2009 budget.

[3] For example, in 2008, about 30 percent of domestically financed non-wage non-debt expenditure has been executed through an exceptional budgetary procedure (*dépense avant ordonnancement*), which authorizes immediate payment prior to the normal controls of allocated budgetary credit and effectiveness of the expenditure.

[4] Republic of Chad—Staff-Monitored Program—Informational Annex, p. 7 (forthcoming).

[5] A Joint Staff Assessment Note (JSAN) will be prepared by World Bank and Fund staff in the coming months.

[6] See Public Information Notice No. 09/11: IMF Executive Board Concludes 2008 Article IV Consultation with Chad.

debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI), and to increasing donor support.

II. Recent Economic Developments

8. **Economic activity remained sluggish in 2008 and inflation has started to decline after an increase owing to domestic food prices** (Tables 1-2 and Figure 2)**.** Real GDP slightly contracted in 2008, as the reduction of the oil sector activity owing to technical problems in key production fields outpaced the recovery of non-oil sector activity after the rebel attack on the capital in February 2008. Overall inflation (8.3 percent on average in 2008), which increased between mid-2007 and en-2008 because of domestic food prices, has started to decline in the first months of 2009 on account of increased agriculture output and better roads between producing and consuming regions. Inflation has outpaced developments in partner countries and fed an appreciation of the Real Effective Exchange Rate (REER), which nonetheless remains broadly aligned with fundamentals.[7]

9. **A fiscal expansion, financed by the inflow of oil revenue, widened the non-oil primary budget deficit in 2008.** (Tables 3-5 and Figure 1)**.** Despite problems with oil production (¶8), oil revenue soared in 2008 on the back of high oil prices, an agreement with the oil consortium that advanced revenues mainly from 2009 to 2008,[8] and delays in adjusting the oil contract prices to international levels. In a context of falling oil prices since mid-2008, this led to large tax payments in 2008 and the accumulation of large tax credits by the oil consortium for 2009-10 (in an amount of about $200 million or 5 percent of non-oil GDP). Non-oil revenue slightly declined (to the low level of about 10 percent of non-oil GDP) reflecting the impact of the February 2008 rebel attack on economic activity. The large oil revenue increase continued to fuel a sizeable rise in spending in 2008 (mostly investment and military expenditure), which further widened the non-oil primary deficit. But, as revenue outpaced expenditure, the authorities registered a sizable budget surplus (of about 7.5 percent of non-oil GDP) and accumulated savings at the regional Central Bank of Central African States (BEAC). The approval in December 2008 of a 2009 budget based on an unrealistic oil price assumption (US$ 83 per barrel) has fueled a further increase of spending during the first quarter of 2009 (up by 24 percent year-on-year), in spite of a sharp reduction of oil revenue.

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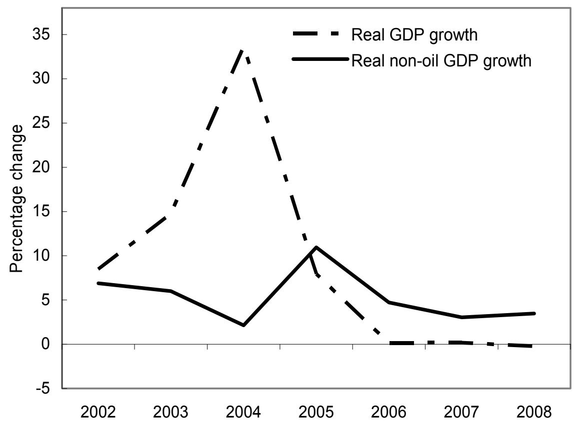
[7] See IMF Country Report No. 09/68; Chad: 2008 Article IV Consultation - Staff Report; Box 2, p.17 and IMF Country Report No. 09/67; Chad--Selected Issues; Chapter I. for a recent assessment of Chad's REER alignment with fundamentals.

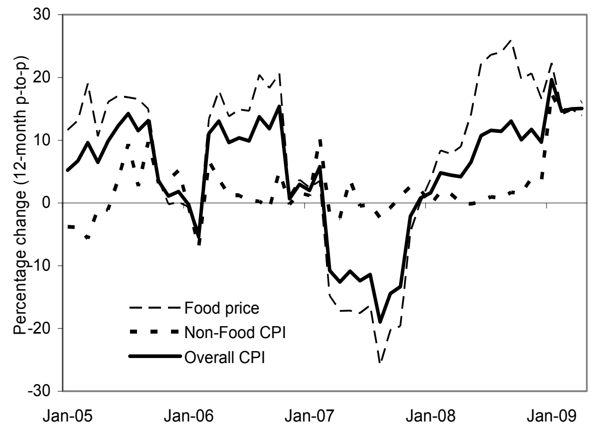
[8] The September 2008 amendment introduced a new income tax payment system, under which oil revenue initially scheduled to be paid in 2009 was advanced to 2008, while a one-time payment of all statistical fees accrued on oil exports during 2006-08 was made in 2008. This one-time payment will reduce the taxable profit in 2008 and the imputed income tax to be paid in 2009.

Figure 2. Chad: Recent Economic Developments, 2002–08

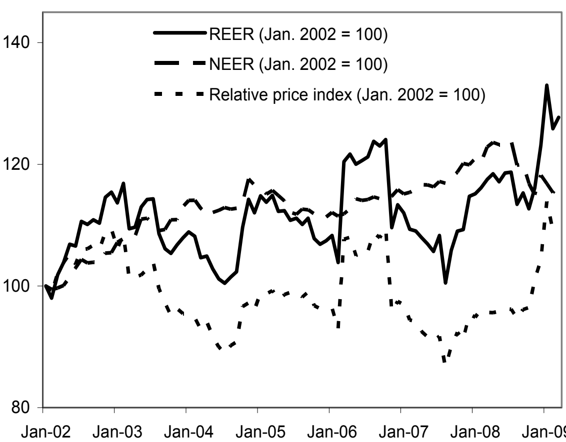
Non-oil GDP growth has remained sluggish.



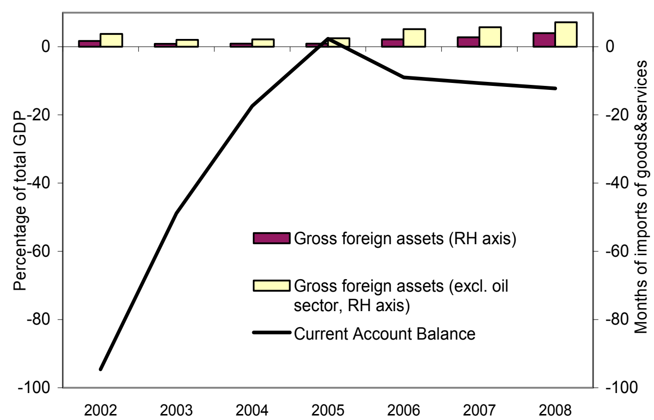
Inflation has started to decline after the sharp increase since mid-2007 driven by food prices.



These recent inflationary pressures have driven an appreciation of the real exchange rate.



Meanwhile, the end of oil construction and the start of oil exports has strengthened the external position.



Sources: Chadian authorities and staff estimates.

10. **Chad's balance of payments strengthened in 2008** (Table 6 and Figure 2)**.** In spite of a large improvement in the terms of trade, the current account balance slightly deteriorated in 2008, as the increase in oil exports was offset by larger oil profit repatriation, and strong non-oil imports fueled by public investment. The current account deficit was more than fully financed by foreign direct investment of the oil consortium and external aid, which allowed an improvement of the overall balance and an increase of gross official reserves (to about 7 months of imports of goods and services, excluding oil sector imports financed by the oil consortium).[9]

11. **Foreign exchange reserve accumulation and credit to the private sector fueled monetary growth in 2008 despite the accumulation of government deposits at the BEAC** (Table 7)**.** Credit to the private sector financed imports and construction. The BEAC has lowered its key interest rates in response to flagging aggregate demand in the Economic and Monetary Community of Central Africa (CEMAC) as a result of the international financial crisis.

12. **There are pockets of vulnerability in the financial system** (Table 8 and Figure 3). Banks' balance sheets have not been directly impacted by the crisis in advanced countries, given their limited exposure to international financial markets. But the banking sector remains subject to vulnerabilities, stemming from its lack of depth, high credit concentration, the fragile situation of some banks, insufficient on-site supervision, and, more broadly, the underdevelopment of financial markets in the CEMAC.

13. **Chad's risk of debt distress is moderate** (Table 1). Total public debt is low (about 21 percent of GDP) and its dynamics appear sustainable, while subject to important risks in the external environment and the conduct of economic policy. [10] The oil windfall and limited new borrowing in recent years have reduced Chad's debt ratios comfortably below the Low Income Country (LIC) Debt Sustainability Analysis (DSA) thresholds. Meeting the conditions for enhanced HIPC and MDRI debt relief could further reduce public debt by about 15 percentage points of GDP.

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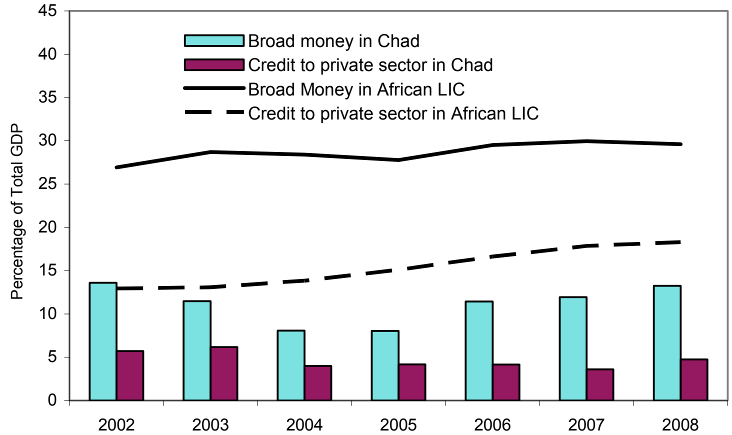
[9] Given that the oil consortium finances its large imports needs for developing and maintaining the oil production field with its own means, the relevant metric for monitoring the level of foreign exchange reserves is imports of goods and services excluding oil sector imports.

[10] IMF Country Report No. 09/68; Staff Supplement on Joint Fund-Bank Debt Sustainability Analysis.

Figure 3. Chad: The Financial Sector is Underdeveloped Compared With African Low-Income Countries (LIC)



Sources: Chadian authorities and staff estimates.

14. **Progress in structural reforms has been limited.** The state cotton company (COTONTCHAD) continues to need budget transfers (in an amount of 1.3 percent of non-oil GDP) to absorb losses stemming from low international cotton prices, declining production and weak management, and to reimburse its debt to the banking sector. The state-water and electricity company (STEE) also gets budget transfers (of about 0.8 percent of non-oil GDP in the 2009 budget) to cover losses stemming from low bill collection, expensive oil procurement, and poor overall management that has caused frequent power outages.

III. Economic and Financial Policies under the SMP

15. **The overarching objective of the SMP is to start moving fiscal policy on a sustainable course and signal a return to orderly budgetary management**. The corner stone of the SMP is the implementation of the revised 2009 budget based on a realistic oil price assumption, and grounded in a medium term framework that gradually reduces the non-oil primary budget deficit to its long term sustainable level of less than 5 percent of non-oil GDP (¶3). The SMP also focuses on a few key measures for curbing the use of extraordinary budget procedures that have undermined expenditure control. Finally, the SMP lays the ground for further reforms in public financial management and other areas. These reforms are essential for using oil revenue for productive expenditure with a lasting impact on growth and poverty reduction.

A. Macroeconomic Outlook

16. **The macroeconomic outlook is shaped by plummeting oil revenue in 2009 followed by a gradual recovery in parallel with oil prices** (Text Table 1, Tables 1-7 and Figure 4)**.** The international economic and financial crisis has triggered a steep drop in oil

prices that will lead to a large reduction in oil revenue, compared with the levels of the past few years:

- Oil revenues, which represented ¾ of domestic fiscal revenue over the period 2006-08, are expected to collapse in 2009 to only about one tenth of their 2008 level, both because of the fall in oil prices and changes in oil tax payment in 2008 (¶9).

- In this context, the government will reschedule investment expenditure over the next few years with a view to reducing the non-oil primary balance to its long term sustainable level of less than 5 percent of non-oil GDP by 2012.

- Real non-oil growth is expected to improve gradually over the medium term as a result of the positive impact of road construction on trade.

- Inflation should converge towards the CEMAC target of 3 percent a year owing to improvement in agriculture production and the prudent monetary policy conducted by the BEAC.

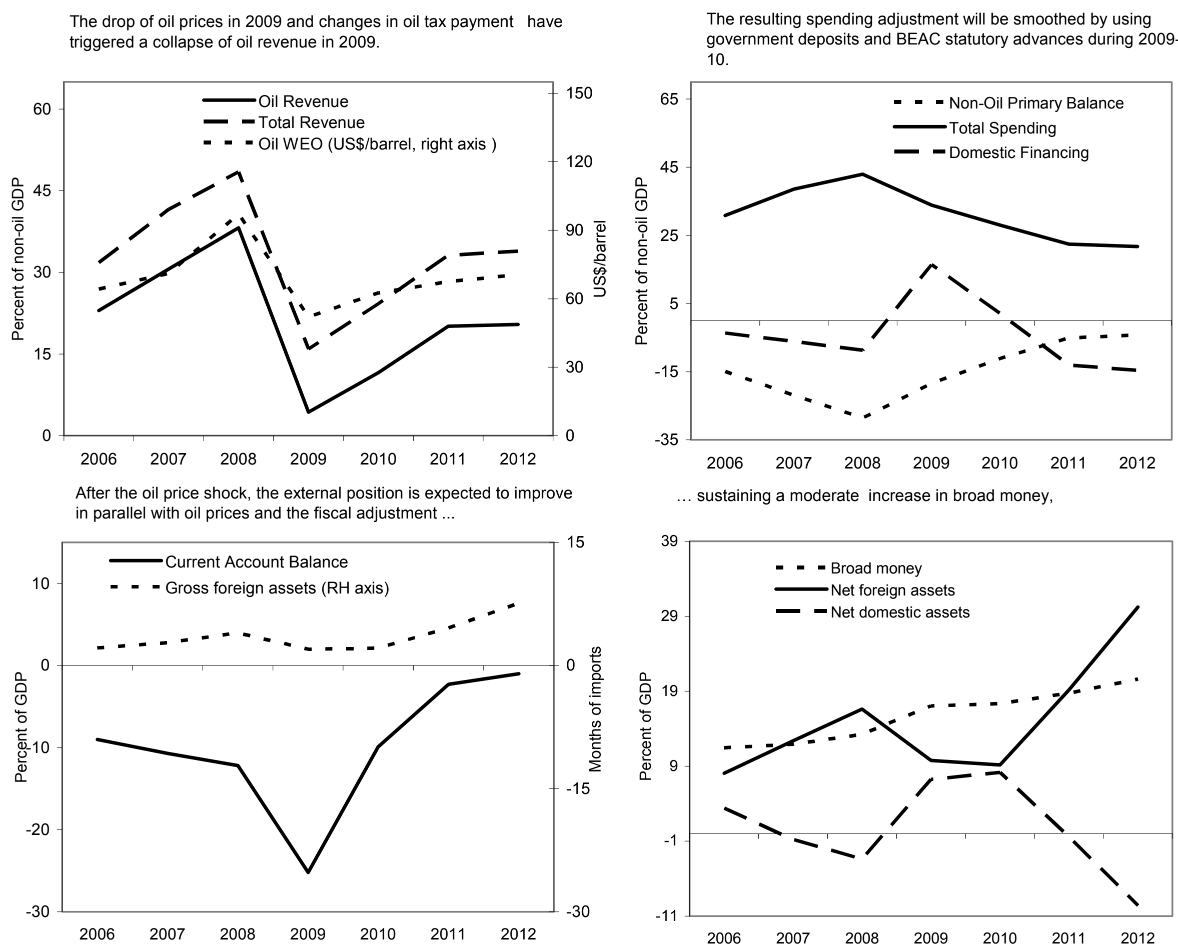
- After a sharp deterioration in 2009 following the drop in oil prices, the overall balance of payments position and official foreign exchange reserves are expected to gradually improve, in parallel with oil prices.

Text Table 1. Chad: Macroeconomic Framework 2007-12

	2007	2008	2009	2010	2011	2012
		Est.	Prog.	Proj.		
Real GDP (annual percentage change)	0.2	-0.2	1.6	4.6	3.3	3.3
Consumer price index (average, annual percentage change)	-7.4	8.3	4.0	3.0	3.0	3.0
Oil price, Spring 2009 WEO assumptions (U.S. dollars/barrel)	71.1	97.0	52.0	62.5	67.5	70.5
Total revenue (in percent of non-oil GDP)	41.6	48.5	15.9	24.2	33.2	33.9
Total expenditure (in percent of non-oil GDP)	38.6	43.0	33.9	28.0	22.4	21.8
Non-oil primary balance (in percent of non-oil GDP)	-22.0	-28.6	-18.4	-11.2	-5.1	-4.2
Overall fiscal balance (cash, in percent of non-oil GDP)	2.3	7.5	-18.6	-4.3	10.7	12.2
Current account balance (in percent of GDP)	-10.6	-12.2	-25.2	-9.9	-2.3	-1.0
Overall balance of payments (in percent of GDP)	3.7	5.6	-10.0	0.6	10.5	12.1
Gross reserves (in months of imp. of goods and services, excl. oil sector)	5.7	7.2	3.9	4.3	8.9	14.0

Sources: Chadian authorities; and IMF staff estimates and projections.

Figure 4. Chad: Medium-Term Economic Outlook, 2006–12



Sources: Chadian authorities; and staff estimates and projections.

B. Fiscal Policy

17. **The revised 2009 budget accommodates the sharp fall in oil revenue by a moderate cut in spending and a large recourse to central bank financing** (Text Table 2, Table 3-5 and MEFP, ¶¶13-15)**.** The large downfall in oil revenue is compensated to only a small extent by an increase in non-tax revenue (of about 2 percent of non-oil GDP) expected from stepped up collection efforts by the tax and customs administrations (Box and MEFP, ¶¶21-22). On the spending side, domestically financed expenditures are reduced (by about 2 percent of non-oil GDP) by cutting non-defense current spending, and reducing the unwieldy envelope of investment spending (¶4) by rescheduling ongoing investment projects to later years. An increase in military spending was inevitable given the too low allocation in the initial budget and the rebel attack in May 2009.[11] As a result, while the non-oil primary balance is expected to improve (by about 4 percent of non-oil GDP) compared to the initial budget, the overall fiscal balance will deteriorate (by about 12 percent of non-oil GDP). This will require a large recourse to domestic financing, given the unavailability of other sources. Domestic financing will include the use of almost all government deposits at the central bank (increase by about 10 percent of non-oil GDP compared to the initial budget) and of central bank statutory advances (increase by about 4½ percent of non-oil GDP compared to the initial budget).[12] The government submitted the revised 2009 budget to parliament on June 8, 2009 (a prior action for sending the program for management approval; MEFP, Table 2).

18. **The large recourse to monetary financing is compatible with the program inflation objective and with debt sustainability**. The monetary financing of the deficit will be broadly offset by the use of foreign exchange reserves to finance imports (Figure 4 and Table 7). The temporary use of statutory advances, despite being non-concessional, will not fundamentally alter the debt dynamics (¶13).

19. **The authorities consulted with their development partners to minimize the impact of spending cuts in 2009 on the 2008 PRSP priorities** (MEFP, ¶15)**.** Essential priority spending such as vaccines and transfers to pay the wages of community teachers have been preserved, and the share of priority spending in total spending under the authorities' control has been slightly increased (Text Table 2). Reductions in capital

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[11] Although increasing (by 2.7 percent of GDP) compared to the initial 2009 budget, military expenditure in the revised 2009 budget is substantially lower (by 4 percent of GDP) than in 2008 (Text Table 2) .

[12] As part of a regional initiative to launch a treasury bills market in July 2009, CEMAC member states' statutory advances ceilings at the BEAC will be frozen at the level prevailing at end-June 2009 (equal to 20 percent of 2008 government revenue; MEFP, ¶15). Given Chad's exceptionally high level of revenue in 2008, its ceiling will be frozen at CFAF 197 billion ($394 million or 9 percent of non-oil GDP). The use of statutory advances within that ceiling will continue to be subject to the standard BEAC annual interest rate of, currently, 4.5 percent.

spending will be achieved by rescheduling ongoing projects and postponing new ones in line with the PRSP priorities.

Text Table 2. Chad - Fiscal Operations of the Central Government, 2008-10
(In percent of non-oil GDP, unless otherwise indicated)

	2008	2009			2010
	Est.	Budget (a)	Prog. (b)	(b) - (a)	Proj.
Revenue	48.5	33.2	15.9	-17.3	24.2
Oil Revenue	38.2	23.3	4.3 [1]	-18.9	11.6
Non-Oil Revenue	10.3	9.9	11.6	1.7	12.6
Expenditure	43.0	39.0	33.9	-5.1	28.0
Current Expenditure	28.4	23.3	23.0	-0.3	19.0
Investment Expenditure	14.5	15.7	10.9	-4.8	9.0
Domestically Financed	10.8	9.7	7.6	-2.1	5.5
Foreign Financed	3.7	6.0	3.2	-2.7	3.5
Non-oil primary balance [2]	-28.6	-22.5	-18.4	4.0	-11.2
Overall balance (excl. grants, cash)	7.5	-6.5	-18.6	-12.1	-4.3
Domestic Financing	-8.7	2.1	16.4	14.3	2.1
Of which: deposits (mostly at BEAC)	-4.1	3.2	13.6	10.3	-0.4
Of which: BEAC statutory advances	-0.9	0.0	4.6	4.6	3.2
Foreign Financing	1.2	4.4	2.2	-2.2	2.2
Memorandum item:					
Total military spending	13.5	6.8	9.5	2.7	7.4
Priority spending [3]					
In percent of spending under the authorities' control [4]	53.9	55.5	56.8	1.3	…
Total public debt (in percent of GDP)	21.2	22.5	27.1	4.6	24.3

Sources: Chadian authorities; and IMF staff estimates.

1. See ¶16 for an explanation of the drop of oil revenue in 2009.
2. Defined in Table 5, footnote 2.
3. Defined in Table 5, footnote 3.
3. Defined in Table 5, footnote 4.

20. **The authorities are committed to introduce a realistic 2010 budget to Parliament by end-October 2009** (structural benchmark; MEFP, ¶16 and Table 2). Chad

will continue facing a tight budgetary constraint in 2010 (Text Table 2).[13] Oil prices and production are expected to improve but remaining tax credits and large investments by oil companies will weigh on oil revenues. Domestic financing will be much tighter as government deposits will no longer be available. Against this background, the authorities have committed to prepare a responsible budget that will: (i) use a realistic oil price assumption; (ii) recognize the financing constraints from the outset to facilitate expenditure control; (iii) be consistent with PRSP priorities; and (iv) bring the non-oil primary deficit closer to its medium term sustainable level.

C. Public Financial Management

21. **The SMP focuses on a few key measures to signal the return to fiscal discipline** (Box).

Box: Chad—Priority Actions to Strengthen Public Financial Management in 2009

Revenue Administration. The significant decline in oil revenues in 2009 and prospects of continued weakness in 2010 highlighted the importance of strengthening non oil revenue. In this connection, the authorities have committed to a strong effort to improve revenue administration in the next two years and have already taken concrete actions including (MEFP, ¶¶21-22):

- appointment of two new Director Generals at the tax and customs administrations who have designed a new strategy with Fund Technical Assistance (TA);
- increased budgetary allocation to the customs and tax administrations in the 2009 revised budget to give them the means for reaching their revenue objectives;
- opening of three additional tax administration offices in the capital;
- tightened tax controls to ensure that enterprises involved in public procurement pay their taxes; and
- stepped up enforcement of procedures in the main customs offices.

Expenditure Control. Weak enforcement of budget procedures, inadequate programming, budgeting and monitoring of investments projects, and weak treasury management have been a recurrent problem in Chad in recent years. The authorities have taken concrete measures to start addressing these problems including:

- adoption, on June 4, 2009, of a communication by the Council of Ministers recalling the need to respect budget procedures, including the need to stop launching investment projects without budget allocation (structural benchmark; MEFP, Table 2);
- publication, on June 9, 2009, of a circular limiting the categories of expenditure that can be executed using the exceptional budgetary procedure bypassing the normal expenditure chain (structural benchmark; MEFP, Table 2);
- adherence to a ceiling on civilian expenditure executed by such exceptional budgetary procedure (indicative target; MEFP, Table 1);
- completion and update, with donor assistance, of a comprehensive data base of investment projects (MEFP, ¶12); and
- monthly cash flow plan updates, on the basis of recommendations by Fund TA missions (MEFP, ¶17).

[13] The 2010 projections in the text Table 2 and Tables 3-5 are provisional and will be firmed up next fall on the occasion of the elaboration of the 2010 budget at the first review of the SMP.

22. **The government will continue over the course of the program to implement the interim petroleum revenue management mechanism**.[14] The design of a new permanent petroleum revenue management system will be revisited in the context of discussions on a new PRGF arrangement (MEFP, ¶19). To ensure that Chad maximizes its oil receipts, the authorities will step up their efforts to monitor oil revenues, and will contract independent fiscal and cost audits of its oil producing companies (MEFP, ¶20). The authorities are committed to oil revenue transparency and will continue to proceed with the measures necessary to adhere to the Extractive Industries Transparency Initiative (EITI). The new state oil company will be subject to strict government oversight (MEFP, ¶23)

D. Debt Management

23. **The authorities are committed to avoiding any new non-concessional external borrowing.** They will adhere to a zero ceiling on non-concessional external debt (continuous indicative target; MEFP, ¶26 and Table 1) with a view to preserving debt sustainability and reaching the completion point of the HIPC Initiative.

24. **The authorities are committed to pay long-standing domestic arrears and prevent the occurrence of new ones**. The authorities have appointed a commission to take stock of, and verify, by end-October 2009, all domestic arrears accumulated by the government until December 2008. They will continue paying already verified claims and are committed to pay all arrears verified by the commission over 2010-12 (MEFP, ¶18). And, to prevent the accumulation of new arrears, the authorities have committed to pay all payment orders within 120 days after their transmission to the Treasury (continuous indicative target; MEFP, ¶18 and Table 1).

E. Structural Reforms

25. **The authorities will resume preparatory work for cotton and utility sector reforms** (MEFP, ¶24)**.** First, the authorities will complete a financial and organizational audit of the state cotton company by end-October 2009, which will form the basis for resuming cotton sector reform. Second, they will also conduct an audit on the use of budgetary transfers since 2006 by the state water and electricity company. And, third, they will take measures for reducing the operational costs of that company, including long overdue strengthening of oil procurement practices.

26. **The authorities will closely monitor the soundness of the financial sector and foster financial sector development** (MEFP, ¶25)**.** They will carefully watch the financial soundness of the commercial banks currently operating in the country in close cooperation with the regional bank supervisor COBAC. They will encourage financial deepening by gradually increasing the share of civil servants paid through the banking system. And they

[14] IMF Country Report No. 09/68; Chad: 2008 Article IV Consultation - Staff Report; para. 16-17 , p.15.

have requested a Financial Sector Assessment Program (FSAP) to help strengthening the soundness and the development of the financial sector.

F. Program Monitoring

27. **The SMP will be monitored on the basis of quarterly indicative targets and structural benchmarks, two of which have already been met**. The program sets indicative targets at end-June and end-September (MEFP, Table 1) on the basis of the Spring 2009 World Economic Outlook (WEO) oil price assumption, but the ceiling on bank financing will be adjusted in line with actual oil prices (Technical Memorandum of Understanding, ¶12). The program also sets one prior action and three structural benchmarks that are critical to the achievement of the program goals of moving public expenditure to a sustainable track and restoring orderly budgetary management (¶¶20-21 and MEFP, Table 2).

IV. Staff Appraisal

28. **Chad has been adversely affected by the global financial crisis mainly through the sharp decline in oil prices**. Oil revenue is expected to drop sharply in 2009 because of the fall in oil prices and oil tax payments advanced from 2009 to 2008. The fall in oil revenue will trigger a sharp deterioration of the fiscal position in 2009 that necessitates a fiscal adjustment.

29. **Tighter revenue and financing conditions provide an opportunity to bring public expenditure on a sustainable path**. After several years of booming oil revenue and poor budgetary management that have put expenditure on an unsustainable trend, strained absorptive capacity, and undermined financial discipline, the authorities should seize the opportunity provided by this bust to gradually bring back expenditure to a more manageable level and restore more orderly budgetary procedures.

30. **The revised 2009 budget, the cornerstone of the SMP, is a step in the right direction preparing the ground for further consolidation in the 2010 budget**. The use of realistic assumptions of oil prices and military spending, the inclusion of all ongoing investment projects in the budget, and the allocation of a credit line for contingencies should facilitate meeting the fiscal targets. Tax administration efforts and reduction in domestically financed investment expenditure will bring a welcome reduction of the non-oil primary deficit. Such reduction will need to be firmed up in the 2010 budget, which will be much tighter than the 2009 revised budget owing to the authorities' choice to exhaust most of their available domestic financing in 2009.

31. **Meeting the program targets will necessitate a clear return to orderly budgetary management.** It will be crucial that line ministries and other spending institutions respect budgetary laws and procedures, stop executing spending without budget allocation, and cease bypassing budgetary norms.

32. **The authorities need to closely monitor the soundness of the financial system in cooperation with the regional banking supervisor**. The impact of the global economic and financial crisis on the stability of the financial sector has been limited so far given its limited integration with international financial markets. But the banking sector exposure to fragile state companies and the existence of pockets of vulnerability warrant close scrutiny.

33. **The main risks to the program arise from the fragile security situation, the political cycle, and weaknesses in PFM.** Deterioration in the security situation could derail fiscal performance, through the impact on revenue, demands for additional security spending, and pressure for continued disregard of normal budgetary procedures. Upcoming legislative and presidential elections will risk feeding spending pressure too. These risks are mitigated by the confirmation by the authorities of their commitment to the program, as attested by the timely implementation of the prior action and the two end-June structural benchmarks.

34. **Notwithstanding these risks, staff recommends consideration of the SMP.** The SMP meets the conditions set by staff in the last Article IV consultation staff report,[15] i.e. a strong 2009 budget, agreement on a feasible medium-term fiscal framework, evidence of adherence to budget controls, and progress on composition and quality of spending. Implementation of such a program will present the authorities with an opportunity to establish a track record of policy implementation, and start re-establish the authorities' economic management and reform credentials with their international development partners. Satisfactory performance through end-December 2009 will be critical for moving to a PRGF arrangement.

[15] IMF Country Report No. 09/68; Chad: 2008 Article IV Consultation - Staff Report; para. 25 , p.20.

Table 1. Chad: Selected Economic and Financial Indicators, 2007-12

	2007	2008	2009	2010	2011	2012
		Est.	Prog.		Proj.	
	(Annual percentage change, unless otherwise specified)					
National income						
GDP at constant prices	0.2	-0.2	1.6	4.6	3.3	3.3
Oil GDP	-7.7	-11.5	-3.4	7.0	-1.0	-1.3
Non-oil GDP	3.1	3.5	3.0	4.0	4.5	4.5
Consumer price index (average)	-7.4	8.3	4.0	3.0	3.0	3.0
Oil prices						
Chadian price (U.S. dollars/barrel) 1/	61.1	82.3	40.0	50.0	55.0	58.0
Spring 2009 WEO assumptions (U.S. dollars/barrel)	71.1	97.0	52.0	62.5	67.5	70.5
Oil production (in million barrels)	52.4	46.6	44.6	48.5	48.5	48.5
Exchange rate FCFA per US$ average	478.6	445.7	…	…	…	…
Money and credit						
Net foreign assets of the banking system 2/	38.9	54.2	-63.2	4.3	65.9	68.9
Net domestic assets 2/	-36.4	-26.0	71.5	12.5	-49.8	-52.0
Of which: net claims on central government 2/	-36.2	-35.9	75.2	10.4	-51.9	-53.8
credit to nongovernment sector	-2.6	13.2	2.2	2.6	2.4	2.3
Broad money	2.5	28.3	8.3	16.8	16.1	16.9
Income velocity of money (M2)	4.8	4.1	4.0	3.7	3.4	3.2
External sector (valued in CFA francs)						
Exports , f.o.b.	-1.0	10.1	-39.5	28.2	9.1	5.5
Imports, f.o.b.	3.4	5.8	3.0	-0.3	-0.6	2.7
Export volume	-8.2	-14.1	2.7	7.2	0.3	0.8
Import volume	-3.6	-0.1	0.2	2.7	2.6	2.5
Terms of trade	6.2	19.4	-45.7	21.1	7.0	2.5
Current account (in percent of GDP)	-10.6	-12.2	-25.2	-9.9	-2.3	-1.0
Overall balance of payments (In percent of GDP)	3.7	5.6	-10.0	0.6	10.5	12.1
Gross official reserves (in months of imports of goods and services)	2.8	4.0	2.0	2.1	4.6	7.6
Gross official reserves (in months of imp. of g. and s. excl. oil sector)	5.7	7.2	3.9	4.3	8.9	14.0
External debt (in percent of GDP)	23.6	19.7	22.6	18.9	16.8	15.2
NPV of external debt (in percent of exports of goods and services)	31.5	24.2	47.5	39.3	35.1	35.0
	(In percent of non-oil GDP, unless otherwise specified)					
Government finance						
Revenue	41.6	48.5	15.9	24.2	33.2	33.9
Of which : non-oil revenue	11.0	10.3	11.6	12.6	13.1	13.5
Total expenditure	38.6	43.0	33.9	28.0	22.4	21.8
Current expenditure	25.2	28.4	23.0	19.0	14.7	13.2
Capital expenditure	13.3	14.5	10.9	9.0	7.8	8.6
Non-oil primary balance (commitment basis, excl. grants) 3/	-22.0	-28.6	-18.4	-11.2	-5.1	-4.2
Overall fiscal balance (cash basis,excl. grants)	2.3	7.5	-18.6	-4.3	10.7	12.2
Total debt (in percent of GDP) 4/	26.6	21.2	27.1	24.3	21.4	19.0
Of which : domestic debt (in percent of GDP) 4/	3.0	1.4	4.5	5.4	4.5	3.8
	(In percent of GDP, unless otherwise specified)					
Investment and Saving						
Gross investment	18.0	15.1	16.2	14.3	12.8	12.8
Government	7.3	7.9	7.4	5.8	5.0	5.6
Private sector	10.7	7.2	8.8	8.5	7.8	7.3
Of which : oil sector	5.6	2.4	2.9	3.2	2.6	2.2
Gross national savings	7.4	2.9	-9.0	4.4	10.5	11.8
Government	11.4	12.8	-1.8	6.1	14.4	16.1
Private sector	-4.0	-9.9	-7.2	-1.6	-3.9	-4.2
Current account balance	-10.6	-12.2	-25.2	-9.9	-2.3	-1.0
	(In billions of CFA francs, unless otherwise specified)					
Nominal GDP	3,358	3,744	3,154	3,612	3,883	4,123
Nominal non-oil GDP	1,840	2,035	2,159	2,319	2,493	2,681
Nominal GDP (in millions U.S. dollars)	7,018	8,400	6,299	7,190	7,737	8,235

Sources: Chadian authorities; and IMF staff estimates and projections.

1/ Chadian oil price is WEO price minus quality discount.

2/ Changes as a percent of broad money stock at beginning of period.

3/ Defined as the total revenue excluding grants and oil revenue, minus total expenditure excluding interest payments and foreign-financed investment.

4/ Central government.

Table 2. Chad. Real Sector Indicators, 2007-12

	Share 1/	2007	2008 Est.	2009 Prog.	2010	2011 Proj	2012
			(Annual Percentage change)				
Primary sector	46.5	-4.3	-4.6	-1.6	5.6	1.7	1.7
Agriculture	11.7	-4.5	1.2	-1.8	2.6	3.1	3.1
Food crops	10.3	-7.3	2.1	-2.4	2.6	3.1	3.1
Industrial crops	1.4	22.9	-5.4	3.0	3.0	3.0	3.0
Livestock	9.0	2.8	2.8	2.8	2.8	2.8	2.8
Fishing and mining	2.2	4.9	4.5	5.0	5.5	5.5	5.5
Oil production	23.6	-7.4	-11.2	-4.1	8.7	0.0	0.0
Secondary sector	10.6	2.5	5.5	3.2	1.4	2.1	1.9
Manufacturing	2.5	-11.6	13.7	-1.1	3.5	3.5	3.5
Of which: cotton processing	1.1	-31.9	22.5	-6.2	3.0	3.0	3.0
Handicrafts	4.5	8.7	3.5	3.5	3.0	3.5	3.5
Electricity and water	0.7	34.6	28.2	7.6	9.7	7.0	7.0
Construction and public works	1.8	13.7	5.0	2.0	5.0	6.5	6.5
Oil construction related	1.1	-12.7	-18.5	14.0	-26.0	-31.6	-55.0
Tertiary sector	39.2	4.8	3.0	4.3	4.4	5.2	5.2
Commerce, transport	20.6	4.7	3.0	4.4	5.1	5.5	5.5
Commerce	17.8	5.5	3.0	4.0	5.0	5.5	5.5
Transport	2.8	0.0	2.9	7.0	5.5	5.5	5.5
General government	10.5	7.3	2.9	4.0	3.0	5.0	5.0
Other	8.2	1.9	3.0	4.5	4.5	4.5	4.5
Non oil GDP - excluding oil prod. & investment	75.3	3.1	3.5	3.0	4.0	4.5	4.5
Oil sector GDP (including investment in oil sector)	24.7	-7.7	-11.5	-3.4	7.0	-1.0	-1.3
GDP	100.0	0.2	-0.2	1.6	4.6	3.3	3.3
GDP demand side			(In percentage of GDP)				
Consumption		79.4	80.4	105.6	95.0	91.9	90.6
Government		10.3	12.3	12.5	9.5	7.2	6.4
Private		69.1	68.1	93.1	85.4	84.7	84.2
Investment (including change in stocks)		18.0	15.1	16.2	14.3	12.8	12.8
Government		7.3	7.9	7.4	5.8	5.0	5.6
Private		9.7	6.2	7.6	7.5	6.9	6.4
Exports		54.8	54.1	38.8	43.5	44.1	43.8
Imports		52.3	49.6	60.6	52.8	48.8	47.2
GDP		100.0	100.0	100.0	100.0	100.0	100.0

Sources: Chadian authorities; and IMF staff estimates and projections.
1/ Share of 2007 GDP.

Table 3. Chad: Fiscal Operations of the Central Government, 2007-12
(in billions of CFA francs, unless otherwise indicated)

	2007	2008	2009		2010	2011	2012
		Est.	Budget	Prog.		Proj.	
Revenue	764.9	986.1	716.2	343.3	561.9	826.7	909.1
Oil revenue 1/	563.2	776.5	502.4	93.3	268.7	501.3	547.3
Royalties and dividends	132.5	251.2	145.8	76.6	104.3	139.8	148.5
Statistical Fee	0.0	69.6	15.0	6.5	12.5	13.8	14.5
Other oil taxes	4.9	3.2	0.7	0.7	3.0	3.0	3.0
Profit taxes	425.8	452.6	340.9	9.5	148.8	344.6	381.2
Non-oil Tax revenue	188.9	200.5	207.1	237.8	280.4	310.8	342.6
Non Tax revenue	12.7	9.1	6.7	12.2	12.9	14.6	19.3
Expenditure	709.3	874.4	842.3	731.9	650.4	559.6	583.1
Current expenditure	464.2	578.9	503.4	497.6	440.8	366.3	352.8
Wages and salaries	153.2	184.7	194.9	194.9	194.9	189.1	182.1
Civil service	110.8	121.7	127.4	127.4	127.4	123.8	120.8
Military	42.4	63.0	67.5	67.5	67.5	65.3	61.3
Goods and services	82.2	94.4	101.4	76.2	77.7	80.2	82.7
Military good and services	21.3	29.9	26.0	26.0	26.0	22.7	21.3
Transfers	104.2	105.4	146.4	106.2	80.0	67.8	70.3
Exceptional defense spending	111.5	182.9	46.1	105.1	71.5	10.0	0.0
Interest	13.0	11.5	14.6	15.2	16.7	19.2	17.7
Domestic	3.0	1.4	4.6	4.6	6.9	10.0	8.8
External	10.0	10.1	10.0	10.6	9.8	9.2	8.9
Investment expenditure	245.1	295.6	339.0	234.3	209.6	193.3	230.3
Domestically financed	154.9	220.1	210.4	165.0	128.5	106.0	136.7
Foreign financed	90.2	75.4	128.5	69.3	81.1	87.4	93.6
Non-oil primary balance (excl. grants, commitment) 2/	-404.4	-582.0	-485.4	-398.2	-259.5	-127.8	-113.0
Overall balance (excl. grants, commitment)	55.5	111.7	-126.1	-388.6	-88.5	267.0	326.1
Arrears	-18.3	-3.4	-14.0	-12.4	-11.6	0.0	0.0
Float	0.0	44.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	5.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (excl. grants, cash)	42.3	152.3	-140.1	-401.0	-100.1	267.0	326.1
Financing	-42.3	-152.3	140.1	401.0	100.1	-267.0	-326.1
Domestic financing	-113.0	-177.0	44.9	354.2	48.1	-324.8	-391.2
Central Bank (BEAC)	-98.8	-146.2	63.6	386.5	60.5	-324.8	-391.2
Deposits	-75.4	-129.1	70.1	293.3	-8.1	-301.8	-370.3
Statutory advances (net)	-17.5	0.0	0.0	98.7	74.1	-19.4	-19.4
IMF (reimbursement)	-5.9	-17.1	-6.5	-5.4	-5.5	-3.6	-1.5
Commercial banks	4.1	-5.2	0.0	-13.7	-4.2	0.0	0.0
Non-bank financing	-18.3	-25.5	-18.7	-18.7	-8.2	0.0	0.0
Foreign financing	70.7	24.6	95.2	46.8	52.1	57.8	65.1
Grants	49.4	56.4	68.8	46.4	68.5	73.7	79.0
Budget support grants	0.0	0.0	0.0	5.0	0.0	0.0	0.0
Project grants	49.4	56.4	68.8	41.4	68.5	73.7	79.0
Loans (net)	21.3	-31.8	26.4	0.5	-16.4	-15.9	-13.9
Disbursements	40.8	19.0	59.7	28.0	12.7	13.6	14.6
Project loans	40.8	19.0	59.7	28.0	12.7	13.6	14.6
Amortization	-19.5	-50.8	-33.3	-27.5	-29.1	-29.6	-28.5
Memorandum items:							
Non oil GDP	1,840.0	2,034.7	2,158.8	2,158.8	2,318.9	2,493.2	2,680.6
Oil assumptions (U.S. dollars/barrel)	71.1	97.0	83.1	52.0	62.5	67.5	70.5
Total military spending	186.5	273.8	146.6	205.7	172.1	105.1	89.7
Priority spending 3/							
In CFAF billion	302.4	325.7	362.6	307.9	....	....	....
In percent of spending under the authorities' control 4/	61.1	53.9	55.5	56.8	....	....	....
Deposits in banks (mostly BEAC)	158.8	296.3	226.3	3.0	11.2	313.0	683.2
BEAC statutory advances	17.0	21.6	21.6	120.3	194.4	175.0	155.6

Sources: Chadian authorities; and IMF staff estimates.

1/ Oil export price based on Spring 2009 WEO assumptions minus quality discount.

2/ Defined as the total revenue excluding grants and oil revenue, minus total expenditure excluding interest payments and foreign-financed investment.

3/ Spending in infrastructure, education, health, social programs, agriculture, cattle breeding, justice, and environment.

4/ Defined as total spending minus foreign-financed investment, interest payment, and exceptional defense spending.

Table 4. Chad: Quarterly Fiscal Operations of the Central Government, 2009-10
(in billions of CFA)

	2009				2010			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Est.	Prog.			Proj.			
Revenue	108.9	207.9	271.9	343.3	63.0	280.3	418.9	561.9
Oil revenue 1/	61.0	87.4	89.2	93.3	20.4	147.5	207.5	268.7
Royalties and dividends	57.7	76.6	76.6	76.6	5.3	37.6	70.7	104.3
Statistical Fees and other oil revenue	3.3	3.3	4.1	7.2	2.6	6.2	10.4	15.5
Profit taxes	0.0	7.5	8.5	9.5	12.5	103.7	126.4	148.8
Non-oil Tax revenue	45.0	115.8	174.0	237.8	41.7	129.6	203.1	280.4
Non Tax revenue	2.8	4.7	8.7	12.2	0.9	3.2	8.4	12.9
Expenditure	247.1	393.2	536.8	731.9	114.4	280.4	434.4	650.4
Current expenditure	157.5	265.7	370.1	497.6	82.6	202.5	308.6	440.8
Wages and salaries	53.5	95.8	141.6	194.9	42.0	87.7	137.2	194.9
Civil service	35.9	62.6	91.5	127.4	27.1	56.3	88.0	127.4
Military	17.6	33.2	50.1	67.5	14.9	31.4	49.1	67.5
Goods and services	38.2	59.7	65.1	76.2	17.2	51.6	60.0	77.7
military good and services	22.5	25.9	26.0	26.0	10.1	22.4	23.5	26.0
Transfers	23.6	64.2	103.1	106.2	7.4	35.0	66.8	80.0
Exceptional defense spending	42.2	44.1	50.3	105.1	13.3	24.0	32.6	71.5
Interest	0.0	1.9	10.1	15.2	2.6	4.3	12.0	16.7
Domestic	0.0	1.5	3.1	4.6	0.0	2.3	4.6	6.9
External	0.0	0.3	7.1	10.6	2.6	2.0	7.4	9.8
Investment expenditure	89.7	127.4	166.7	234.3	31.8	77.9	125.9	209.6
Domestically financed	72.3	92.8	114.7	165.0	11.5	37.3	65.1	128.5
Foreign financed	17.3	34.7	52.0	69.3	20.3	40.6	60.8	81.1
Non-oil primary balance (excl. grants, commitment) 2/	-181.9	-236.8	-292.8	-398.2	-48.9	-102.7	-150.3	-259.5
Overall balance (excl. grants, commitment)	-138.3	-185.3	-264.9	-388.6	-51.3	-0.1	-15.5	-88.5
Arrears	-3.1	-6.2	-9.3	-12.4	-2.9	-5.8	-8.7	-11.6
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (excl. grants, cash)	-159.1	-205.6	-258.9	-401.0	-71.9	-20.0	-9.0	-100.1
Financing	159.1	205.6	258.9	401.0	71.9	20.0	9.0	100.1
Domestic financing	141.8	179.6	222.6	354.2	58.9	-6.1	-30.1	48.1
Central Bank (BEAC)	143.0	195.8	246.8	386.5	62.0	0.1	-20.8	60.5
Commercial banks	-0.8	-6.8	-10.2	-13.7	-1.0	-2.1	-3.1	-4.2
Non-bank financing	-0.5	-9.4	-14.0	-18.7	-2.1	-4.1	-6.2	-8.2
Foreign financing	17.3	25.9	36.4	46.8	13.0	26.0	39.0	52.1
Grants	10.3	25.7	36.0	46.4	17.1	34.2	51.4	68.5
Budget support grants	0.0	5.0	5.0	5.0	0.0	0.0	0.0	0.0
Project grants	10.3	20.7	31.0	41.4	17.1	34.2	51.4	68.5
Loans (net)	7.0	0.2	0.4	0.5	-4.1	-8.2	-12.3	-16.4
Disbursements	7.0	14.0	21.0	28.0	3.2	6.3	9.5	12.7
Budget support loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	7.0	14.0	21.0	28.0	3.2	6.3	9.5	12.7
Amortization	0.0	-13.7	-20.6	-27.5	-7.3	-14.5	-21.8	-29.1

Sources: Chadian authorities; and IMF staff estimates.

1/ Oil export price based on Spring 2009 WEO assumptions. Royalties, dividends, income tax, share premium revenue from oil permits exploration or exploitation and statistical fees.

2/ Defined as the total revenue excluding grants and oil revenue, minus total expenditure excluding interest payments and foreign-financed investment.

Table 5. Chad: Fiscal Operations of the Central Government, 2007-12
(in percent of non-oil GDP)

	2007	2008	2009		2010	2011	2012
		Est.	Budget	Prog.		Proj.	
Revenue	41.6	48.5	33.2	15.9	24.2	33.2	33.9
Oil revenue 1/	30.6	38.2	23.3	4.3	11.6	20.1	20.4
Royalties and dividends	7.2	12.3	6.8	3.5	4.5	5.6	5.5
Statistical Fee	0.0	3.4	0.7	0.3	0.5	0.6	0.5
Other oil taxes	0.3	0.2	0.0	0.0	0.1	0.1	0.1
Profit taxes	23.1	22.2	15.8	0.4	6.4	13.8	14.2
Non-oil Tax revenue	10.3	9.9	9.6	11.0	12.1	12.5	12.8
Non Tax revenue	0.7	0.4	0.3	0.6	0.6	0.6	0.7
Expenditure	38.6	43.0	39.0	33.9	28.0	22.4	21.8
Current expenditure	25.2	28.4	23.3	23.0	19.0	14.7	13.2
Wages and salaries	8.3	9.1	9.0	9.0	8.4	7.6	6.8
Civil service	6.0	6.0	5.9	5.9	5.5	5.0	4.5
Military	2.3	3.1	3.1	3.1	2.9	2.6	2.3
Goods and services	4.5	4.6	4.7	3.5	3.4	3.2	3.1
Military good and services	1.2	1.5	1.2	1.2	1.1	0.9	0.8
Transfers	5.7	5.2	6.8	4.9	3.4	2.7	2.6
Exceptional defense spending	6.1	9.0	2.1	4.9	3.1	0.4	0.0
Interest	0.7	0.6	0.7	0.7	0.7	0.8	0.7
Domestic	0.2	0.1	0.2	0.2	0.3	0.4	0.3
External	0.5	0.5	0.5	0.5	0.4	0.4	0.3
Investment expenditure	13.3	14.5	15.7	10.9	9.0	7.8	8.6
Domestically financed	8.4	10.8	9.7	7.6	5.5	4.3	5.1
Foreign financed	4.9	3.7	6.0	3.2	3.5	3.5	3.5
Non-oil primary balance (excl. grants, commitment) 2/	-22.0	-28.6	-22.5	-18.4	-11.2	-5.1	-4.2
Overall balance (excl. grants, commitment)	3.0	5.5	-5.8	-18.0	-3.8	10.7	12.2
Arrears and float	-1.0	2.0	-0.6	-0.6	-0.5	0.0	0.0
Errors and omissions	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (excl. grants, cash)	2.3	7.5	-6.5	-18.6	-4.3	10.7	12.2
Financing	-2.3	-7.5	6.5	18.6	4.3	-10.7	-12.2
Domestic financing	-6.1	-8.7	2.1	16.4	2.1	-13.0	-14.6
Central Bank (BEAC)	-5.4	-7.2	2.9	17.9	2.6	-13.0	-14.6
Deposits	-4.1	-6.3	3.2	13.6	-0.4	-12.1	-13.8
Statutory advances (net)	-0.9	0.0	0.0	4.6	3.2	-0.8	-0.7
IMF (reimbursement)	-0.3	-0.8	-0.3	-0.3	-0.2	-0.1	-0.1
Commercial banks	0.2	-0.3	0.0	-0.6	-0.2	0.0	0.0
Non-bank financing	-1.0	-1.3	-0.9	-0.9	-0.4	0.0	0.0
Foreign financing	3.8	1.2	4.4	2.2	2.2	2.3	2.4
Grants	2.7	2.8	3.2	2.1	3.0	3.0	2.9
Budget support grants	0.0	0.0	0.0	0.2	0.0	0.0	0.0
Project grants	2.7	2.8	3.2	1.9	3.0	3.0	2.9
Loans (net)	1.2	-1.6	1.2	0.0	-0.7	-0.6	-0.5
Disbursements	2.2	0.9	2.8	1.3	0.5	0.5	0.5
Project loans	2.2	0.9	2.8	1.3	0.5	0.5	0.5
Amortization	-1.1	-2.5	-1.5	-1.3	-1.3	-1.2	-1.1
Memorandum items:							
Non oil GDP	1,840.0	2,034.7	2,158.8	2,158.8	2,318.9	2,493.2	2,680.6
Total military spending	10.1	13.5	6.8	9.5	7.4	4.2	3.3
Priority spending 3/							
In percent of non-Oil GDP	16.4	16.0	16.8	14.3	…	…	…
In percent of spending under the authorities' control 4/	61.1	53.9	55.5	56.8	…	…	…
Deposits at the banking sector (mostly BEAC)	8.6	14.6	10.5	0.1	0.5	12.6	25.5
BEAC statutory advances	0.9	1.1	1.0	5.6	8.4	7.0	5.8

Sources: Chadian authorities; and IMF staff estimates.

1/ Oil export price based on Spring 2009 WEO assumptions minus quality discount.

2/ Defined as the total revenue excluding grants and oil revenue, minus total expenditure excluding interest payments and foreign-financed investment.

3/ Spending in infrastructure, education, health, social programs, agriculture, cattle breeding, justice, and environment.

4/ Defined as total spending minus foreign-financed investment, interest payment, and exceptional defense spending.

Table 6. Chad: Balance of Payments, 2007-12
(in billions of CFA francs)

	2007	2008	2009	2010	2011	2012
		Est.	Prog.		Proj.	
Current account, incl. official current transfers	-356.5	-456.2	-795.1	-357.8	-88.1	-41.3
Trade balance, incl. oil sector	1,019.4	1,081.6	172.8	534.9	697.8	723.4
Exports, f.o.b. *of which:*	1,760.8	1,944.4	1,143.9	1,487.4	1,627.9	1,718.8
Cotton exports	36.2	30.9	27.5	30.5	32.5	34.4
Cattle exports	121.4	128.5	136.1	144.1	152.6	161.6
Oil and oil product exports	1,532.0	1,706.8	894.3	1,218.2	1,338.8	1,408.3
Imports, f.o.b.	-741.4	-862.8	-971.1	-952.5	-930.1	-995.4
Net Services	-935.0	-913.5	-859.8	-871.1	-880.7	-864.7
Net Services, excl oil	-193.2	-223.3	-288.0	-244.6	-244.2	-253.1
Net Factor Income	-574.2	-744.3	-278.6	-183.1	-62.3	-58.7
Net Factor Income, excl oil	14.4	16.2	17.0	158.4	30.2	22.3
Current transfers (net)	133.3	120.0	170.4	161.5	157.0	158.7
Official (net)	82.7	72.6	97.9	98.1	98.8	104.9
Private (net)	50.6	47.4	72.5	63.3	58.2	53.9
Financial and capital account	480.4	665.9	480.4	380.1	494.1	539.1
Capital transfers	49.4	56.4	41.4	68.5	73.7	79.0
FDI	338.7	536.7	368.6	258.0	366.3	404.0
Other medium & long term investment	102.6	49.4	70.5	53.6	54.1	56.1
Public Sector	21.3	-42.7	0.5	-16.4	-15.9	-13.9
Private Sector	81.3	92.1	70.0	70.0	70.0	70.0
Short-term capital	-10.3	23.4	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	123.9	209.7	-314.7	22.3	406.0	497.8
Financing	-123.9	-209.7	314.7	-22.3	-406.0	-497.8
Change in net reserves	-123.9	-209.7	314.7	-22.3	-406.0	-497.8
Residual Financing Need	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Gross official reserves (in months of imports of goods and services)	2.8	4.0	2.0	2.1	4.6	7.6
Gross official reserves (in months of imp. of g. and s., excl. oil sector)	5.7	7.2	3.9	4.3	8.9	14.0

Sources: Chadian authorities; and IMF staff estimates and projections.

Table 7. Chad: Monetary Survey, 2007-12
(In billions of CFAF)

	2007	2008	2009	2010	2011	2012
		Est.	Prog.		Proj.	
Net foreign assets	412.6	622.4	308.6	331.6	744.7	1246.4
Central bank	404.2	613.9	299.2	321.5	727.5	1225.3
Commercial banks	8.5	8.5	9.4	10.1	17.2	21.1
Net domestic assets	-25.8	-126.3	228.6	295.6	-16.5	-395.4
Domestic credit	13.6	-74.0	309.8	379.5	69.1	-306.4
Claims on the government (net)	-113.2	-252.0	121.0	176.6	-149.0	-540.9
Treasury (net)	-94.4	-225.2	162.7	283.4	22.8	-314.2
Banking sector	-119.2	-244.4	147.5	271.6	13.4	-322.2
Central bank	-117.6	-242.7	149.2	273.4	15.1	-320.5
Commercial banks	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
CCP	0.6	0.6	0.6	0.6	0.6	0.6
Fund position	24.8	19.2	15.2	11.7	9.3	8.1
Other nontreasury	-18.9	-26.7	-41.7	-106.7	-171.7	-226.7
Credit to the economy	126.8	178.0	188.9	202.9	218.1	234.5
Other items (net)	-39.4	-52.3	-81.3	-83.9	-85.7	-89.0
Money and quasi money	386.8	496.1	537.1	627.1	728.2	851.0
Currency outside banks	229.4	313.1	286.0	327.7	373.2	427.6
Demand deposits	132.8	153.1	199.8	236.4	278.1	329.3
Time and savings deposits	24.6	29.9	51.3	63.1	76.9	94.1
Memorandum items:						
Broad money (annual percentage change)	2.5	28.3	8.3	16.8	16.1	16.9
Velocity (non-oil GDP)	4.8	4.1	4.0	3.7	3.4	3.2
Velocity (total GDP)	8.7	7.5	5.9	5.8	5.3	4.8
Net claims of the BEAC on the government	-98.8	-138.7	372.9	55.7	-325.6	-391.9

Sources: Chadian authorities; and IMF staff estimates.

Table 8. Chad: Financial Soundness Indicators, 2003-January 2009
(Ratios in Percent)

	2003	2004	2005	2006	2007	2008	Jan. 09
	Solvency						
Capital/assets (unweighted)	9.4	11.0	8.3	8.3	9.7	13.5	14.0
	Asset quality, profitability, and liquidity						
Gross Non Performing Loans/Gross banking loans	17.4	15.5	12.9	12.4	11.6	8.7	8.8
Net Non Performing Loans/Gross banking loans	3.9	2.0	2.1	2.3	1.5	2.4	2.3
Return on assets	2.3	0.0	2.0	1.5	1.9	2.6	1.0
Return on equity	24.8	0.2	24.5	18.7	13.0	18.9	7.3
Liquid assets/total assets	23.2	28.5	26.3	38.3	44.6	30.9	35.5
Liquid assets/demand deposits	65.7	74.8	75.8	78.9	108.2	72.0	82.6
	Banks' rating (in number of banks)						
Solid or Good	3	2	2	4	6	4	4
Fragile	2	3	4	2	0	1	1
Critical	0	0	0	0	0	1	1
Not rated	1	2	1	1	1	1	1
Number of banks	6	7	7	7	7	7	7

Sources: BEAC/COBAC.

Table 9. Chad: Millennium Development Goals, 1990-2007[1]

	1990	1995	2000	2007	2007 SSA
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	*66.0*	68.0	67.0	69.0	64.0
Employment to population ratio, ages 15-24, total (%)	*50.0*	50.0	50.0	49.0	49.0
GDP per person employed (annual % growth)	*3.0*	-2.0	-4.0	-2.0	4.0
Income share held by lowest 20%	..	..	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	*34.3*	29.4	..	26.6
Poverty gap at $1.25 a day (PPP) (%)	..	..	..	..	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	..	..	..	*51.0*
Prevalence of undernourishment (% of population)	*59.0*	*51.0*	..	*39.0*	*29.0*
Vulnerable employment, total (% of total employment)	..	*94.0*	..	..	..
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	..	..	23.0	35.0	67.0
Literacy rate, youth male (% of males ages 15-24)	..	..	56.0	53.0	77.0
Persistence to last grade of primary, total (% of cohort)	*42.0*	..	46.0	..	..
Primary completion rate, total (% of relevant age group)	16.0	14.0	22.0	*31.0*	*60.0*
Total enrollment, primary (% net)	..	..	53.0	..	*71.0*
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	..	*17.0*	2.0	7.0	17.0
Ratio of female to male enrollments in tertiary education	..	..	18.0	*14.0*	*68.0*
Ratio of female to male primary enrollment	44.0	48.0	61.0	70.0	*89.0*
Ratio of female to male secondary enrollment	*20.0*	..	28.0	45.0	*80.0*
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	3.8	..	..	..	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	32.0	26.0	28.0	23.0	73.0
Mortality rate, infant (per 1,000 live births)	120.0	120.0	122.0	124.0	89.0
Mortality rate, under-5 (per 1,000)	201.0	202.0	205.0	209.0	146.0
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*193.0*	191.0	164.0	118.0
Births attended by skilled health staff (% of total)	..	*15.0*	16.0	..	45.0
Contraceptive prevalence (% of women ages 15-49)	..	*4.0*	8.0	..	23.0
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*1,500.0*	*900.0*
Pregnant women receiving prenatal care (%)	..	*23.0*	42.0	..	72.0
Unmet need for contraception (% of married women ages 15-49)	..	*10.0*	..	..	24.0
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	53.0	..	35.0
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	125.0	181.0	262.0	299.0	369.0
Prevalence of HIV, female (% ages 15-24)	..	..	..	2.8	3.3
Prevalence of HIV, male (% ages 15-24)	..	..	..	2.0	1.0
Prevalence of HIV, total (% of population ages 15-49)	0.7	2.0	3.3	3.5	5.0
Tuberculosis cases detected under DOTS (%)	..	36.0	*35.0*	18.0	47.0
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0.0	0.0	0.0	*0.0*	*0.5*
CO2 emissions (metric tons per capita)	0.0	0.0	0.0	*0.0*	*0.8*
Forest area (% of land area)	10.0	10.0	10.0	*9.0*	*26.0*
Improved sanitation facilities (% of population with access)	5.0	6.0	7.0	*9.0*	*31.0*
Improved water source (% of population with access)	..	24.0	34.0	*48.0*	*58.0*
Marine protected areas, (% of surface area)	..	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	*9.1*	*11.3*
Goal 8: Develop a global partnership for development					
Internet users (per 100 people)	0.0	*0.0*	0.0	*0.6*	4.4
Mobile cellular subscriptions (per 100 people)	0.0	0.0	0.0	9.0	23.0
Telephone lines (per 100 people)	0.0	0.0	0.0	*0.0*	2.0
Other					
Fertility rate, total (births per woman)	6.7	6.6	6.6	6.2	5.1
GNI per capita, Atlas method (current US$)	260.0	200.0	180.0	540.0	951.0
GNI, Atlas method (current US$) (billions)	1.6	1.5	1.5	5.8	761.0
Life expectancy at birth, total (years)	51.0	52.0	51.0	51.0	51.0
Literacy rate, adult total (% of people ages 15 and above)	..	*12.0*	26.0	32.0	62.0
Population, total (millions)	6.1	7.2	8.5	10.8	800.0

Source: World Bank, World Development Indicators (2009).

[1]Figures in italics refer to periods other than those specified.

APPENDIX I

REPUBLIC OF CHAD—LETTER OF INTENT

June 22, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. Since 2003, fiscal management weaknesses, characterized by expenditure overruns and nonobservance of normal budgetary procedures, have impeded the implementation of International Monetary Fund and World Bank-supported programs.

2. Furthermore, the conduct of economic and financial policies has been complicated not only by spillover effects of conflicts in neighboring countries, but also by repeated attacks by rebel groups based in Sudan. Meanwhile, Chad still hosts 250,000 refugees from the Darfur region of Sudan and 48,000 more from the Central African Republic, and takes care of 180,000 Chadian citizens who are internally displaced.

3. Recently, public finances have been hard hit by the fall in oil prices. The initial 2009 budget was prepared using high oil prices observed in September 2008. The fall in oil international prices in late 2008 and changes in oil tax payment have caused the collapse of oil revenue which should reduce government revenue by about 17 percent of non-oil GDP compared to the initial budget. Such a dramatic turnaround is significantly straining government finance, widening the budget deficit, wiping out oil savings and forcing fiscal adjustment.

4. Against this background, the government has adopted a revised 2009 budget, after consultation with its development partners. The revised 2009 budget is consistent with financing constraints and protects the priority sectors. The government has also started correcting weaknesses in public financial management that have hampered the implementation of the previous arrangement under the Poverty Reduction and Growth Facility.

5. Accordingly, the government hereby requests a staff-monitored program (SMP) covering the period April 1-October 31, 2009. The objectives and policies of that program are defined in the attached memorandum on economic and financial policies (MEFP). The government plans to use the SMP to demonstrate clear progress in fiscal policy and public

financial management. Emphasis will be placed on strict implementation of the revised 2009 budget and return to budget orthodoxy. To that end, the government will curtail the use of exceptional budgetary procedure ("*dépenses avant ordonnancement*") and stop the execution of spending without budget appropriation. These efforts will be firmed up in the 2010 budget, which the government will prepare in consultation with its development partners and introduce to Parliament prior to the end of the SMP.

6. The government strongly hopes that satisfactory implementation of the SMP during April-October 2009 and continued good policy performance through the end of the year will lead to a new arrangement under the Poverty Reduction and Growth Facility (PRGF) in the beginning of 2010. Indeed, successful implementation of such a program will play a catalytic role for mobilizing the external resources necessary for implementation of the new poverty reduction strategy (NPRS2) adopted in April 2008, in particular the resources expected from debt relief under the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

7. The government is convinced that the policies and measures defined in the MEFP are appropriate for meeting the objectives of the program. However, it will take any further measures that may become appropriate for this purpose. And it will consult with the Fund on adoption of such measures, and in advance of revisions to the policies contained in the MEFP. To facilitate the monitoring and assessment of this program, the government will regularly submit all necessary information to Fund staff, within the required deadlines specified in the attached Technical Memorandum of Understanding (TMU).

8. Finally, the government consents to publication of this letter, the MEFP, the TMU, and the Fund staff report on the SMP.

Sincerely yours,

/s/
Gata Ngoulou
Minister of Finance and Budget

/s/
Youssouf Saleh Abbas
Prime Minister

Attachments:
I. Memorandum on Economic and Financial Policies
II. Technical Memorandum of Understanding

APPENDIX I—ATTACHMENT I

Republic of Chad—Memorandum on Economic and Financial Policies

I. INTRODUCTION

1. This memorandum on economic and financial policies (MEFP) presents the economic and financial policies of Chad for the period April 1-October 31, 2009, and the main features of those policies for the medium term.

II. BACKGROUND AND RECENT DEVELOPMENTS

2. Chad is one of the poorest countries in the world, as reflected in its ranking in the Human Development Indices. Furthermore, it hosts 250,000 refugees from the Darfur region of Sudan and 48,000 more from the Central African Republic, whereas 180,000 Chadians are displaced internally as a result of the conflicts in neighboring countries. Chad has also been the subject, in recent years, of periodic attacks by armed groups. The most serious attack broke out in February 2008, causing considerable damage, particularly in the capital N'Djamena, and temporarily disrupting its structures. The most recent attack in May 2009 required important deployment of troops to defeat and repel these armed groups. The deployment of a United Nations peacekeeping force numbering about 5,000 and the signing and then the implementation of a multiparty agreement on electoral reform now provide an opportunity for economic development in which the government is participating fully.

3. In 2008 Chad's economic developments were marked by a slight decline in real GDP, a sharp upturn in inflation, and the notable impact of the oil boom on public finance and on the monetary and external sectors. Real GDP fell by ¼ percent from its 2007 level, the 3½ percent growth in the non-oil sector having been offset by the 11½ percent slump in the oil sector. The contraction in the oil sector stemmed from technical problems in the main oil fields, while growth in the non-oil sector was hampered by the slowdown in services and construction sectors following the February rebel attack on N'Djamena. Inflation accelerated, reaching an average rate of 8¼ percent mainly because of food prices. Fiscal expansion, financed by the inflow of oil revenue, led to a worsening of the non-oil deficit, which stood at 28½ percent of non-oil GDP, 6½ points up from 2007. The increase in the value of oil exports also led to a stronger external position, with the foreign reserves covering 7.2 months of imports (excluding imports by the oil consortium), which is 1½ months more than in 2007. The resulting strong growth in net foreign assets generated a 28 percent increase in the money supply over the previous year.

4. A particularly difficult environment made fiscal management challenging. The security situation and noncompliance with the budgetary procedures resulted in significant slippages from the initial targets. Since 2005, the non-oil primary deficit has widened by 23½ percent of non-oil GDP, owing to increased spending on wages, transfers to the state utility and cotton companies (STEE and COTONTCHAD), investment, and security.

5. The government has made some progress in public financial management but recognizes that this area needs further strengthening. It received considerable support from donors (European Commission and France) under the Action Plan for the Modernization of Public Finance (PAMFIP). However, major weaknesses remain in budget planning and the monitoring of budget execution, in particular the practice of spending following exceptional budgetary procedures (*dépenses avant ordonnancement*—DAO) and signing contracts without budget appropriation.

6. Constructive discussions have been held between the World Bank and the government of Chad. Under the agreement reached between the two parties in September 2008, Chad prepaid the full outstanding balance on the World Bank loans (CFAF 31.4 billion) for the Doba project pipeline. The two parties also agreed to initiate discussions on strengthening non-oil sector cooperation for poverty reduction purposes. In January 2009, the Bank reopened its N'Djamena office.

III. The Government's Economic Program

A. Poverty Reduction Strategy

7. The government's objectives and policies are based on the second version of the National Poverty Reduction Strategy (NPRS II), approved by the High-Level Supervision Committee in April 2008. The rural sector, good governance, and investment in human capital and in infrastructure are the main priorities. The new strategy emphasizes, more than the previous version, the importance of growth to poverty reduction. The strategy particularly stresses the need to improve the business climate, develop infrastructure, and strengthen rural development as the main pillars of more robust growth, taking account of the need to improve the quality of public spending. To implement effectively the NPRS II, the government also adopted a Priority Action Plan for 2008–11. This plan establishes a list of the quantifiable and verifiable actions needed to attain the objectives of the NPRS II and is being integrated into the program budgets of the ministries and into the medium-term expenditure framework (MTEF).

B. The 2009–12 Macroeconomic Framework

8. The MTEF is shaped by a plummeting of oil revenue in 2009 followed by a gradual recovery in parallel with oil prices. The international financial crisis triggered a steep drop in oil prices that will lead to a large reduction in oil revenue, compared with the levels of the past two years. In this context, the challenge for the government is to reschedule public

expenditure in such a way as to succeed in completing the numerous projects initiated to meet the country's enormous development needs, in circumstances where revenue is much scarcer than in the past two years. Real non-oil growth is expected to improve over the medium term, especially as a result of road construction whose positive effects on trade are already visible. Inflation should remain close to the CEMAC target of 3 percent a year owing to higher agricultural output and prudent monetary policy conducted by the BEAC. After a sharp deterioration in 2009 following the drop in oil prices, the overall balance of payments position is expected to improve gradually, with an increase in these prices envisaged for the medium term.

9. The key economic policy challenge is to ensure proper use of the expected oil revenue to reduce poverty, given the volatility of oil prices and the exhaustible nature of oil resources. Oil revenue provides a unique opportunity for Chad to lay the foundation for sustained growth and lasting poverty reduction. However, this revenue is volatile by nature, as demonstrated by the drastic fall of oil prices since the summer of 2008. Moreover, production from the Doba basin is expected to diminish gradually until it becomes negligible by 2030.

10. In those circumstances, the government's strategy is based on three main pillars: (i) converting the oil resources into other forms of capital; (ii) strengthening the collection of non-oil revenue; and (iii) improving public financial management to ensure the effective and transparent use of public resources. The overall strategy seeks to guarantee fiscal sustainability, defined as a shrinking non-oil primary balance, leading to increased poverty reduction spending while ensuring debt sustainability. The absorptive capacity and the quality of public expenditure are key in deciding on the expenditure package. The main challenge is to ensure that the numerous investment projects launched in recent years can be completed in a context that is much less favorable in terms of oil revenue.

11. Chad's MTEF takes account of the above considerations. The fiscal target is to reduce the non-oil primary deficit from 28.6 percent of non-oil GDP in 2008 to less than 5 percent in 2012. To achieve this goal, the government will have to continue increasing non-oil revenue and reduce spending gradually to a sustainable level over the medium term.

12. To improve revenue, tax policy and tax administration will be strengthened, as described below:

- **Tax policy.** The tax system will be reviewed, so that measures can be identified to increase its effectiveness and its equity and to improve tax revenue gradually. Exemptions from customs duty and taxes as well as tax incentives will be analyzed, so that implicit tax spending can be assessed with a view to its inclusion as a memorandum item in annual budgets, starting with the 2010 budget, in accordance with good transparency practices.

- **Tax administration.** The government will shortly take steps to strengthen the customs administration, in particular by updating and using the various modules of the computerized platform underlying ASYCUDA. This measure will first be implemented in a pilot project at the Ngueli offices and then expanded to include the offices at the N'Djamena and Komé airports. The government is committed to taking other measures to improve the customs administration, including enforcing, simplifying, and computerizing customs clearance procedures and allowing only customs officers and approved professionals to enter in-bond areas. As regards the tax administration, emphasis will be placed on strengthening the General Directorate of Taxes (DGI). In particular, the government will take steps, in consultation with IMF staff, to improve its performance. Those steps include restructuring the DGI and its organization chart; strengthening procedures, tax audits, and internal audits; and restoring the computer network of the Directorate of Large Enterprises (DGE), so that all DGE departments will be connected with each other and with the other DGI departments.

- Efforts to streamline and improve **spending** will cover the following key areas:

- **Wage bill.** The government is aware of the risks related to the rapid ballooning of the wage bill, both civilian and military, which currently absorbs almost all domestic non-oil budgetary resources. The measures aimed at streamlining the wage bill include mainly: conducting a biometric census of all civil servants, computerizing the payroll, and gradually paying wages only by transfer on a bank deposit. The government will ensure that health and education sectors are adequately staffed, in conformity with budgetary constraints. As soon as security conditions permit, the army wage bill will be gradually reduced.

- **Transfers.** The subsidies granted to COTONTCHAD and STEE will be gradually trimmed down, through pursuit of the structural reforms. Other transfers will also be streamlined;

- **Investment**. Capital expenditure will be not only aligned with the NPRS II and its priority action program but also maintained at a level compatible with absorptive capacity and financing constraints. Priority will be given to the maintenance and equipping of existing infrastructure. Given the high number of projects under execution,[1] the government undertakes to curtail the introduction of domestically financed new projects until all the investment projects launched in recent years have been successfully completed, and provided with personnel and goods and services to be operational. In this regard, the government undertakes to: (i) complete the installation, in the General Budget Directorate at the Ministry of Finance and Budget, of a comprehensive database of all ongoing investment projects and keep it rigorously updated; (ii) include in the 2009 supplementary budget, appropriations for any contracts signed without budget appropriation that the government may decide to

[1] Program authorizations as at April 30, 2009, total CFAF billion 711.

pursue in line with budget constraints; (iii) reschedule the implementation of investment projects on the basis of their level of priority and budget constraints; and (iv) plan to include, starting from the 2009 supplementary budget, a credit allocation for contingencies to facilitate the start-up during the year of any priority projects that were not initially planned, within reasonable limits and taking account of budget constraints.

- To stress its attachment to **compliance with orderly budgetary management**, the Council of Ministers adopted, on June 4, 2009, a Communication recalling the need to respect budgetary procedures, including that no investment project can be launched by the government without the prior existence of a budget appropriation (structural benchmark, Table 2).

- **Public procurement**. The government undertakes to reduce the share of domestically financed contracts awarded by non-competitive procedures. From June to December 2008, this share was 66 percent.

C. The Program in 2009

Fiscal Policy

13. The initial budget law passed by Parliament was formulated on the basis of an international oil price of US$83 a barrel, taking account of NPRS II priorities.

14. The steep drop in oil prices and consideration of the new memorandum of understanding signed in 2008 with the Consortium have created downward pressure on revenue, compared with the assumptions in the initial budget. Given the decline in oil prices to about US$52 a barrel in 2009, the new memorandum of understanding signed with the Consortium in 2008, and the time taken to adjust the prices used for calculating oil revenue payments, oil revenue must now be reduced to CFAF 93 billion in 2009, or CFAF 409 billion less than initially budgeted.

15. Dealing with that situation, the government has introduced to Parliament a draft revised budget. The main changes from the initial budget are as follows:

- **Revenue.** Total revenue was reduced to CFAF 343 billion, down CFAF 373 billion, owing to the above-mentioned decline in oil revenue, which will be somewhat mitigated by an increase in non-oil revenue, expected as a result of implementation of the administrative reforms described above (paragraph 12);

- **Expenditure.** The wage bill was maintained at CFAF 195 billion, given its incompressibility. Priority expenditure such as appropriations for vaccines and other spending of similar importance in the health and education sectors have been maintained in consultation with donors supporting the government in implementing

NPRS II. Goods and services were reduced to CFAF 76 billion, down CFAF 25 billion, in the non-priority sectors. Transfers, excluding exceptional security spending, were reduced to CFAF 106 billion, down CFAF 40 billion. The subsidy to STEE and transfers to the producing region were reduced as oil prices fell, while other transfers were streamlined. These cuts notwithstanding, the supplementary budget includes an adequate appropriation to cover wages and wage arrears payable to community teachers (CFAF 4.5 billion). Domestically financed capital expenditure was reduced to CFAF 165 billion, down CFAF 45 billion, through a rescheduling of the implementation of ongoing projects and a freeze on new projects.[2] Exceptional security spending was increased to CFAF 105 billion, up CFAF 59 billion, given the level of spending of this category in the first quarter of the year and the security imperatives; and

- **Financing**. To mitigate the impact of the huge decline in oil revenue, the supplementary budget provides for the use of up to CFAF 293 billion of government accumulated bank deposits, along with up to CFAF 99 billion of statutory advances from the BEAC. As part of a regional initiative to launch a market for Treasury Bills in July 2009, member states' statutory advances ceilings at the BEAC will be frozen at the level prevailing at end-June 2009. This will freeze Chad's statutory advances at CFAF 197 billion. Debt service to commercial banks includes the reimbursement of a loan to COTTONTCHAD assumed by the government in an amount of CFA 13.7 billion.

16. The expenditure adjustment proposed in the supplementary budget is an important step for convergence toward a sustainable level in the medium term, given that oil revenue during the period 2010–12 can be expected to average less than half the level recorded in 2008. The government undertakes to present a draft 2010 budget law by October 31, 2009 (structural benchmark, Table 2). This draft will be consistent with the macroeconomic framework, which will be updated next fall, in collaboration with Fund staff.

Public Financial Management

17. The government is determined to correct the weaknesses in the public financial management system. Special attention will be paid to the following measures:

- Starting with the 2009 revised budget, budget laws will include an annex showing all investment projects by ministry, their total cost, and the related multiyear planning.

- Improving compliance with the budgetary procedures, in particular through:

[2] Except for any priority projects not initially planned, within reasonable limits and taking account of budgetary constraints (¶12).

- Strict application by the government of the "appropriation clearance" (*visa de crédit*) system, in which expenditure without a corresponding budget appropriation is prohibited.

- Publication, on June 9, 2009, of a circular limiting the categories of expenditure that can be executed using the exceptional budgetary procedure bypassing the normal expenditure chain called *dépenses avant ordonnancement (DAO)* (structural benchmark, Table 2). In particular, except in totally unavoidable circumstances, no capital expenditure may be settled using the DAO process, owing to the importance of properly planning and monitoring such spending. The amount of civilian expenditure executed by DAO will be subject to a ceiling during the program (indicative target, Table 1).

- Issuance, by October 15, 2009, of a circular similar to Circular 033/MFI/DG/DGB/07 of November 26, 2007, to close off spending commitments for FY 2009 by the deadline prescribed in the organic budget law.

• As regards the capital expenditure database in the General Budget Directorate at the Ministry of Finance and Budget (¶12), an interface will be created between the procurement database software and the integrated expenditure information system, with technical assistance from the European Commission. No contract funds may be budgeted, committed, authorized for payment, assumed as a liability, or paid unless they were previously recorded in this database.

• A monthly cash flow plan will be updated every month as of May 2009, on the basis of recommendations by technical assistance missions.

• The government undertakes to introduce draft budget review laws for FY 2007 and FY 2008 before submitting the draft 2010 budget law to Parliament.

Domestic Debt Management

18. Clearing domestic debt arrears and preventing the accumulation of new arrears are priorities. The aim is to restore the credibility of public finance and stimulate the private sector. A 2006 audit put the stock of domestic debt at CFAF 142 billion (7 percent of non-oil GDP) at end-2005. A committee tasked with recording and validating domestic debt is currently updating the 2006 audit. It will examine new debt and arrears accumulated through 2008 and perform further auditing. It is to produce a final report by end-October 2009. The settlement plan will reconcile the stock of debt and arrears at end-2007 and 2008 with the 2006 audit report and information from the Treasury on debt payments. The plan, which will be published, will pave the way for the settlement of all arrears over a three-year period. To prevent the accumulation of new arrears, the government undertakes to pay all expenditure for which payment authorizations have been issued within a time frame of 120 days (continuous indicative target, Table 1).

Collection of Oil Revenue

19. The government will continue to observe strictly the Interim Mechanism for Oil Revenue Management, instituted by Decree 253/PR/Mfi/07 of March 29, 2007, until a new oil revenue management framework is adopted.

20. The government undertakes to ensure the existence of a tax framework applicable to the oil sector that is transparent and sustainable. Chad currently has a high level of transparency and accountability in oil revenue collection. In light of developments that will make the oil sector more complex, the government will build its capacity to maintain this transparency. The short-term measures envisaged include:

- Building the capacity of the Ministry of Finance and the Ministry of Petroleum to enable them to monitor oil revenue collection closely. The Oil Revenue Monitoring Bureau (BSRP) in the Ministry of Finance will be the focal point of these efforts. The first outcome will take the form of a detailed and comprehensive report on oil revenue collected since 2003. In this document, all revenue will be presented as a ratio of the pertinent tax base: royalties on production and prices; income tax on profits and costs: surface area tax, bonuses, etc. Furthermore, with assistance from the donors, the government will recruit a specialized firm in 2009 to provide the BSRP with a template for monitoring and a chart of accounts for recording oil revenue on a monthly basis so that all revenue can be tracked, from offshore accounts to the Treasury's single account at the BEAC**.**

- The recruitment of internationally recognized specialized firms to conduct audits, in accordance with pertinent international standards (ISA), of oil costs for 2006–07 and the declarations of outturns and royalties for 2002–07 from the Consortium, and the publication of these audits.

- The government will pursue its application to become an Extractive Industry Transparency Initiative (EITI) Candidate country.

Collection of Non-Oil Revenue

21. 2009 marks a fresh start for strengthening non-oil revenue collection. The two new directors who have been appointed at the head of the tax and customs administrations have already defined a strategy for modernizing revenue collection. This strategy was translated in a set of operational measures with technical assistance by the Fund's Fiscal Affairs Department. The DGI has started to implement the following measures for improving tax collection in 2009:

- opening of three additional tax administration offices in the N'djamena to broaden the tax bases and bring the tax collectors closer to taxpayers ;

- tightened tax controls to ensure that enterprises involved in public procurement pay their taxes;
- creation of an interministerial committee to tighten control on the payment of taxes on cars; and
- active use of additional resources, including cars, motorbikes and a boat.

22. The customs administration will implement the following measures :

- stepped up enforcement of procedures in the main customs offices;
- close scrutiny of tax and duty exonerations;
- stepped up efforts to detect fraud;
- continued implementation of a computerized information system; and
- accelerated training of key staff.

Public Enterprise Reform

23. In 2006, the government created a state oil company, *Société des Hydrocarbures du Tchad* (SHT). If the company is to produce the spin-offs expected by Chad, quality corporate governance is essential as well as an explicit procedure for government approval of all decisions with significant fiscal implications. In this regard, the government will ensure:

- That any budgetary support for the SHT—including transfers of endowment funds, financing, and contributions in kind—is recorded in the general government budget transparently and on a gross basis, that is, without deductions from the amounts payable to the government or the revenue collected by the SHT for the government.
- That all major decisions involving or that may involve the government's financial liability—including borrowing by the company—will receive in advance the assent of the Council of Ministers. The SHT budget, once approved, will be forwarded to the National Assembly for information purposes.
- Publication by the SHT of an annual report on its operations, as well as financial statements certified by an internationally recognized specialized audit firm.

24. The government plans to pursue the reforms of the main public enterprises, with a view to streamlining them and reducing their burden on the budget. It launched a technical and financial audit of COTONTCHAD that will be completed by October 2009. This is all the more important as the company has been unable to repay its bank loans even though it has received very substantial subsidies and exceptional transfers since 2006. On the basis of this audit, the new roadmap for reforming the sector will be updated. The government will

make every effort to reduce STEE operating costs by using competitive bidding procedures for the purchase of fuel and accelerating the installation of the topping plant. In addition, the responsible ministry will conduct an audit of the use of subsidies to the STEE since 2006, by year-end.

Financial System

25. The government undertakes to develop the financial system and preserve financial stability in collaboration with the Banking Commission. In this context, it will inform IMF staff in a timely way about the actions to be taken, including those with possible fiscal implications. In the medium term, it intends to prepare an action plan to strengthen the financial sector and promote financial deepening of the economy. To this end, it launched in the first quarter of 2009 the operation to pay civil servants' wages by bank deposit. It also deems it crucial to develop microfinance through an appropriate strategy. The government will also need a Financial Sector Assessment Program (FSAP) and technical assistance from the IMF to achieve its objectives.

External Debt Management

26. Although Chad's debt situation has improved appreciably, the outlook remains tenuous. It is therefore of utmost importance for Chad to reach completion point of the Initative for Heavily Indebted Poor Countries (HIPC), as this will also open the way to debt reduction under the Multilateral Debt Relief Initiative (MDRI). The government's aim is to reach completion point as soon as possible. The government is also aware that any non-concessional borrowing will jeopardize its attainment of the completion point under the HIPC Initiative.

IV. Program Monitoring

27. The SMP will cover the period April 1-October 31, 2009. To keep expenditure execution consistent with the budget, the government undertakes to maintain active consultation with IMF staff in executing its budget. The government, through the High-Level Interministerial Committee for the Preparation and Negotiation of Programs Supported by the Poverty Reduction and Growth Facility (PRGF), assisted by the Technical Committee (Economic Unit, UCID, and the various other units directly involved), will supervise the SMP until the conclusion of a new three-year PRGF-supported program. The program will be the subject of quarterly assessments, based on the indicative targets for end-June and end-September 2009, shown in Table 1, and the structural benchmarks listed in Table 2. The indicative targets are defined in the Technical Memorandum of Understanding (attached). Although, the SMP will end in October, the government will implement it thoroughly until the end of 2009 to pave the way for a successor arrangement under the PRGF in the beginning of 2010.

Table 1. Chad: Indicative Targets for the Period April 1 - October 31, 2009 and Projections for the Period Beyond That [1]
(In billions of CFA francs; cumulative changes from the beginning of the calendar year, unless otherwise indicated)

	End-June 2009	End-Sept. 2009	End-Dec. 2009	End-Mar. 2010
	Prog.	Prog.	Proj.	Proj.
Non oil fiscal primary balance, floor	-236.8	-292.8	-398.2	-48.9
Net claims of the banking system on the government, ceiling	189.0	236.6	372.9	61.0
Civilian expenditures executed through exceptional budgetary procedures (*dépenses avant ordonnancement*), ceiling	70.0	80.0	90.0	…
Accumulation of domestic payments arrears of the government, ceiling [2]	0.0	0.0	0.0	0.0
Accumulation of external payments arrears of the government, ceiling [2]	0.0	0.0	0.0	0.0
Government's contracting or guaranteeing of new nonconcessional external debt, except normal trade financing with a maturity of up to one year, ceiling [2]	0.0	0.0	0.0	0.0
Memorandum items:				
Oil revenue	87.4	89.2	93.3	20.4
Income Tax	7.5	8.5	9.5	12.5
Royalties and dividends	76.6	76.6	76.6	5.3
Other	3.3	4.1	7.2	2.6

Sources: Chadian authorities; and IMF staff projections.

1. See Technical Memorandum of Understanding (TMU) for a definition of the indicative targets.

1. Continuous.

Table 2. Chad: Prior Action and Structural Benchmarks for the Staff-Monitored Program
April-October 2009

Measure	Deadline	Status
Prior action for submitting the program for Management approval		
Submission to Parliament of a draft 2009 supplementary budget consistent with the macroeconomic framework agreed with Fund staff.		Met
Structural benchmark		
Adoption of a Communication by the Council of Ministers recalling the need to respect budgetary procedures, including that no investment project can be launched by the government without the prior existence of a budget appropriation.	June 30, 2009	Met
Publication of a circular limiting the categories of expenditure that can be executed using the exceptional budgetary procedure bypassing the normal expenditure chain called *dépenses avant ordonnancement (DAO)*.	June 30, 2009	Met
Submission to Parliament of a draft 2010 budget consistent with the macroeconomic framework agreed with Fund staff.	October 31, 2009	

APPENDIX I—ATTACHMENT II

Republic of Chad—Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Memorandum on Economic and Financial Policies (MEFP) for the period April 1-October 31, 2009 prepared by the authorities of Chad. It describes more specifically: (a) reporting procedures; (b) definitions and computation methods; (c) indicative targets; and (d) adjusters of the indicative targets; and (e) structural benchmarks.

A. Reporting to the IMF

2. Data on all the variables subject to quantitative targets will be transmitted regularly to the IMF in accordance with the schedule shown in Attachment 1 herewith. Revisions will also be forwarded quickly (within a week). In addition, the authorities will consult with IMF staff if they obtain any information or new data not specifically defined in this TMU but pertinent for assessing or monitoring performance against the program objectives.

B. Definitions and Computation Methods

3. Unless otherwise indicated, the term **government** refers to the central government of the Republic of Chad as defined in the *Government Finance Statistics Manual* of 2001 (GFSM 2001), paragraphs 2.48-50.

4. **Oil revenue** is defined as the sum of royalties (royalties and statistical fees), income tax, dividends, discounts, area taxes, and any other flows of revenue paid by oil companies, except indirect duty and taxes. The authorities will notify IMF staff if changes in the oil taxation systems lead to changes in revenue flows.

5. **Total revenue** is tax revenue plus social contributions plus non-tax or other revenue (as defined in GFSM 2001, Chapter 5) and is recorded on a cash basis. Proceeds from taxation on contracts, asset sales, and grants are not considered revenue for the purposes of the program. It is appropriate to show separately oil revenue, as defined in paragraph 4 above, in the breakdown of total revenue.

6. **Total expenditure** is understood to be the sum of expenditure on wages and salaries of government employees, goods and services, transfers (including subsidies, grants, social benefits, and other expenses), debt interest, and capital expenditure. All these categories are recorded on a commitment basis, except debt interest, which is recorded on a cash basis. Investment is defined as shown in the *Manual on Government Finance Statistics* of 1986 (MGFS 1986) and excludes taxation on contracts. With the exception of capital expenditure,

all other spending items are defined as in GFSM 2001 (paragraphs 6.1-6.88). Total government expenditure also includes expenditure executed before payment authorization (*dépenses avant ordonnancement*—DAO) and not yet regularized.

7. **Wages and salaries** correspond to the compensation of government employees as described in paragraphs 6.8-6.18 of GFSM 2001, namely, all employees (permanent and temporary), including civil servants and members of the armed forces. Compensation is defined as the sum of wages and salaries, allowances, bonuses, pension fund contributions on behalf of civil servants, and any other form of monetary or non-monetary payment.

8. For the purposes of this memorandum, the terms **debt, debt (domestic or external) payment arrears, and expenditure payment arrears** are defined as follows:

- The term "**debt**" is as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000 (Decision 12274-00/85), but also includes contracted or guaranteed commitments for which values have not been received. For purposes of these guidelines, the term "debt" is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement signed by a legally authorized government representative through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract.

- Debt can take several forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary asset swaps, equivalent to fully collateralized loans, under which the obligor is required to repay the loan funds, generally with interest, by repurchasing the collateral from the seller in the future (as in repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts under which the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) lease agreements, that is, arrangements under which the lessee is allowed to use a property for a duration usually shorter than that of the life of the property in question, but without transfer of ownership, while the lessor retains the title to the property. For the purposes of this guideline, the debt is the present value (at the inception of the lease) of all the lease payments expected for the period of the agreement, except payments necessary for the operation, repair, and maintenance of the property;

- Any debt obligations as defined above that have not been amortized in conformity with the conditions specified in the pertinent contract or legal document establishing them are defined as **arrears**. **Debt (domestic or external) payment arrears** are defined as the difference between the amount required to be paid under the contract or legal document and the amount actually paid after the payment deadline specified in the pertinent contract or legal document;

- In accordance with the definition of debt set out above, penalties and judicially awarded damages arising from failure to pay under a contractual obligation that constitutes debt are also debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) does not constitute debt; and

- **Expenditure payment arrears** are defined as all payment orders to the Treasury created by the entity responsible for authorizing expenditure payments but not yet paid 120 days after their issuance.

9. **Loan concessionality** is assessed on the basis of the commercial interest reference rates established by the Organization for Economic Cooperation and Development (OECD). A loan is deemed to be on concessional terms if on the date the contract is signed the ratio of the present value of the loan, calculated on the basis of the interest reference rates, to its nominal value is 65 percent or less, or, in other words, if it has a **grant element** of at least 35 percent (this does not apply to refinancing operations). For debts maturing in over 15 years, the 10-year interest reference rate published by the OECD will be used to calculate the grant element. For shorter maturities, the six-month market reference rate is to be used. To both the 10-year and six-month averages of the reference rate, the following margins will be added: 0.75 percent for repayment periods of less than 15 years, 1 percent for repayment periods of 15-19 years, 1.15 percent for periods of 20-29 years, and 1.25 percent for periods of 30 years or more.

10. The fiscal program is hinged on the **non-oil primary balance.** The non-oil primary **balance** is defined as total revenue, minus oil revenue and the proceeds of interest on government assets, minus total government expenditure, excluding interest payments on domestic and external debt and foreign-financed capital expenditure.

C. Indicative Targets

11. The **indicative targets** (ITs) listed below are those specified in Table 1 of the MEFP. **Adjusters** of the ITs are specified in Section D below. Unless stated otherwise, all ITs will be assessed **cumulatively** from the beginning of the calendar year to which they apply. The quantitative targets and details on their assessment are as follows:

- **A floor for the non-oil primary balance**: The non-oil primary balance is defined in paragraph 10 above.

- **A ceiling on net banking system[1] claims on the government**: Net claims are measured in accordance with the accounting practices of the central bank (BEAC).

- **A ceiling for civilian DAO**. Civilian DAO is expenditure, not for military purposes and not related to the payment of debt, executed before payment authorization is obtained.

- **A zero ceiling for the accumulation of domestic arrears by the government**. Domestic arrears are the sum of payment arrears on expenditure and payment arrears on domestic debt as defined in paragraph 8 above. This ceiling will be assessed continuously.

- **A zero ceiling for the accumulation of external payment arrears by the government**. This ceiling will be assessed continuously.

- **A zero ceiling on government contracting or guaranteeing of new non-concessional external debt, excluding the normal financing of foreign trade, maturing in up to a year.** Debt is nonconcessional if it has a grant element of less than 35 percent (as described in ¶9 above). Normal short-term import credits are excluded, these being self-liquidating operations because the proceeds from sales of imports are used to repay the debt. This ceiling will be assessed continuously.

D. Adjusters of Indicative Targets

12. To take account of factors beyond the government's control, various indicative targets will be adjusted, as follows:

- In the event oil revenue exceeds the programmed amount, the **ceiling for net banking system claims on the government** will be lowered by the excess of oil revenue. Should oil revenue be less than programmed, the ceiling will be raised accordingly to a maximum of CFAF 10 billion; and

- The **floor for the non-oil primary balance** will be adjusted downward by the amount of unexpected budgetary support obtained.

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[1] The banking system includes the central bank, the commercial banks, and the post office bank.

E. Structural Benchmarks

13. Structural benchmarks are specified in Table 2 of the MEFP. Some further details are as follows:

- *Publication of a circular limiting the categories of expenditure that can be executed using the exceptional budgetary procedure bypassing the normal expenditure chain called dépenses avant ordonnancement (DAO).* This measure refers to the establishment of regulations to spell out the enforcement of the existing legislation on expenditure not going through normal budget procedures (DAO), by limiting and specifying the types of expenditure and the exceptional circumstances for which the DAO procedure will be authorized. The draft regulations will be discussed with IMF staff before finalization.

Attachment 1

Data	**Provider**	**Periodicity and Target Date**
Oil and non-oil revenue, by category *(Revenue position of the revenue-collecting agencies)*	Ministry of Finance (Treasury)	Monthly, within 30 days of month-end, except: 15 days after month-end for revenue positions of the revenue-collecting agencies (N'Djamena).
Budget execution data showing commitments, payment authorizations, validations, and payments *(Table showing the four phases; payroll table, including benefits; table of expenditure before payment authorization; comparative budget execution table; TOFE, on a cash basis; consolidated balance tables (changes in debts, claims, etc.); and consolidated Treasury balance)*	Ministry of Finance (General Budget Directorate and Treasury)	Monthly, within 30 days of month-end, except: 15 days after month-end for the table showing the four phases, the payroll table, and the table of expenditure before payment authorization.
Detailed budget execution information for transfers in the same classification as the budget	Ministry of Finance (General Budget Directorate)	Monthly, within 30 days of month-end.
Details, by project, of execution of the domestically financed investment budget, with the information organized by Ministry *(Database, by contract)*	Ministry of Finance (General Budget Directorate)	Quarterly, within 15 days of the end of the quarter.
Details, by externally financed project; investment budget execution; information organized by Ministry	Ministry of Planning and Ministry of Finance and Budget	15 days after the end of each semester.
Cash flow plan to the end of the ongoing year	Ministry of Finance (General Treasury Directorate)	Every month, within 15 days of month-end.

Details on the servicing of domestic debt and payment arrears of the government[1]	Ministry of Finance (Debt Directorate)	Quarterly, within 15 days of the end of the quarter.
Details on the servicing of the external debt of the government[2]	Ministry of Finance (Debt Directorate)	Quarterly, within 15 days of the end of the quarter.
Details on new loans contracted or guaranteed by the government	Ministry of Planning	Within 30 days of transaction completion.
Monetary survey	BEAC	Monthly, within 45 days of month-end.
Provisional monetary data from the BEAC *(Exchange rates, foreign reserves, assets and liabilities of the monetary authorities[3],base money, broad money, central bank balance sheet, consolidated balance sheet of the banking system, interest rates[4])*	BEAC	Monthly, within 45 days of month-end.
Net banking system claims on the government *Net government position (NGP)*	BEAC	Monthly, within 15 days of month-end for the BEAC and within 20 days for the full NGP.
Consumer price index	INSEED	Monthly, within 15 days of month-end.
Gross domestic product and gross national product	INSEED	Annually, within 90 days of year-end.
Balance of payments *(External current account balance, exports and imports of goods and services, etc.)*	BEAC	Annually, within 90 days of year-end in the case of estimates for monetary programming and within nine months for the final data.

[1] Including maturities.

[2] Including the breakdown by currency and by maturity.

[3] Including reserve assets pledged or otherwise encumbered as well as net derivative positions.

[4] Both market-based and officially determined, including discounts, money market rates, and rates on treasury bills, notes, and bonds and other securities.

INTERNATIONAL MONETARY FUND

CHAD

Staff-Monitored Program

Informational Annex

Prepared by the African Department
(In consultation with other departments)

Approved by Mauro Mecagni and Dhaneshwar Ghura

June 24, 2009

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system.

- **Joint Management Action Plan (JMAP)**. Describes the priorities and main activities of the World Bank Group and areas of cooperation with the IMF in their work with the Chadian authorities.

- **Statistical Issues.** Assesses the quality of statistical data. Provision for surveillance is adequate overall, but weaknesses persist in several areas including balance of payments, government finance, and national accounts

Contents Page

Chad: Relations with the Fund
(as of April 30, 2009)

I. Membership Status: Joined: July 10, 1963; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	56.00	100.00
Fund holdings of currency	55.72	99.50
Reserve Position	0.28	0.50
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.06	0.63

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements	22.98	41.04

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Feb 16, 2005	May 31, 2008	25.20	4.20
PRGF	Jan 07, 2000	Jan 06, 2004	47.60	42.40
PRGF	Sep 01, 1995	Apr 30, 1999	49.56	49.56

VI. Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal	4.78	7.30	5.08	2.68	1.88
Charges/Interest	0.14	0.11	0.08	0.06	0.05
Total	5.44	7.41	5.16	2.74	1.93

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	May 2001
Assistance committed	
by all creditors (US$ Million) [1/]	170.00
Of which: IMF assistance (US$ million)	18.00
(SDR equivalent in millions)	14.25

Completion point date	Floating
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	8.55
Interim assistance	8.55
Completion point balance	--
Additional disbursement of interest income [2/]	--
Total disbursements	8.55

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States. The most recent safeguards assessment of the BEAC was completed on August 30, 2004. In accordance with the four year cycle established for assessments of regional central banks, an update assessment was initiated in April 2008. The preliminary findings of this assessment indicate that implementation of previous safeguards recommendations on financial reporting, internal audit, and internal control has been limited, and that the changing risk profile of the BEAC foreign exchange holdings requires further actions to strengthen safeguards at the BEAC. Completion of the update assessment, however, requires an official response from the BEAC authorities that has yet to be received.

IX. Exchange Rate Arrangement

The exchange system common to all members of the BEAC has been free of restrictions on payments and transfers for current international transactions. The BEAC common currency is the CFA franc, which was formerly pegged to the French franc. Repurchase of CFA franc banknotes exported outside the BEAC was suspended on August 2, 1993. Effective January 12, 1994, the CFA franc was devalued by 50 percent in foreign currency terms, and the exchange rate was adjusted from F 1 = CFAF 50 to F 1 = CFAF 100. Since January 1, 1999, the CFA franc has been pegged to the euro at the rate of EUR 1 = CFAF 655.97.

X. Article IV Consultations

Chad is on the 12-month cycle. The next Article IV consultation is expected to take place by December 2009.

XI. Technical Assistance

Department	*Purpose*	*Time of Delivery*

FAD	Tax and customs administration	April 2009
FAD (AFRITAC)	Treasury management	March 2009
STA (AFRITAC)	Price Statistics	August, 2008
STA	National Account	January-February 2008
FAD	Strengthen budget management	September-October 2007
FAD (AFRITAC)	Treasury management	August 2007
STA (AFRITAC)	National account	August 2007
STA	Price statistics	May 2007
AFRITAC	Assessment mission	March 2007
STA	Data ROSC	May 2006
FAD	Strengthen budget and accounting transparency	May-June 2005
FAD	Consolidate budget management	October 2004
FAD	Implement customs action plan	April 2003
STA	National account statistics	July 2002
FAD	Assess fiscal reforms	May 2002
FAD	Strengthen tax collections and VAT	June–December 2001
STA	Multisector statistics mission	May 2000

XII. Financial Sector Assessment Program (FSAP) Participation, Report on the Observances of Standards and Codes (ROSCs), and Offshore Finance Center (OFC) Assessments

A ROSC Data Module mission visited Chad May 26–June 8, 2005. A joint IMF-World Bank mission conducted an FSAP for CEMAC countries January 30–February 9, 2006.

XIII. Resident Representative

Mr. Karangwa has been the Fund resident representative in N'Djamena since November 2007.

RELATIONS WITH THE BANK

THE JMAP BANK–FUND MATRIX
(MAY 2009- APRIL 2010)

Title	Products	Provisional Timing of Missions	Expected Delivery Date
	A. Mutual Information on Relevant Work Programs		
The World Bank work program in the next 12 months	Agreement with the authorities on a new strategy for Bank engagement in Chad.		Q3 2009
The Fund work program in the next 12 months	1. First review of the SMP and, possibly, negotiation of a new arrangement under the PRGF.	Sept. 2009	Board information on SMP Review in Nov. 2009. Possibly, presentation of a new PRGF arrangement in Q1 2010
	2. Second review of the SMP and, possibly, negotiation of a new arrangement under the PRGF.	December 2009	Board information on SMP and, possibly, presentation of a new PRGF arrangement in Q1 2010
	Technical Assistance		
	Public finance management	Sept. 2009	Sept. 2009
	Tax and customs administration	FY2010	FY2010
	Debt management	FY2010	FY2010
	Tax policy review, including tax regime for the oil sector	FY2010	FY2010
	External sector (BOP and External debt statistics)	FY2010	FY2010
	National Accounts (Update of the base year and CPI)	FY2010	FY2010
	B. Requests for Work Program Inputs		
Fund request to Bank	1. Comments on the composition of the 2010 budget.	Oct. 2009	
	2. Assessing consistency of sectoral priority action plans, annual budgets, and medium term expenditure frameworks with the Poverty Reduction Strategy Paper (PRSP).	Oct. 2009	
Bank request to Fund			
	C. Agreement on Joint Products and Missions		
Joint products	1. Joint Staff Advisory Note on PRSP.		Q42009
	2. FSAP	Q4 2009	Q12010

[1]This JMAP is subject to revision as the Bank work program may change following further dialogue with the Chadian authorities.

CHAD—STATISTICAL ISSUES APPENDIX

As of June 4, 2009

I. Assessment of Data Adequacy for Surveillance

General: Data provision has serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in government finance, balance of payments, and national accounts. The country participates in the GDDS, but its metadata needs to be updated.

The 2007 Report on the Observance of Standards and Codes (ROSC) found that the statistical system continues to be weak and suffers from a shortage of both financial and human resources. More specifically, the report identifies a number of weaknesses, including: weak source data for national accounts; insufficient coverage of government finance and monetary statistics; inadequate sectoral classification of public entities in all datasets; absence of dissemination of government finance statistics by the Ministry of Economy and Finance; and generally limited data and metadata accessibility.

National Accounts: The accuracy and reliability of the data are affected by inadequate source data and in general compilation remain weak due to inadequate funding for the INSEED. In addition, dissemination of data and metadata to the public could be improved by more timely releases and more detailed information. Since early 2007, with the technical assistance from AFRISTAT and Central AFRITAC, the authorities made a number of improvements and the latest data published on national accounts are for 2006. In particular, a Central Afritac mission in December 2008 assisted the authorities in implementing the Access software for compilation and treatment of the statistics and business statements (SFS) of the non-financial corporations SFS.

Price statistics: Despite a new the Harmonized Consumer Price Index (IHPC) covering the capital city replaced the old consumer price index (CPI) in January 2008, significant work is still needed to improve the reliability and visibility of the IHPC. The last Central-AFRITAC mission of August 2008 agreed on a short-term program with the INSEED including actions to be undertaken for the improvement of the index. A follow-up mission is expected to be fielded in this fiscal year to assist the INSEED with the update of the basket under the software CHAPO.

Government finance statistics: A working group prepares a quarterly *Tableau des opérations financières de l'État* (TOFE) and monthly debt statistics., mainly for the purpose of the Fund-supported program, which is based on several disparate sources. Only an annual TOFE is disseminated, which falls short of GDDS periodicity recommendations. Chad has not yet been able to resume reporting of detailed data for publication in the *Government Finance Statistics Yearbook*. Annual fiscal data through 2001 have been reported and are included in the *International Finance Statistics (IFS)* database.However, significant discrepancies between the deficit and total financing exist.

Monetary statistics: A key shortcoming is insufficient institutional coverage, which is limited to the central bank and commercial banks, whereas microfinance corporations, a growing source of finance in the country, are not covered by the depository corporations' survey. Therefore, monetary and fiscal indicators on net credit to government cannot be easily reconciled, owing to differences in the institutional coverage and grouping of units in general government and the public sector.

In addition, the accuracy of monetary statistics may be affected by large cross-border movements of BEAC issued banknotes among CEMAC member countries. About 38 percent of banknotes issued in Chad by the BEAC national directorate circulate in Cameroon, while currency in circulation in Chad includes some 10 percent of banknotes from Cameroon and 5 percent of banknotes from the Central African Republic.

The BEAC started in mid-2007 a project to migrate monetary statistics of member countries of the CEMAC to the methodology in the *Monetary and Financial Statistics Manual (MFSM)*. As part of this project, a regional workshop was organized by the BEAC in December 2007 to finalize the mapping of source data from commercial banks to the *MFSM* concepts and framework. STA participated in this workshop to provide guidance and advice. The BEAC has yet to submit test data using the standardized report forms.

Balance of payments: The poor quality of external sector statistics appears to be related to inadequacies in staffing and in provision of material resources dedicated to compilation. The foreign trade data, compiled by the INSEED on the basis of customs declarations are known to be unreliable, and to suffer from coverage problems; in addition, they are believed to be inconsistent with those used in the compilation of national accounts. Consequently, they are not fully used by the BEAC in the compilation of balance of payments data. Data on exports are estimated based on data provided by line ministries. Even considering the difficulty of collecting data on informal border trade between Chad and its neighboring countries, many improvements could be made on such items as imports, cotton and cattle exports, freight, and public transfers. STA has recommended tighter coordination among the CEMAC, INSEED, and other agencies in order to improve the data coverage.

II. Data Standards and Quality

Participant in the IMF's General Data Dissemination System since September 24, 2002.	Data ROSC published on August 2007

III. Reporting to STA (Optional)

Only international liquidity, monetary statistics, GDP, and prices are currently reported to STA for publication in the *International Financial Statistics*.

Country Chad: Table of Common Indicators Required for Surveillance
(As of May 31, 2009)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
						Data Quality – Methodological soundness[8]	Data Quality – Accuracy and reliability[9]
Exchange Rates	Daily	Daily	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	January 2009	April 2009	M	M	M		
Reserve/Base Money	February 2009	May 2009	M	M	M	LO, LNO, LNO, LO	LO, O, O, LO, NA
Broad Money	February 2009	May 2009	M	QM	M		
Central Bank Balance Sheet	February 2009	May 2009	M	M	M		
Consolidated Balance Sheet of the Banking System	February 2009	May 2009	M	M	M		
Interest Rates[2]	March 2009	April 2009	MI	QM	M		
Consumer Price Index	March 2009	April 2009	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	March 2009	April 2009	Q	Q	Q	LO, LNO, LO, LO	O, LO, LO, LO, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	March 2009	April 2009	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2008	April 2009	Q	Q	Q		
External Current Account Balance	2007	April 2009	A	A	A	O, O, O, LO	LO, LO, O, O, O
Exports and Imports of Goods and Services	2007	April 2009	A	A	A		
GDP/GNP	2008	April 2009	A	A	A	LNO, LO, LNO, LO	LNO, LNO, LNO, LNO
Gross External Debt	Dec. 2008	April 2009	Bi-M	Bi-M	Bi-M		

International Investment Position6	NA	NA	NA	NA	NA		

1/ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.

4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5/ Including currency and maturity composition.

6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

7/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

8/ Reflects the assessment provided in the data ROSC (published on August 31, 2007), and based on the findings of the mission that took place during May 28 to June 8, 2005) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

9/ Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.