February 2009
IMF Country Report No. 09/68

Chad: 2008 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Chad

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2008 Article IV consultation with Chad, the following documents have been released and are included in this package:

- The staff report for the 2008 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 19, 2008, with the officials of Chad on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 12, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its January 28, 2009 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Chad.

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

CHAD

Staff Report for the 2008 Article IV Consultation

Prepared by the Staff Representatives for the 2008 Consultation with Chad

Approved by Emilio Sacerdoti and Anthony Boote

January 12, 2009

Mission: Discussions were held in N'Djamena during November 6-19, 2008. The staff team comprised Messrs. Singh (head), Melhado and Camara (all AFR), Op de Beke (SPR), and Simone (FAD), and was assisted by Mr. Karangwa (resident representative). The mission met with Prime Minister Abbas, Finance Minister Ngoulou, Economy and Plan Minister Breme, Infrastructure Minister Younousmi, National BEAC Director Ngardoum and other senior officials. It also met with civil society and donor representatives. It overlapped with a World Bank mission conducting a portfolio review and assessing PRSP implementation.

Fund relations: The last Article IV was concluded on December 18, 2006. A PRGF arrangement approved in February 2005 expired in May 2008 after a three-month extension and without any reviews completed. A staff-monitored program negotiated in July 2008 was not approved by management because of fiscal slippages.

Exchange regime: Chad is a member of the Central African Economic and Monetary Community (CEMAC). Chad has accepted the obligations under Article VIII. The regional currency, the CFAF, is pegged to the euro.

Statistical issues: Data provision has serious shortcomings that significantly hamper surveillance. Chad participates in the GDDS.

Contents Page

EXECUTIVE SUMMARY

Background and outlook

Economic developments are dominated by the onset of oil production in 2003. After strong oil-driven growth over the first half of the decade, economic activity turned sluggish. Oil production began to decline in 2006. Non-oil growth has been depressed, in part due to security problems. Food price inflation has increased sharply since end-2007. High oil revenues have strengthened the external position but also boosted expenditures—notably security and investments—resulting in large non-oil primary fiscal deficits. Budgetary management is weak and concerns exist over the quality of public spending.

The macroeconomic outlook is fragile although external vulnerabilities appear manageable. Chad is seriously affected by declining oil prices, which will require substantial fiscal adjustment and will lower reserves, albeit not to critical levels. Otherwise, contagion from the global crisis should be contained by the low global integration of Chad's economy.

Policy discussions

The policy discussions focused on fiscal sustainability and external stability. To ensure fiscal and debt sustainability, the mission recommended a medium-term fiscal adjustment path consistent with a permanent income approach hypothesis. To reverse the rapid increase in non-oil primary fiscal deficits, permanent expenditures should gradually be brought in line with permanent (non-oil) revenues and made consistent with financing constraints. The strategy should be three pronged: raising non-oil revenue collection, strengthening public financial management to restore budget control, and improved efficiency and effectiveness of spending. Staff called for a revised 2009 budget and medium-term fiscal framework to adjust to a more negative oil price outlook. The authorities' current overly optimistic oil price assumptions and reliance only on lower security spending risked financing problems and costly spending adjustments later on. Structural reforms must be accelerated to improve the prospects for the non-oil sector and reduce the fiscal burden of inefficient public enterprises.

The real effective exchange rate has appreciated since 2000 but there is no strong evidence that it is inconsistent with fundamentals. However, trade performance has been flat over the past decade. Competitiveness is undermined by very high transport and energy costs and a business climate among the weakest in low-income countries.

Fund relations

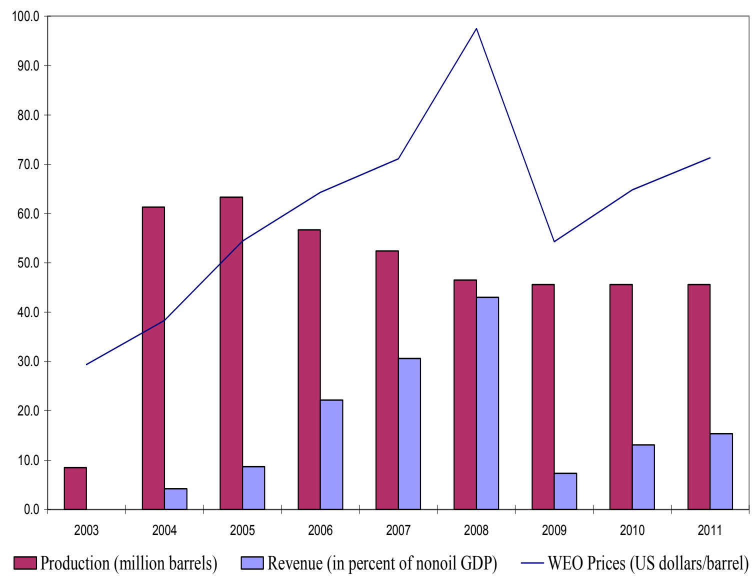
The authorities are keen on a staff-monitored program (SMP) starting in early 2009. Progress will depend in particular on actions being taken to strengthen fiscal policy and management.

I. Introduction

1. **Chad is mired in security and political instability and this has impeded growth**. Ranking 170th on the UN's Human Development Index, Chad is among the poorest countries in the world. It has experienced some form of civil 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 has driven 290,000 Sudanese refugees into Chad, adding to some 180,000 internally displaced persons.[1]

2. **Oil production started in 2003 and offers a great opportunity while posing difficult challenges.** By 2008, oil accounted for 47 percent of GDP and oil revenues had risen to 41 percent of GDP.[2] If well spent, oil revenues could expand scarce physical and human capital, diversify the economy, and make inroads into poverty. But so far Chad has exhibited symptoms typical of the "resource curse:" weak growth, non-productive spending, corruption, and conflict. How this will play out depends on many factors beyond the Fund's mandate, including progress towards peace and inclusive development. The Fund's role is critical in advising on sound macroeconomic policies, efficient public financial management, and good-quality economic institutions and governance.

Figure 1. Chad: Oil Outlook 2003-11



3. **A new poverty reduction strategy paper (PRSP) identified the key issues.** The second PRSP, adopted in 2008, sets out the government's economic strategy through 2011.[3] With good governance and an environment conducive to growth as main objectives, it highlights the importance of fiscal sustainability, sound public financial management, and effective spending of oil revenue to promote economic diversification. It also argues for continuation of structural reforms in the cotton and energy sectors.

4. **Relations with the donor community have been strained.** Dissatisfied with the implementation of the 1999 Petroleum Revenue Management Law—in particular the amount and quality of spending in priority sectors—the World Bank asked Chad to prepay all pipeline-related loans, permitting it to withdraw from the oil sector. But the Bank is expected

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[1] A European Union peacekeeping force (EUFOR) in Eastern Chad protects refugees and the internally displaced. It is expected to be replaced by a UN military force at the expiration of its mandate in March 2009.

[2] All ratios used in the report refer to non-oil GDP unless otherwise stated.

[3] Approved in April 2008, the ***Stratégie Nationale de Réduction de la Pauvreté or*** *SNRP II*, was officially submitted to the Fund in November 2008. A JSAN will be prepared in the coming months.

to reopen its field office—closed after the February 2008 rebel attacks—soon and start discussions on its future engagement outside the oil sector. Disbursements of other donors have also been delayed. The 2005-08 Fund-supported PRGF arrangement went off track due to widening non-oil fiscal deficits, inadequate poverty orientation of spending, and slow structural reform. A staff-monitored program (SMP) negotiated in July 2008 was not approved by management due to additional expenditure overruns.

II. RECENT ECONOMIC DEVELOPMENTS

5. **The main economic developments are summarized in Figure 2. Key points to note are:**

- **Economic growth has been subdued in 2007 and 2008.** Real GDP increased by only ¼ percent in 2007 due to weak non-oil growth and a sharp decline in oil production owing to technical problems in several fields. Weak agricultural production dampened non-oil sector growth, despite growing construction and service activities related to higher public spending. Real GDP in 2008 is expected to decline by ½ percent because of a further drop in oil production and the impact of the 2008 February rebel attack on economic activity over the first half of the year. Chad's growth rates are amongst the lowest in sub-Saharan Africa (Text Table 1).

Text Table 1. Chad: Macroeconomic Performance, 2002-08

	2002-06			2007 Est.			2008 Proj.		
	Chad	Oil Exporters	SSA	Chad	Oil Exporters	SSA	Chad	Oil Exporters	SSA
Real GDP (annual percentage change)	13.0	10.1	6.3	0.2	8.9	6.7	-0.4	8.3	6.1
Real non-oil GDP growth (annual percentage change)	6.1	12.1	6.9	3.1	12.1	7.7	3.2	10.9	7.0
Consumer price index (annual percentage change)	2.8	16.1	9.1	-8.8	5.7	7.1	8.1	10.1	11.7
Government expenditure (percentage of GDP)	17.2	20.8	23.7	20.9	20.6	23.9	22.8	18.7	23.3
Non-oil revenue excl. grants (percentage of non-oil GDP)	9.1	20.6	n.a.	11.0	18.2	n.a.	9.7	17.7	n.a.
Overall fiscal balance excl. grants (percentage of GDP)	-7.3	4.1	-1.0	2.0	4.9	0.4	5.0	7.0	1.1
Overall fiscal balance incl. grants (percentage of GDP)	-2.4	4.7	0.5	3.5	5.0	1.6	6.5	7.2	2.3
Non-oil primary balance (percentage of non-oil GDP)	-15.3	-37.8	n.a.	-22.0	-37.8	n.a.	-28.1	-34.2	n.a.
Current account balance excl. official currrent transfers (percentage of GDP)	-36.7	0.8	-2.5	-13.0	3.8	-3.2	-11.5	10.0	-0.9

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

- **The global economic crisis has affected the budget and reserves through lower oil prices**. Beyond this, Chad's limited financial and trade integration has insulated it from the financial crisis and ensuing global recession. Nevertheless, risks include lower demand for exports and weaknesses in the foreign banks that own most of Chad's banking system.

- **Inflationary pressures picked up in the first half of 2008 owing to rising food prices.** After average inflation declined by 8¾ percent in 2007 as food prices fell from the spike in 2006, inflation reached 11¾ percent on a 12-month basis at end-November 2008, driven by a 21 percent increase in food prices over the same period. This reflected a drop in food production, higher transportation costs from the fuel price shock, and additional demand from international humanitarian organizations.

- **Chad has not suffered from the food price crisis as much as other Sub-Saharan African countries.** Imported food accounts for only one quarter of the average household consumption basket. The policy response has been to eliminate taxes and fees on domestic sales of cattle, temporarily suspend cattle exports (lifted in mid-September), ban food crop exports, provide a temporary lump-sum allowance to low-income civil servants, and sell cereals to civil servants through the national food security agency (ONASA).

- **High oil prices did not lead to significant retail fuel price subsidies.** Retail fuel prices—liberalized in 2001—rose by only 25 percent since end-2006 despite the near doubling of international prices. Over half of Chad's fuel is informally imported from neighboring countries that subsidize prices. Pass-through is also limited through the base for the VAT being administratively set below market prices, and remaining unchanged since early 2006. The implicit subsidy is estimated at about ½ percentage point of GDP in 2008.

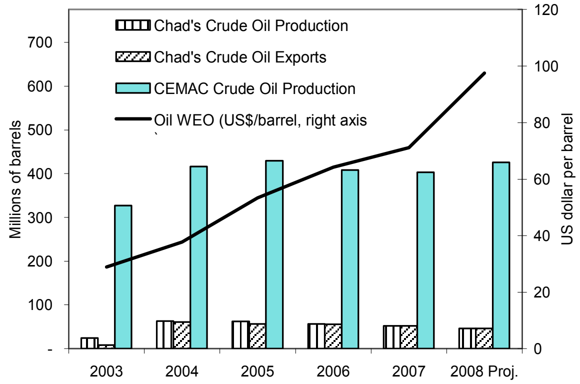
- **The BEAC tightened monetary policy by raising reserve requirements and policy interest rates.** In response to emerging inflationary pressures, the central bank increased its policy rates (¼ percent) and reserve requirements in July 2008. Broad money has been growing rapidly (19 percent in the year to September 2008).

- **Non-oil fiscal deficits have been widening rapidly as oil revenues have increased**. The non-oil primary deficit (NOPD) deteriorated from 4 percent of GDP in 2004—the onset of oil revenues—to 22 percent (commitment basis) in 2007. All spending increased, but higher security and domestically-financed investment spending accounted for about 40 percent and 30 percent of the increase respectively. A further widening of the non-oil primary deficit to 28 percent of GDP is expected in 2008, mainly on account of higher security spending following the February attacks. Spending on security has risen very rapidly—from 2¼ percent of GDP in 2005 to almost 14½ percent projected in 2008.[4] It is highly unpredictable and non-transparent, and is subject neither to budgetary scrutiny ex ante nor to audits ex post.

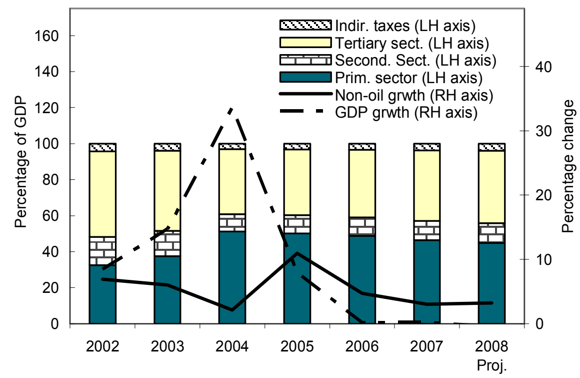
[4] In 2006 security spending exceeded the initial budget allocation by 6¼ percent of GDP, in 2007 by 5¾ percent and in 2008 by 8 percent. Over these three years, security spending turned out three times higher than initially budgeted (31¾ percent of GDP versus 11¼ percent).

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

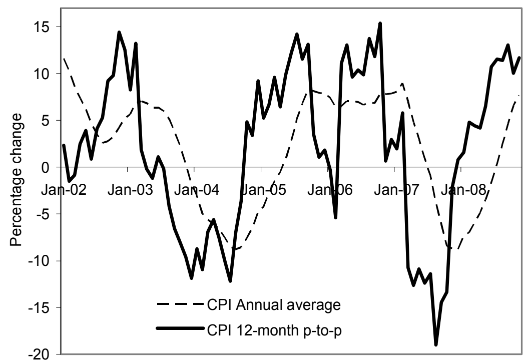
Chad is a small oil producing country in the CEMAC, though the world oil price boom has changed its macroeconomic conditions ...



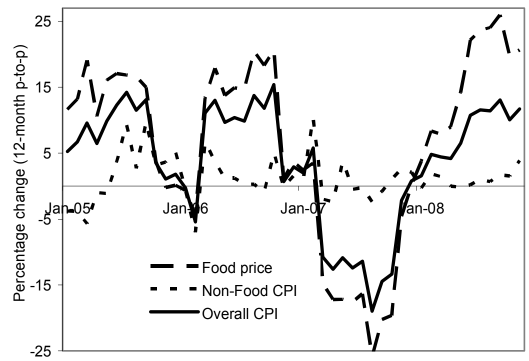
… with sharp fluctuations in GDP growth while the non-oil sector's activity remains sluggish.



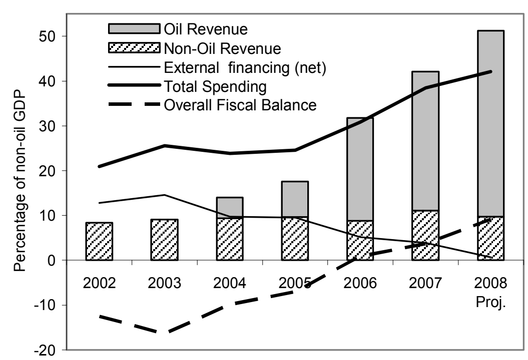
After declining in 2007 from previous hikes, inflation has picked up since the beginning of 2008 …



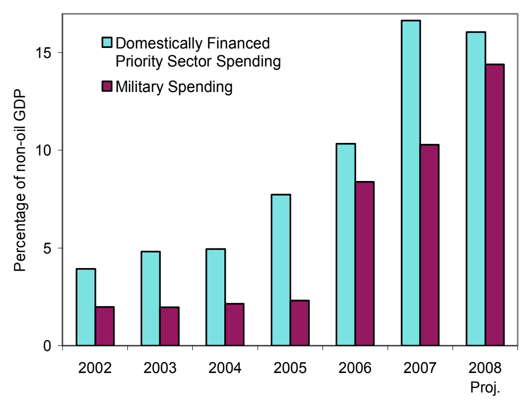
… mainly driven by food prices, while core inflation (nonfood products and services CPI) has been moderate.



Oil's advent has resulted in a tripling of total government revenue, an improved overall fiscal balance while funding larger spending ...



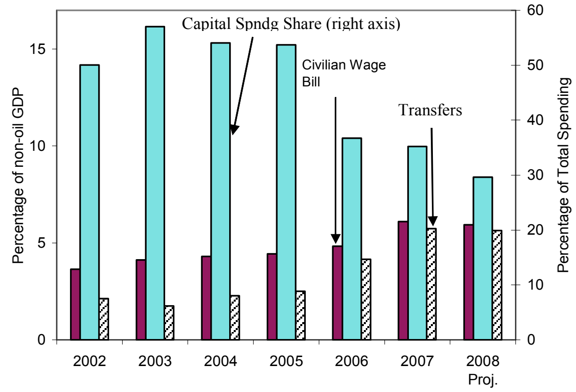
… on the military in an unsettled security and political environment, and on the priority sectors.



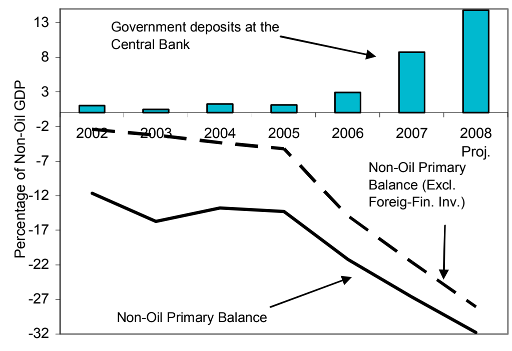
Sources: Chadian authorities; and staff estimates and projections.

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

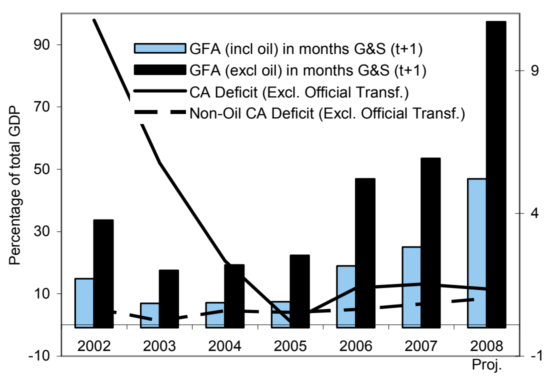
The share of capital spending in the total has significantly dropped and categories of current spending have increased ...



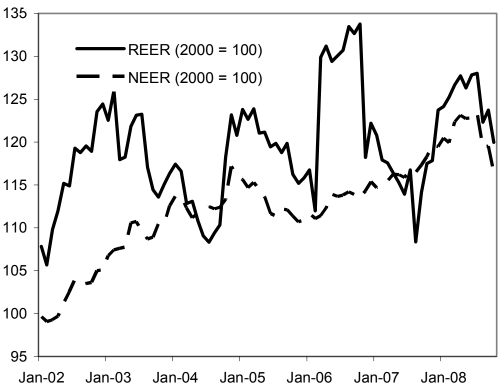
… entailing a widening of the non-oil primary deficit, though the government has built deposits at the Central Bank.



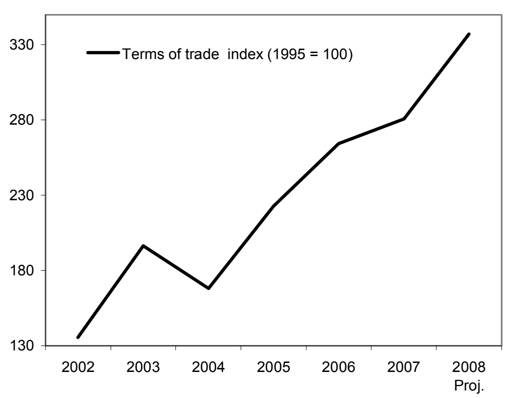
Oil receipts have improved the overall external position ...



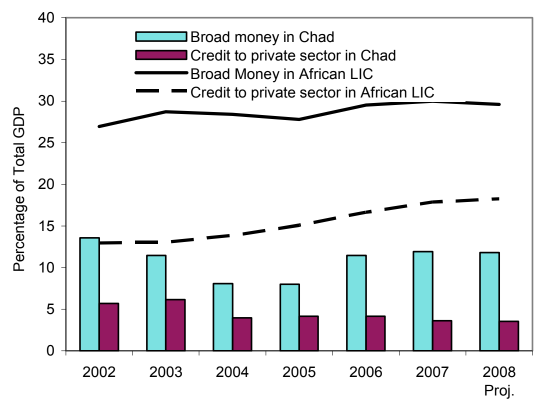
… meanwhile, the real exchange rate has been appreciating.



Recent developments in oil markets have led to a significant improvement in the terms of trade.



The financial system has remained shallow, far below the level in comparable low-income African countries (LIC).



Sources: Chadian authorities; and staff estimates and projections.

- **Domestically-financed priority sector spending[5] tripled since the advent of oil revenues in 2004.** From 2006 to 2008, spending on health and basic education each increased by ½ percentage point of GDP.

- **Aid flows have declined significantly in the oil era.** Total aid (grants and loans) was equivalent to 10 percent of GDP in 2004 but declined to 5 percent in 2007. While loans decreased, grants have remained relatively stable.

- **The REER has depreciated since end-2006 through November 2008 by 1¾ percent.** The REER appreciated by 27 percent over 2000-06, reflecting higher domestic inflation than trading partners and the strong appreciation of the Euro against the dollar. However, over 2007-08, the REER depreciated mainly due to lower inflation while other CEMAC countries, most of them significant oil producers, experienced appreciation.

- **Steadily increasing oil prices through mid-2008 have helped strengthen the external current account and official reserves**. The 45 percent improvement in the terms of trade over 2006-08, despite declining oil production, raised export proceeds by 22 percent. But imports also grew strongly, by 66 percent overall and 60 percent outside the oil sector, and the trade surplus moved from 37 percent of total GDP in 2005 to 32 percent in 2008. Oil production was also responsible for large earnings outflows, most of which were reinvested so that the capital account was highly positive. On balance, despite a negative current account balance, substantial reserves were accumulated. Import cover is expected to rise to 10½ months of imports of non-oil goods and services in 2008, from 5¼ months in 2006.

- **Chad has improved its compliance with the CEMAC convergence criteria thanks to the oil windfall (Text Table 2).** Since 2005 it no longer has a negative basic fiscal balance nor has it accumulated arrears since that time.

III. Medium-Term Outlook and Policy Discussions

6. **The policy discussions focused on ensuring fiscal sustainability and external stability and competitiveness against the backdrop of the global economic slowdown and weakening commodity prices.** The mission recommended fiscal adjustment start with the 2009 budget signaling a policy stance that is sustainable and consistent with available financing over the medium term. External vulnerabilities and major constraints to competitiveness exist, even though estimates of the equilibrium real exchange rate found limited evidence of inconsistency with Fundamentals.

[5] Expenditures are not classified by function. Here priority sector spending is defined as the sum of spending by all ministries and agencies whose mandate, as agreed between the government and the staffs of the Bank and Fund, has a strong poverty orientation. It excludes security spending.

Text Table 2. Chad's Compliance with CEMAC Convergence Criteria, 2003-08
(Percent of GDP, unless otherwise indicated)

	Criteria	2003	2004	2005	2006	2007	2008 Proj.
Basic fiscal balance[1]	≥ 0	-3.4	-0.2	1.1	3.8	4.3	7.1
CPI inflation (annual percentage change)	≤ 3	-1.8	-5.4	7.9	7.9	-8.8	7.5
Stock of public debt	≤ 70	43.0	31.9	33.8	28.8	24.5	21.6
Net change in government arrears	≤ 0	0.2	0.9	0.1	-0.2	-0.5	-0.6
(In number of fulfilled criteria/total criteria)							
Chad's compliance		2/4	2/4	2/4	3/4	4/4	3/4
CEMAC's compliance (average)		2/4	3/4	3/4	3/4	3/4	3/4

Sources: Chadian authorities; and staff estimates.
[1]Overall fiscal balance excluding grants and foreign-financed investment.

A. Medium-Term Macroeconomic Framework

7. **The medium-term macroeconomic outlook is fragile given the global recession and the outlook for oil prices (Table 1).** Non-oil growth is expected to average 4¾ percent over 2009-11 driven by the service sector, construction, and manufacturing. Oil growth reflects gradually declining production absent the discovery of new exploitable reserves. With adoption of a sustainable fiscal policy (see the "adjustment" scenario in Text Table 3)—where the non-oil deficit is reduced to 10½ percent by 2011 in line with the permanent income framework described in Box 1—import cover would increase to over one year by 2012. The less ambitious adjustment in the 2009 budget combined with the lower WEO oil prices would lead to fiscal financing gaps in 2009 and over the medium term (see "WEO oil prices" scenario in Text Table 3). Absent further domestic shocks, inflation is projected to revert to its historical level of 3 percent over the medium term. Important risks to macroeconomic stability exist from security and political instability, further declines in oil prices, and failure to re-establish strong relations with key donors, impeding financing and policy support.

B. Fiscal Sustainability

8. **The mission proposed a modified permanent income framework to guide fiscal policy (Box 1).**[6] Fiscal policy can become sustainable if expenditures are gradually reduced to the level of permanent (non-oil) revenues. The declining path for the non-oil primary deficit the mission proposed recognizes that Chad's large investment needs and potential for catch-up growth justify a drawdown of accumulated reserves, and protects priority sector spending (see adjustment scenario in Text Table 3 and Box 1). Staff simulations suggest the sustainable long-term non-oil balance ranges from a small surplus to deficits of around 3 percent of GDP depending on the model used and the speed of adjustment.

[6] See accompanying Selected Issues Paper on Fiscal Sustainability.

Text Table 3. Chad: Fiscal Scenarios, 2008-11
(Percent of non-oil GDP)

	2008	2009	2010	2011
		Adjustment[1]		
Oil revenues	41.5	7.1	12.6	14.9
Current expenditure	29.6	20.1	16.2	15.0
Transfers	14.9	6.8	4.4	3.6
of which exceptional military spending	9.3	2.1	1.2	0.4
Domestically-financed investment	8.7	6.9	5.2	6.5
Non-oil primary deficit	-28.1	-16.8	-10.7	-10.6
Overall balance	8.1	-14.0	-2.4	0.5
Deposits at the BEAC	14.8	0.5	0.4	1.9
		Authorities[2]		
Oil revenues	41.5	22.8	22.4	21.9
Current expenditure	29.6	22.0	18.4	17.2
Transfers	14.9	7.9	5.1	4.6
Of which: exceptional military spending	9.3	2.1	--	--
Domestically-financed investment	8.7	9.6	8.5	7.5
Non-oil primary deficit	-28.1	-21.2	-15.6	-12.6
Overall balance	8.1	-5.6	-0.8	2.3
Deposits at the BEAC	14.8	12.0	13.1	17.2
Financing gap	0.0	0.0	0.0	0.0
		WEO oil prices[3]		
Oil revenues	41.5	7.1	12.6	14.9
Overall balance	8.1	-21.3	-10.7	-4.7
Deposits at the BEAC	14.8	0.0	0.0	0.0
Financing gap	0.0	4.6	8.5	3.0

Sources: Chadian authorities' information; and staff estimates.
[1]Using WEO oil price and staff's spending plan.
[2]Authorities' oil price assumptions and their spending plan.
[3]Authorities' spending plans with WEO oil price assumptions.

9. **Staff advised a three-pronged approach to reducing the non-oil primary balance while strengthening poverty reduction efforts:** (i) improving public financial management (PFM) through the strict respect of budgetary procedures and other key PFM reforms; (ii) enhancing non-oil revenue collection through reforms in tax and customs administration; and (iii) improving the efficiency and targeting of spending, including efforts to increase the returns to public investment and raise absorptive capacity.

10. **The authorities agreed with the analysis of fiscal sustainability and proposed adjustment strategy but stressed the attendant challenges.** Fiscal policy is under constant pressure from security shocks and demands from a population with large unmet basic service needs. Nevertheless, they agreed that the large non-oil fiscal deficit should be

reduced. The 2009 budget already aimed for a sizeable reduction, particularly its efforts to curtail security spending. The authorities acknowledged that the wage bill and transfers to inefficient public entities were placing an excessive claim on resources, concurring that these outlays had to be forcefully addressed as part of medium-term fiscal consolidation.

11. **Progress on the fiscal strategy has been limited to date:**

- PFM remains weak across the board. Budgets experience excessive delays, normal budget procedures are often bypassed, extrabudgetary spending occurs,[7] medium-term budgeting and cash management are underdeveloped, and non-competitive procurement is prevalent. Concerns also exist over the weak links between annual budgets and the PRSP and priority actions programs, with ad-hoc budgetary additions undermining established priorities. Moreover, line ministries play too limited a role in formulating their budgets and their capacity for budget execution and monitoring needs strengthening. The authorities agreed that concerted efforts were required. They have introduced a *visa de crédit* system to stop commitments without budget appropriations, and established an investment database. They also emphasized the importance of donor support for the PAMFIP (*Plan d'Action pour la Modernisation des Finances Publiques*). The authorities have started to clear domestic arrears (CFAF 14 billion or ¾ percent of GDP in 2008) and intend to finalize a comprehensive arrears clearance plan in 2009 (under preparation since 2005).

- Staff encouraged public dissemination of the budget, budget execution reports and procurement information. Staff expressed concerns over the Cabinet's decision to request Parliament to exempt the government from submission of draft budget review laws (*Lois de Règlement*) for 2004 through 2008.

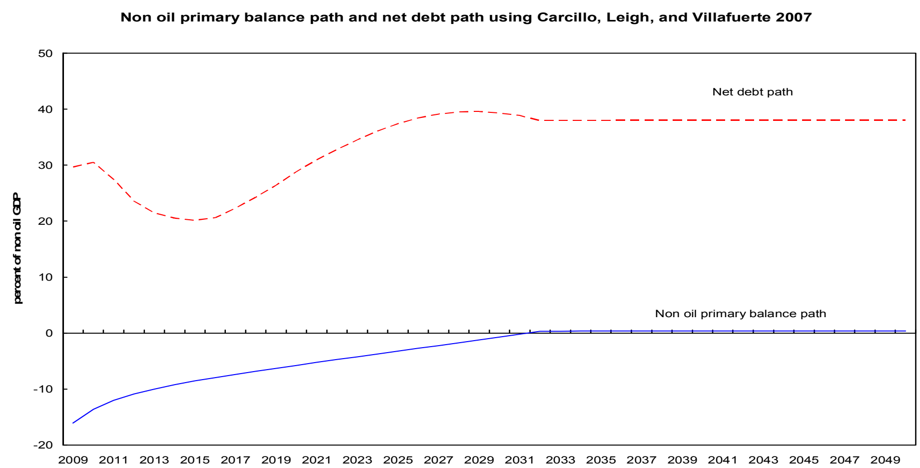
- Non-oil revenues are well below other African oil exporters (Text Table 1), but tax reforms are proceeding slowly. The authorities reiterated their intention to undertake a comprehensive review of tax policy, including the fiscal regime for the oil sector. Tax administration would benefit from making the large taxpayers unit operational, and from a medium-term action plan to address the large leakages in customs (IMF technical assistance in tax and customs administration has been requested).

- Development partners, including the Fund, have drawn attention to problems with the composition, cost and quality of public spending. The authorities agreed the wage bill could be rationalized, including through an employee census, computerization of the

[7] Treasury balances outside the banking system had been overestimated because of unrecorded extrabudgetary spending, possibly on security outlays. The mission revised spending in 2007 and 2008 upward by ½ and 1 percent of GDP respectively, and the authorities promised revised and reconciled statements.

Box 1. PIH Frameworks and the Sustainable Non-Oil Primary Deficit (NOPD)

Permanent income hypothesis (PIH) frameworks are flexible in accommodating country-specific circumstances. In a PIH framework, government consumption depends on stable oil wealth, not volatile oil revenue. Convergence to a sustainable NOPD may be achieved by front-loaded fiscal adjustment or more gradually to minimize adjustment costs or allow for habit persistence. A LIC could opt for gradualism permitting higher levels of investment spending early on. However, unless that investment is productive, the delayed adjustment implies a lower sustainable non-oil primary deficit. PIH approaches can also assume that oil wealth is consumed over a relatively long but finite time period to capture political economy considerations. As a result, PIH frameworks have been applied to several oil-producing countries including those facing similar challenges to Chad, such as Congo, Cameroon and Gabon. *



The application of the PIH and other frameworks points out that Chad's current NOPD is far too high. The results in the table below suggest that the long-run sustainable NOPD ranges from a small surplus to low single-digit deficits. Chad's 2008 NOPD will be close to 28 percent. These results are robust to sensitivity analysis on the parameters of the models including on oil revenues.

Average Levels of non-oil primary fiscal balances under different approaches	2009-12	2013-16	2017-20	2021-45	2046-70
Bird in Hand	-1.4	-4.4	-5.1	-2.8	0.0
Balanced Budget	-10.1	-8.5	-3.7	-0.1	0.9
PIH: Villafuerte, Leigh and Carcillo (2007) (infinite horizon)	-13.1	-8.9	-6.5	-1.0	0.4
PIH: Constant government consumption annuity as a share of GDP (finite horizon)	-1.1	-2.3	-2.6	-2.6	-2.6

Source: Fund Staff Estimates.

* The approaches presented in the table are elaborated in a Selected Issues Paper accompanying this staff report. See also WP/07/80 "Catch-up Growth, Habits, Oil Depletion, and Fiscal Policy: Lessons from the Republic of Congo," Villafuerte, Leigh, and Carcillo (2007).

payroll, and some demobilization if security permitted. They also agreed existing investments should be rendered productive through adequate allocations for recurrent costs. Staff stressed the need to complete existing projects before launching new ones, and to restrain for now investment in sectors—such as health and education—with absorptive capacity constraints.

C. The 2009 Budget

12. **The 2009 budget envisages a significant reduction in the non-oil primary deficit but needs to go further.** Cabinet approved a non-oil primary deficit that is 7 percentage points lower than the expected 2008 outturn, or 21¼ percent of GDP (Tables 2-3). While commending these efforts, staff pointed out that the overall balance turns sharply negative in 2009 due primarily to lower prices.[8] Additional spending adjustment in the order of 4½ percent of non-oil GDP is needed in 2009 to avoid financing problems.

13. **Staff urged the authorities to present to Parliament a revised budget that addressed the following fiscal risks**:

- **Oil revenue projections underpinning the budget were overly optimistic**. Due to a higher oil reference price, the 2009 budget projects almost 16 percent of non-oil GDP more in oil revenue than the staff's forecast using WEO prices. If these higher prices do not materialize, financing gaps will emerge and costly expenditure adjustments may be inevitable. The authorities also need to fully take into account the impact of a September 2008 agreement with the oil consortium.

- **Expenditure adjustment banking solely on lower military outlays was highly risky.** Non-security spending should be rationalized, notably the wage bill─which alone consumes almost all non-oil revenues─and transfers to public enterprises. The dramatic growth in investment spending should also be contained to avoid disruptions of projects critical to growth, and to support a cushion of savings for possible further shocks. Addressing weaknesses in tax collection should begin vigorously in this budget.

14. **Despite these risks, the authorities preferred to proceed with their budget but stood ready to undertake mid-course corrections.** The authorities committed to stronger non-oil revenue collection, accelerated reforms of the state water and electricity utility (STEE) and cotton company (Cotontchad), and efforts to moderate the wage bill. They would execute the budget in a restrained manner, and issue a budget amendment in mid-year if oil prices did not recover. Staff counseled that a revised budget would be more prudent in an environment of weak expenditure control and any windfall revenues could be used to reconstitute savings or amend the budget if needed.

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[8] The drop is accentuated by the amendments to the concession agreed with the oil consortium in September 2008 which include a new income tax advance system that shifts receipts from 2009 to 2008, and a one-time payment in 2008 partially offset by lower taxes in 2009.

15. **Staff urged removal of the export ban on food crops with immediate effect**. Recognizing that the ban impedes trade and negatively affects incentives for producers, the authorities committed to do this at the earliest opportunity. Staff recommended vigilance on food prices. There should be adequate budgetary appropriations for the food security agency to replenish its stocks. And there should be better targeting than directing assistance to civil servants.

D. Oil Revenue Management

16. **Oil revenues appear well captured in the budget but improvements in monitoring and transparency are desirable.** Chad's oil sector and oil fiscal regime are relatively simple compared with other oil producers in the region. Moreover, Chad is unique in that all royalties and dividends are paid into a single offshore account, while all income taxes and other fees go directly to the central bank.[9] But in anticipation of a more complex oil revenue situation, staff encouraged the authorities to strengthen monitoring, including through improved flows of oil sector information within government. To maximize oil revenues, the authorities should exercise all their audit rights, using independent auditors with an international reputation. Staff encouraged the authorities to move on the Extractive Industries Transparency Initiative (EITI) and join all other CEMAC countries in becoming an EITI candidate country.

17. **A new petroleum revenue management law (PRML) is needed.** Key features of the 1999 PRML have been abolished (Fund for Future Generations), modified (definition of priority sectors) or are uncertain (future of the *College*[10] and offshore account). A new PRML should focus on the key principles of fiscal sustainability, use of oil revenues to support priority sectors, unified budget management, improved transparency and reinforced accountability. The authorities are interested in a new PRML to replace the current interim mechanism that would cover all oil revenues and extend *College* oversight to all investment spending. Discussions on design are expected in 2009, in collaboration with key partners.[11]

E. Structural Reform

18. **Reform of large public enterprises has stalled and their fiscal burden has continued to mount.** Two loss-making parastatals require transfers that increased from ¾ percent of GDP in 2005 to 1¾ percent in 2008. The mission recommended that all parastatals prepare and publish properly audited financial statements.

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[9] The oil consortium publishes detailed quarterly payment information (http://www.essochad.com/Chad-English/PA/TD_HomePage.asp).

[10] An independent body with civil society participation responsible for approving the use of oil royalties and dividends.

[11] The European Union and European Investment Bank are already in discussions with the authorities on a system for monitoring oil revenue collection, on which they have sought Fund staff collaboration.

- **Cotontchad**'s production is in serious decline—by one-third from 2004-06 to 2007-08—and it has accumulated losses of 1½ percent of GDP. Progress towards the planned privatization has been slow but contracts have be signed for a financial and technical audit. One third of the population depend on cotton and the authorities indicated that official support to the sector through direct subsidies and government-guaranteed loans will therefore continue. However, recognizing the difficulty of competing internationally against highly-subsidized cotton, the authorities were open to encouraging farmers to pursue other opportunities.

- **STEE's** finances have deteriorated due to poor management, weak bill collection, rising fuel costs, and technical problems, and subsidies are increasing to 1¼ percent of GDP in 2008. In response, the authorities have decided to break up the company into separate water and electricity entities, and devise a roadmap of reform by end-2008 which will include performance contracts. Given the vital importance of cost-effective energy to Chad's development, the mission urged progress on initiatives such as a "topping plant" to lower fuel costs.

19. **Fiscal risks from the new state-oil company need to be carefully managed.** The *Société d'Hydrocarbures du Tchad* (SHT) was established in 2007, and will be the government's vehicle for greater participation in the oil sector.[12] This company has already begun to receive transfers, and presents further fiscal risks in terms of foregone revenue. The mission argued that state-oil companies can make a positive economic contribution provided they have good corporate governance, adequate political oversight and transparent relations with the budget. The authorities confirmed the Council of Ministers will exercise political oversight over all major SHT decisions with budgetary implications.

F. External Stability and Debt Sustainability

20. **The REER has appreciated since 2000 but there is no strong evidence that it is inconsistent with fundamentals (Box 2)**. The CEMAC's fixed exchange rate regime provides a reliable nominal anchor for an economy regularly hit by fiscal and price shocks. Assessments of the equilibrium exchange rate found no significant under- or over-valuation. Problems with data on prices of non-tradables and profitability in the non-oil sector impede an evaluation of Dutch disease symptoms, although the high import content of oil activity and its relatively recent start may explain the limited incidence to date. However, Chad's non-oil export performance over the past decade has been stagnant. This is consistent with the findings of the 2006 Diagnostic Trade Integration Study that structural factors such as inadequate infrastructure and public services, deficiencies in the business climate, and weak governance are major constraints on competitiveness.[13] The authorities concurred with

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[12] SHT will manage all government participations in oil-related ventures, including the government's 40 percent share in a joint venture with a Chinese company to build and operate a refinery and power plant at an estimated cost of $1 billion with a starting date now set for 2010.

[13] Chad—Diagnostic Trade Integration Study, 2006 (see http://go.worldbank.org/99WGL1CJI0).

staff's assessment of the real exchange rate, and stressed their efforts to lower production costs by improving infrastructure.

21. **Chad's balance of payments will deteriorate in 2009 but does not appear to be acutely vulnerable.** Large fluctuations in the capital and financial account (Table 5) mostly represent foreign direct investments by the oil companies, offset by oil-related imports and services and income outflows. With oil accounting for ninety percent of exports, the main external vulnerability relates to the trade account impact of a further drop in oil prices. Oil production itself would not appear to be a risk: output has been stabilized and is deemed profitable even at world oil prices of $20-25 per barrel. The authorities were satisfied with the protection offered by current and projected reserves levels: around five months coverage of all imports (including oil-related imports) and 10 months of non-oil imports. The pooling of reserves at the BEAC provides another layer of comfort.

Box 2. Chad: Real Effective Exchange Rate Assessment

An assessment under the CGER methodologies shows that the REER has appreciated moderately in recent years. There is no robust evidence of inconsistency with fundamentals but data limitations are significant. This is in line with the CEMAC assessment during the 2008 Article IV consultation, which concluded that even though there is evidence of moderate overvaluation, the zone's REER remains consistent with external stability.

- **Equilibrium Real Exchange Rate Approach.** Regressions on the fundamentals with different specifications failed to show a significant relation between the REER and fundamentals.

- **Macroeconomic Balance Approach.** The underlying current account is estimated at -8¾ percent of total GDP and the current account norm (using CGER coefficients) at -5¾ percent of total GDP. Estimations under this approach show a slight overvaluation of the REER of about 3½ percent.

- **External Sustainability Approach.** A benchmark level of the net foreign asset (NFA) position is estimated taking into account the profile of FDI, and the size of the REER adjustment calculated required to close the gap between the NFA stabilizing current account and the underlying current account. Estimation over 2010-28 shows this gap to be 2 percent of total GDP, implying the REER is overvalued by about 2¼ percent.

22. **Chad's risk of debt distress is moderate and its overall public sector debt dynamics appear sustainable** (see Supplement 2)**.** A preliminary version of the Debt Sustainability Analysis (DSA) was discussed with the authorities. The oil windfall of recent years has improved Chad's debt ratios, with timely debt servicing and limited new borrowing.[14] [15] The debt outlook is favorable but risks include the possibility that oil revenue spending does not produce the desired non-oil growth and fails to raise non-oil revenues. The

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[14] The problem of periodic, short-term arrears in payments to the Fund has been much reduced since the introduction of an automatic payment mechanism with the BEAC in 2007.

[15] Chad could have an external arrear to a private creditor of around $7 million deriving from a claim dating back to 2002. This creditor prevailed in international arbitration and in a court case over its right to attach Chadian government assets in the U.K.

authorities intend to continue their prudent approach to debt management. The mission urged them to limit debt-financed state participation in various oil ventures. It commended them for resisting offers of non-concessional financing since that would compromise Chad's progress to HIPC and MDRI debt relief, in which there remains a strong interest.

G. Improving Growth Prospects

23. **Beyond resolution of the conflict, strong growth will depend on sound macroeconomic management and higher factor productivity.** The authorities agreed that Chad's growth prospects depend critically on the effective use of its oil receipts to improve its productive capacity. While an environment conducive to further exploration and extraction might augment oil resources, the focus should be on enhancing opportunities for non-oil private sector growth. This requires good governance and a stable investment climate, areas where Chad languishes even relative to other low-income countries.[16] Staff supported the authorities' major efforts to improve basic infrastructure in health, education, roads, electricity, water, telecommunications, all critical to growth. Going forward the choice of investments should observe sectoral absorption limitations and maximize poverty reduction. Because of its poverty impact, the authorities are considering stepping up investment in infrastructure supporting agricultural and livestock growth.

24. **The financial system is vulnerable and underdeveloped (Box 3), and as a consequence constrains non-oil growth.** Weak financial institutions operate in a shallow system. Access to credit is problematic, with banking services virtually non-existent outside major urban centers. Financial depth (measured by broad money to GDP) was only 12 percent in 2007, compared with 30 percent on average in African low income countries. Low financial intermediation results from an unstable security situation, a poor legal and economic environment, and the lack of deposit insurance. In response, a new national microfinance strategy aims to boost such lending from the current equivalent of 3 percent of banking system lending. The government is also contemplating a housing finance scheme, funded from the budget, by donors and through a levy on salaries.

[16] See Selected Issues Paper on Assessing the Real Exchange Rate and Competitiveness.

Box 3. Summary Assessment of Financial System Soundness

Chad's banking system is subject to several vulnerabilities, stemming from its lack of depth, some undercapitalization, and insufficient on-site supervision (see the CEMAC FSAP (www.imf.org) for more details.) Asset quality has improved over recent years with gross non-performing loans lower than the CEMAC average, although provisioning levels were also lower than the community average. Some banks are capital deficient (on the basis of risk-weighted assets). Since 2004, several banks (3 of 7) have persistently exceeded the single borrower limit (15 percent of equity). The narrow credit market, comprising mainly government and a few large-size enterprises, raises portfolio risk. Significant government involvement in the banking sector—as shareholder (25 percent ownership overall) and customer—adds to those problems. However, because of limited competition, the sector remains profitable, fairly stable and growing. More frequent on-site inspections of banks are required. Supervision of microfinance institutions is virtually non-existent.

Chad: Financial Soundness Indicators, 2003-September 2008

	2003	2004	2005	2006	2007	Sept. 08
				Solvency		
Capital-asset ratio (unweighted)	9.4	11.0	8.3	8.3	9.7	9.7
			Assets quality, profitability, and liquidity			
Gross NPL/Gross banking loans	17.4	15.5	12.9	12.4	11.6	8.7
Net NPL/Gross banking loans	3.9	2.0	2.1	2.3	1.5	0.8
Asset return	2.3	0.0	2.0	1.5	1.9	2.2
Equity return	24.8	0.2	24.5	18.7	13.0	16.3
Liquid assets/total assets	23.2	28.5	27.3	39.2	48.6	43.2
Liquid assets/demand deposits	65.7	74.8	76.8	79.9	112.1	89.3
			Banks' rating (in number of banks)			
Solid or Good	3	2	2	4	6	4
Fragile	2	3	4	2	0	1
Critical	0	0	0	0	0	1
Number of banks	7	7	7	7	7	7

Sources: BEAC/COBAC.

IV. Program Relations

25. **The authorities are keen on an SMP but staff stressed this is conditional on progress in key areas.** An SMP in 2009 would require a strong 2009 budget, agreement on a feasible medium-term fiscal framework, evidence of adherence to budget controls, and progress on the composition and quality of spending. The authorities would like an SMP to start promptly in order to pave the way to a new PRGF, and eventually to HIPC and MDRI debt relief.

V. Staff Appraisal

26. **The paramount challenge for the authorities is how to seize the development opportunity offered by the next decade of oil revenues**. The restoration of peace and political stability are clearly critical. Despite insecurity, progress has been made during the oil windfall years in priority sector spending, even though the development impact is still awaited. Macroeconomic management must be sound in order to build on these achievements. The effective use of oil revenues for poverty reduction and growth is even more pertinent in today's environment of weaker global demand and lower oil prices. Fiscal policy must start urgently to follow a sustainable medium-term path, necessitating significant reductions in the non-oil primary deficit.

27. **Fiscal policy should be tightened in 2009 and over the medium term.** A lower more realistic oil price assumption should be adopted in the 2009 budget. And the tighter revenue outlook calls for more ambitious efforts to address non-security spending, such as on the wage bill and transfers to public enterprises, and in raising the low non-oil revenue take. These actions would avoid costly corrections later in the year.

28. **Strengthening public expenditure management continues to be key for improving the growth and poverty impact of fiscal policy.** Serious efforts must be made to re-establish budget control and improve the efficiency of public spending. Chad's largely sound budget procedures need to be respected, with large extrabudgetary spending and the use of exceptional procedures curtailed. An appropriate balance between investment spending and the requisite recurrent inputs must be ensured. More competitive procurement will help raise the quality and development impact of public spending, and enhanced fiscal transparency—on military spending, financial statements of public enterprises, and in budget execution—will aid accountability. Recent efforts to begin clearance of domestic arrears are laudable, as is the government's intention to continue eschewing non-concessional borrowing.

29. **The capacity for collecting oil revenue needs to improve with the complexity of the sector**. Chad is to be commended for its effective and reasonably transparent oil revenue collection system but should prepare for a more complex future, with more producers and revenue streams. Rapid progress to becoming an EITI candidate country and publishing an

EITI report would usefully complement these efforts, and should be relatively simple given the information already in the public domain.

30. **Raising economic growth, productivity and strengthening competitiveness demand an acceleration of long overdue structural reforms.** The current global crisis and dramatic turnaround in oil revenue highlights again the urgency of diversifying the economy, reform of key parastatals (electricity, water and cotton), and improving competitiveness through a more attractive business climate, developing basic infrastructure, deepening the financial sector, and improving governance.

31. **Serious data shortcomings hamper surveillance (see Supplement 1).** The highest priorities are the national accounts and balance of payments data. Sufficient resources should be allocated to the National Statistics Institute (INSEED) and BEAC for statistical collection and analysis.

32. Staff recommends that the next Article IV consultation be held on the 12-month cycle subject to the Board decision on consultation cycles (Decision No. 12794-(02/7) dated July 15, 2002, as amended).

Table 1. Chad: Selected Economic and Financial Indicators, 2006-12

	2006	2007	2008 Proj.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.
	(Annual percentage change, unless otherwise specified)						
National income							
GDP at constant prices	0.2	0.2	-0.4	3.5	3.5	3.6	2.7
Oil GDP	-10.5	-7.7	-11.7	-1.7	-1.1	-1.0	-6.1
Non-oil GDP	4.7	3.1	3.2	5.0	4.7	4.7	4.7
Consumer price index (average)	7.9	-8.8	8.1	3.0	3.0	3.0	3.0
Chadian oil price (U.S. dollars/barrel)[1]	42.1	51.1	75.7	28.1	37.6	43.6	66.8
WEO assumptions (U.S. dollars/barrel)	64.3	71.1	97.5	54.3	64.8	71.3	75.0
Oil production (in million barrels)	56.7	52.4	46.5	45.6	45.6	45.6	43.3
Exchange rate FCFA per US$ average	522.4	478.6	...	...	...	...	...
Money and credit							
Net foreign assets of the banking system[2]	75.2	40.6	71.7	-46.6	28.9	35.0	46.4
Net domestic assets[2]	-23.3	-35.2	-60.7	55.0	-20.6	-27.2	-38.5
Of which: net claims on central government[2]	-25.2	-33.3	-40.1	64.5	4.3	-13.8	-26.2
credit to nongovernment sector	2.8	-4.2	3.2	2.5	2.5	2.4	2.4
Broad money	51.9	5.4	11.1	8.4	8.3	7.9	7.9
Income velocity of money (M2)	4.7	4.6	4.6	4.6	4.6	4.6	4.6
External sector (valued in CFA francs)							
Exports , f.o.b.	8.1	-1.0	14.0	-44.1	19.3	10.5	1.5
Imports, f.o.b.	12.6	3.3	4.4	-10.2	3.1	6.5	0.7
	(Percent of GDP, unless otherwise specified)						
Investment and Saving							
Gross investment	20.3	18.0	14.0	15.4	14.2	14.5	14.3
Government	6.0	7.3	6.8	6.8	5.7	6.5	6.7
Private sector	14.3	10.7	7.2	8.5	8.6	8.0	7.6
Of which: oil sector	9.3	5.6	2.4	2.8	3.2	2.6	2.2
Gross national savings	11.4	7.5	4.3	-1.7	6.9	7.4	8.2
Government	9.4	11.4	13.6	0.6	7.1	9.4	10.6
Private sector	2.0	-3.9	-9.3	-2.3	-0.2	-2.0	-2.4
Current account balance, incl. official current transfers	-9.0	-10.5	-9.6	-17.1	-7.3	-7.0	-6.1
	(In percent of non-oil GDP, unless otherwise specified)						
Government finance							
Revenue	31.8	41.6	51.2	16.8	22.8	25.4	25.4
of which: non-oil revenue	8.8	11.0	9.7	9.7	10.2	10.5	10.8
Total expenditure	30.9	38.6	42.1	30.2	24.8	24.9	24.1
Current expenditure	19.6	25.2	29.6	20.1	16.2	15.0	14.3
Capital expenditure	11.3	13.3	12.5	10.1	8.6	9.9	9.9
Non-oil primary balance (commitment basis, excl. grants)[3]	-15.0	-22.0	-28.1	-16.8	-10.7	-10.6	-9.7
Overall fiscal balance (commitment basis,excl. grants)	0.9	3.0	9.1	-13.4	-1.9	0.5	1.3
	(Percent of GDP, unless otherwise specified)						
External sector							
Current account balance							
Excluding official current transfers	-11.8	-13.0	-11.5	-19.9	-10.0	-9.6	-9.1
Excluding oil-related operations and official current transfers (in percent of non-oil GDP)	-13.8	-19.2	-23.5	-16.5	-14.9	-15.8	-15.7
	(In billions of CFA francs, unless otherwise specified)						
Nominal GDP	3,294	3,358	3,744	3,239	3,610	3,909	4,102
Nominal non-oil GDP	1,756	1,840	2,032	2,203	2,386	2,575	2,778
Nominal GDP (in millions U.S. dollars)	6,306	7,018	8,419	6,615	7,404	8,053	8,486

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

[1]Chadian oil price is WEO price minus prudence factor and 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.

Table 2. Chad: Consolidated Fiscal Operations, 2006-12
(Billions of CFA francs)

	2006	2007	2008	2009		2010	2011	2012
			Proj.	Budget	Proj.	Proj.	Proj.	Proj.
Revenue	558.0	764.9	1,040.9	716.2	369.6	544.9	654.5	705.4
Oil revenue[1]	403.4	563.2	843.1	502.4	155.7	300.6	382.9	404.0
Royalties and dividends	160.6	132.5	207.2	145.8	85.1	103.1	121.2	128.0
Emissions fee/Statistical Fee	13.4	4.9	53.0	15.7	12.1	13.1	14.5	14.4
Profit taxes	229.4	425.8	582.9	340.9	58.5	184.3	247.2	261.6
Non-oil Tax revenue	143.7	188.9	189.7	207.1	207.1	237.0	263.6	291.4
Non Tax revenue	10.9	12.7	8.1	6.7	6.7	7.4	8.0	10.0
Expenditure	542.3	709.3	855.3	824.6	664.2	590.8	640.6	670.6
Current expenditure	343.4	464.2	602.2	485.6	442.8	386.6	385.9	396.4
Wages and salaries	118.2	153.2	185.4	194.9	188.8	185.8	181.7	186.9
Civil service	85.0	110.8	120.6	127.4	121.7	122.1	121.1	127.9
Military	33.2	42.4	64.8	67.5	67.1	63.7	60.5	59.1
Goods and services	44.6	82.2	99.3	101.4	92.4	86.0	102.4	111.2
military good and services	11.2	21.3	32.6	26.0	26.0	24.7	23.5	23.5
Transfers	73.0	104.2	114.5	128.6	104.0	76.9	82.9	89.5
Exceptional defense spending	92.9	111.5	188.9	46.1	46.1	27.9	10.0	0.0
Interest	14.6	13.0	14.1	14.6	11.4	10.1	8.8	8.8
Domestic	5.1	3.0	3.7	4.6	1.4	0.6	0.0	0.0
External	9.5	10.0	10.4	10.0	10.0	9.5	8.8	8.8
Investment expenditure	198.9	245.1	253.1	339.0	221.4	204.2	254.7	274.2
Domestically financed	88.5	154.9	177.7	210.4	152.1	123.1	167.4	180.6
Foreign financed	110.4	90.2	75.4	128.5	69.3	81.1	87.4	93.6
Non-oil primary balance (excl. grants, commitment basis)[2]	-262.6	-404.4	-570.8	-467.6	-369.7	-255.2	-272.9	-268.3
Overall balance (excl. grants, commitments)	15.8	55.5	185.6	-108.3	-294.7	-45.9	13.9	34.7
Arrears and float	-6.0	-18.3	-21.0	-14.0	-14.0	-11.8	0.0	0.0
Errors and omissions	-37.9	5.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (excl. grants, cash)	-28.1	42.3	164.6	-122.3	-308.7	-57.6	13.9	34.7
Financing	28.1	-42.3	-164.6	122.3	308.7	57.6	-13.9	-34.7
Domestic financing	-63.5	-113.0	-178.3	27.1	266.3	5.7	-71.4	-146.4
Central Bank (BEAC)	-62.7	-98.8	-159.5	45.8	285.0	20.6	-71.4	-146.4
Commercial banks	-0.6	4.1	0.0	0.0	0.0	0.0	0.0	0.0
Non-bank financing	-0.2	-18.3	-18.8	-18.7	-18.8	-14.9	0.0	0.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	91.6	70.7	13.7	95.2	42.4	51.9	57.5	111.7
Grants	62.6	49.4	56.4	68.8	41.4	68.5	73.7	98.4
Budget support grants	7.6	0.0	0.0	0.0	0.0	0.0	0.0	19.4
Project grants	55.0	49.4	56.4	68.8	41.4	68.5	73.7	79.0
Loans (net)	29.0	21.3	-42.7	26.4	1.1	-16.5	-16.2	13.2
Disbursements	55.4	40.8	19.0	59.7	28.0	12.7	13.6	42.4
Project loans	55.4	40.8	19.0	59.7	28.0	12.7	13.6	14.6
Amortization	-33.9	-19.5	-61.7	-33.3	-26.9	-29.2	-29.8	-29.2
Debt relief	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Non oil GDP	1,756.2	1,840.0	2,032.3	2,203.1	2,203.1	2,386.5	2,574.6	2,778.2
Total military spending	147.3	186.5	292.6	146.6	146.3	123.4	101.1	108.2
Deposits at the BEAC	51.9	158.8	301.5	264.2	10.0	10.0	50.0	196.5

Sources: Chadian authorities; and IMF staff estimates.

[1]Oil export price based on WEO minus prudence factor and quality discount.

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

Table 3. Chad: Consolidated Fiscal Operations, 2006-12

(Percent of non-oil GDP)

	2006	2007	2008	2009		2010	2011	2012
			Proj.	Budget	Proj.	Proj.	Proj.	Proj.
Revenue	31.8	41.6	51.2	32.5	16.8	22.8	25.4	25.4
Oil revenue [1]	23.0	30.6	41.5	22.8	7.1	12.6	14.9	14.5
Royalties and dividends	9.1	7.2	10.2	6.6	3.9	4.3	4.7	4.6
Emissions fee/Statistical Fee	0.8	0.3	2.6	0.7	0.5	0.5	0.6	0.5
Profit taxes	13.1	23.1	28.7	15.5	2.7	7.7	9.6	9.4
Non-oil Tax revenue	8.2	10.3	9.3	9.4	9.4	9.9	10.2	10.5
Non Tax revenue	0.6	0.7	0.4	0.3	0.3	0.3	0.3	0.4
Expenditure	30.9	38.6	42.1	37.4	30.2	24.8	24.9	24.1
Current expenditure	19.6	25.2	29.6	22.0	20.1	16.2	15.0	14.3
Wages and salaries	6.7	8.3	9.1	8.8	8.6	7.8	7.1	6.7
Civil service	4.8	6.0	5.9	5.8	5.5	5.1	4.7	4.6
Military	1.9	2.3	3.2	3.1	3.0	2.7	2.4	2.1
Goods and services	2.5	4.5	4.9	4.6	4.2	3.6	4.0	4.0
military good and services	0.6	1.2	1.6	1.2	1.2	1.0	0.9	0.8
Transfers	4.2	5.7	5.6	5.8	4.7	3.2	3.2	3.2
Exceptional defense spending	5.3	6.1	9.3	2.1	2.1	1.2	0.4	0.0
Interest	0.8	0.7	0.7	0.7	0.5	0.4	0.3	0.3
Domestic	0.3	0.2	0.2	0.2	0.1	0.0	0.0	0.0
External	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.3
Investment expenditure	11.3	13.3	12.5	15.4	10.1	8.6	9.9	9.9
Domestically financed	5.0	8.4	8.7	9.6	6.9	5.2	6.5	6.5
Foreign financed	6.3	4.9	3.7	5.8	3.1	3.4	3.4	3.4
Non-oil primary balance (excl. grants, commitment basis) [2]	-15.0	-22.0	-28.1	-21.2	-16.8	-10.7	-10.6	-9.7
Overall balance (excl. grants, commitments)	0.9	3.0	9.1	-4.9	-13.4	-1.9	0.5	1.3
Arrears and float	-0.3	-1.0	-1.0	-0.6	-0.6	-0.5	0.0	0.0
Errors and omissions	-2.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (excl. grants, cash)	-1.6	2.3	8.1	-5.6	-14.0	-2.4	0.5	1.3
Financing	1.6	-2.3	-8.1	5.6	14.0	2.4	-0.5	-1.3
Domestic financing	-3.6	-6.1	-8.8	1.2	12.1	0.2	-2.8	-5.3
Central Bank (BEAC)	-3.6	-5.4	-7.8	2.1	12.9	0.9	-2.8	-5.3
Commercial banks	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Non-bank financing	0.0	-1.0	-0.9	-0.8	-0.9	-0.6	0.0	0.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	5.2	3.8	0.7	4.3	1.9	2.2	2.2	4.0
Grants	3.6	2.7	2.8	3.1	1.9	2.9	2.9	3.5
Budget support grants	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Project grants	3.1	2.7	2.8	3.1	1.9	2.9	2.9	2.8
Loans (net)	1.7	1.2	-2.1	1.2	0.0	-0.7	-0.6	0.5
Disbursements	3.2	2.2	0.9	2.7	1.3	0.5	0.5	1.5
Project loans	3.2	2.2	0.9	2.7	1.3	0.5	0.5	0.5
Amortization	-1.9	-1.1	-3.0	-1.5	-1.2	-1.2	-1.2	-1.0
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Non oil GDP (in billions of CFAF)	1,756.2	1,840.0	2,032.3	2,203.1	2,203.1	2,386.5	2,574.6	2,778.2
Total military spending	8.4	10.1	14.4	6.7	6.6	5.2	3.9	3.9
Deposits at the BEAC	3.0	8.6	14.8	12.0	0.5	0.4	1.9	7.1

Sources: Chadian authorities; and IMF staff estimates.

[1] Oil export price based on WEO minus prudence factor and quality discount.

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

Table 4. Chad: Monetary Survey 2006-12.

(Billions of CFA francs)

	2006	2007	2008 Proj.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.
Net foreign assets	265.7	418.9	704.3	498.3	636.6	818.4	1078.1
Central bank	280.3	404.2	688.8	481.9	619.5	794.2	1050.0
Commercial banks	-14.6	14.8	15.5	16.4	17.1	24.2	28.1
Net domestic assets	111.6	-21.2	-262.5	-19.3	-117.8	-258.7	-474.1
Domestic credit	159.8	18.2	-128.7	167.5	200.1	141.0	7.9
Claims on the government (net)	23.3	-102.3	-261.8	23.2	43.8	-27.6	-174.0
Treasury (net)	72.1	-83.4	-274.5	11.6	33.2	-37.3	-182.7
Banking sector	38.4	-108.3	-295.0	-5.0	20.1	-47.9	-192.1
Central bank	31.1	-106.6	-293.4	-4.4	19.7	-49.3	-194.5
Commercial banks	6.7	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
CCP	0.6	0.6	0.6	1.6	2.6	3.6	4.6
Fund position	33.7	24.8	20.5	16.6	13.1	10.7	9.4
Other nontreasury	-48.8	-18.9	12.6	11.6	10.6	9.6	8.6
Credit to the economy	136.5	120.5	133.1	144.3	156.3	168.6	181.9
Other items (net)	-48.2	-39.4	-133.8	-186.8	-317.9	-399.7	-482.0
Money and quasi money	377.3	397.8	441.8	478.9	518.8	559.7	604.0
Currency outside banks	217.2	240.3	239.7	255.0	271.1	286.8	303.5
Demand deposits	140.4	132.8	162.1	178.1	195.6	213.8	233.7
Time and savings deposits	19.7	24.6	40.0	45.8	52.2	59.1	66.8
Memorandum items:							
Broad money (annual percentage change)	51.9	5.4	11.1	8.4	8.3	7.9	7.9
Velocity (total GDP)	4.7	4.6	4.6	4.6	4.6	4.6	4.6

Sources: Chadian authorities; and IMF staff estimates.

Table 5. Chad: Balance of Payments, 2006-12
(Billions of CFA francs)

	2006	2007	2008 Proj.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.
Current account, incl. official current transfers	-294.9	-353.6	-360.4	-553.9	-264.3	-275.0	-248.2
Current account, excl. official current transfers	-389.3	-436.3	-431.0	-646.2	-362.3	-374.0	-373.1
Current account, excl. oil, incl official current transfers	-241.9	-352.6	-477.2	-363.1	-356.1	-405.6	-435.0
Trade balance, incl. oil sector	1,079.2	1,022.3	1,182.0	320.8	541.2	621.6	615.9
Trade balance, excl. oil sector	-165.2	-224.4	-318.8	-227.6	-200.0	-230.3	-244.1
Exports, f.o.b. *of which:*	1,781.9	1,760.8	2,016.0	1,089.3	1,312.9	1,457.4	1,478.3
Cotton exports	44.1	36.2	42.4	44.9	45.4	46.9	48.4
Cattle exports	119.6	121.4	128.5	136.1	144.1	152.6	161.9
Oil and oil product exports	1,552.6	1,532.0	1,766.8	822.3	1,028.7	1,153.8	1,153.5
Imports, f.o.b.	-702.7	-738.5	-833.9	-768.5	-771.7	-835.8	-862.5
Net Services	-916.3	-935.0	-913.7	-790.9	-836.9	-879.5	-862.6
Net Services, excl oil	-139.0	-193.2	-222.2	-226.4	-241.7	-257.3	-272.6
Net Factor Income	-603.1	-574.2	-746.8	-249.1	-132.4	-176.2	-184.0
Net Factor Income, excl oil	11.4	14.4	16.3	17.9	19.8	21.9	24.0
Current transfers (net)	145.3	133.3	118.1	165.3	163.9	159.1	182.5
Official (net)	94.4	82.7	70.6	92.3	98.1	99.0	124.9
Private (net)	50.9	50.6	47.5	73.0	65.8	60.1	57.6
Financial and capital account	491.3	477.5	645.0	347.0	401.9	449.7	504.0
Capital transfers	55.0	49.4	56.4	41.4	68.5	73.7	79.0
FDI	342.9	338.7	533.6	310.8	349.9	391.9	411.1
Other medium & long term investment	18.4	102.6	55.0	-5.2	-16.4	-15.9	13.9
Public Sector	21.5	21.3	-36.9	-5.2	-16.4	-15.9	13.9
Private Sector	-3.1	81.3	91.9	0.0	0.0	0.0	0.0
Short-term capital and errors and omissions	74.9	-13.2	0.0	0.0	0.0	0.0	0.0
Overall balance	196.4	123.9	284.7	-207.0	137.7	174.7	255.8
Financing	-196.4	-123.9	-284.7	207.0	-137.7	-174.7	-255.8
Change in net reserves	-196.4	-123.9	-284.7	207.0	-137.7	-174.7	-255.8
Residual Financing Need	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:							
Gross official reserves (in months of imports (excl. oil sector))	5.2	5.9	10.6	7.4	8.7	10.4	12.9
CEMAC's gross official reserves (in months of imports)	4.6	4.8	5.8	n.a.	n.a.	n.a.	n.a.

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

Table 6. 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*	66.0	66.0	*65.0*	*66.0*
Employment to population ratio, ages 15-24, total (%)	*44.0*	46.0	47.0	*45.0*	*52.0*
Income share held by lowest 20%	..	..	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	*34.3*	29.4	..	*26.8*
Poverty headcount ratio at national poverty line (% of population)	..	*64.0*	..	..	..
Prevalence of undernourishment (% of population)	*58.0*	*49.0*	..	..	..
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	..	*64.0*
Literacy rate, youth male (% of males ages 15-24)	..	..	56.0	..	*76.0*
Persistence to last grade of primary, total (% of cohort)	..	..	46.0	..	..
Primary completion rate, total (% of relevant age group)	17.0	15.0	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 parliament (%)	..	*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	*45.0*	..	61.0	*68.0*	*89.0*
Ratio of female to male secondary enrollment	*20.0*	..	28.0	*33.0*	*80.0*
Ratio of young literate females to males (% ages 15-24)	..	..	42.0	..	*85.0*
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*	*72.0*
Mortality rate, infant (per 1,000 live births)	120.0	121.0	122.0	*124.0*	*94.0*
Mortality rate, under-5 (per 1,000)	201.0	202.0	205.0	*209.0*	*157.0*
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*193.0*	191.0	*169.0*	*121.0*
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	..	*22.0*
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)	..	..	32.0 ..		*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)	119.0	179.0	259.0	*299.0*	*368.0*
Prevalence of HIV, female (% ages 15-24)	..	..	..	2.8	..
Prevalence of HIV, total (% of population ages 15-49)			*3.4*	3.5	5.2
Tuberculosis cases detected under DOTS (%)	..	35.0	34.0	19.0	46.0
Goal 7: Ensure environmental sustainability					
Annual freshwater withdrawals, total (% of internal resources)	..	..	1.5	..	..
CO2 emissions (kg per PPP $ of GDP)	0.0	0.0	0.0	..	..
CO2 emissions (metric tons per capita)	0.0	0.0	0.0	..	..
Forest area (% of land area)	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)	..	..	..	..	..
Goal 8: Develop a global partnership for development					
Internet users (per 100 people)	..	*0.0*	0.0	*0.6*	4.4
Mobile phone subscribers (per 100 people)	..	..	0.1	8.5	22.8
Telephone mainlines (per 100 people)	0.1	0.1	0.1	*0.1*	1.8

Source: World Bank, World Development Indicators (2008).

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

Table 7. Chad: Social and Demographic Indicators

	Latest Single Year			Same Region or Income Group	
	1970-75	1980-85	1996-2007	Sub-Saharan Africa	Low-Income Country
Population					
Total population, mid-year (millions)	4.0	5.1	10.5	702.6	2,310.3
Growth rate (in percent, annual average for period)	2.0	2.7	2.8	2.1	1.8
Urban population (in percent of population)	15.6	19.9	25.0	36.1	30.3
Total fertility rate (births per woman)	6.3	7.2	6.2	5.1	3.7
Poverty (percent of population)					
National headcount index	...	...	64.0	...	...
Urban headcount index	...	...	63.0	...	...
Rural headcount index	...	...	67.0	...	...
Income					
Gross National Income per capita (in U.S. dollars)	230	210	250	490	450
Consumer price index (1995=100)	...	77	149	...	...
Food price index (1995=100)	...	110	15	...	...
Income/Consumption distribution	...	...	...	...	...
	...	...	...	...	...
Share of income or consumption	...	...	...	...	...
Gini index	...	...	...	...	...
Lowest quintile (in percent of income or consumption)	...	...	...	...	...
Highest quintile (in percent of income or consumption)	...	...	...	...	...
	...	...	...	...	...
Social indicators					
Public expenditure (in percent of GDP)					
Health	...	...	2.0	2.5	1.2
Education	...	...	2.5	3.4	2.7
Social security and welfare					
Net primary school enrollment rate (in percent of age group)					
Total	...	...	58	...	78
Male	...	...	70	...	84
Female	...	...	47	...	72
Access to an improved water source (in percent of population)					
Total	...	...	27	58	75
Urban	...	...	31	83	90
Rural	...	...	26	45	69
Immunization rate (in percent, under 12 months)					
Measles	...	7	55	58	64
DPT	...	3	40	54	64
Child malnutrition (in percent, under 5 years)	...	35	28	0	44
Life expectancy at birth (in years)					
Total	40	44	48	46	58
Male	39	43	47	45	57
Female	42	46	50	47	59
Mortality (per 1,000 live births)					
Infant	149	124	124	103	82
Under 5	...	225	200	174	126
Adult mortality (15-59, per 1,000 population)					
Male	554	556	449	519	319
Female	492	449	361	461	268
Maternal (modeled, per 100,000 live births)	...	...	1,100	...	...
Births attended by skilled health staff (in percent)	...	...	16	0	38

Sources: World Bank, World Development Indicators Online, 2006; United Nations, Millenniun Indicators, 2004.

INTERNATIONAL MONETARY FUND

CHAD

Staff Report for the 2008 Article IV Consultation

Informational Annex

Prepared by the African Department
(In Consultation with other Departments)

Approved by Emilio Sacerdoti and Anthony Boote

January 12, 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 in their work with the Chadian authorities.
- **Statistical issues.** Assesses the quality of statistical data. Data provision have serious shortcomings that significantly hamper surveillance.

Contents Page

I—RELATIONS WITH THE FUND

(As of November 30, 2008)

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	0.13	1.39

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF arrangements	26.43	47.19

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				
	2008	2009	2010	2011	2012
Principal		8.23	7.30	5.08	2.68
Charges/Interest	0.07	0.21	0.17	0.14	0.12
Total	0.07	8.43	7.47	5.22	2.80

[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. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. 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. The assessment found that the Bank has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, and recommended further enhancements in the areas of external and internal audits, and financial reporting. Latest monitoring results indicate the existence of certain vulnerabilities including in the system of internal controls. These and other aspects of the BEAC safeguards framework will be reviewed in the context of the 2008 update safeguards assessment of BEAC that is underway.

X. 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 655.957.

XI. Article IV Consultations

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

XII. Technical Assistance

Department	Purpose	Time of Delivery
FAD (AFRITAC)	Tax and Customs Administration	November, 2008
STA (AFRITAC)	National Accounts	October 28-November 7, 2008
STA (AFRITAC)	Price Statistics	August 18-29, 2008
STA	National Accounts	January-February 2008
FAD	Budget	September-October 2007
FAD (AFRITAC)	Treasury management	August 2007
STA (AFRITAC)	National accounts	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

XIII. Finance 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.

XIV. Resident Representative

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

II–THE JMAP BANK–FUND MATRIX
(OCTOBER 2008-OCTOBER 2009)[1]

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	1. Prepayment of Pipeline-related loans completed September 5, 2008.	Sept 5, 2008	
	2. Joint WB-Government of Chad Evaluation/mission (impact of WB portfolio, progress in priority sectors, and progress on PFM).	Oct 27-Nov. 7 2008	
	3. World Bank partially reopens office in N'Djamena.	January 2009	
	4. Prime Minister to visit Washington when relations between the Chad and the Bank will be discussed.	Early 2009	
The Fund work program in the next 12 months	1. 2008 Article IV consultation, discussions of the 2009 budget, and first review of the SMP.	Oct./Nov 2008	Board meeting in December 2008
	2. Second review of the SMP and PRGF negotiations.	Q1 2009	Board meeting in Q2 2009
	Technical Assistance		
	National account statistics	October 2008	October 2008
	Customs administration	Q1/Q2 2009	Q1/Q2 2009
	Debt management	Q1/Q2 2009	Q1/Q2 2009
	Public financial management	Q1/Q2 2009	Q1/Q2 2009
	B. Requests for Work Program Inputs		
Fund request to Bank	1. Inputs for review of the 2009 Budget.		
	2. Assessing consistency of PRSP, PAPs, and MTEF.		
Bank request to Fund	1. Fund to keep Bank abreast of developments in Chad, including those related to the macroeconomic framework, implementation of the 2008 and 2009 budgets, preparations for the 2009 and 2010 Budgets, PFM and PRML issues.		
	C. Agreement on Joint Products and Missions		
Joint products	1. Debt sustainability analysis.		
	2. Assessment of HIPC completion point triggers.		
	3. JSAN of PRSP.		

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

III—Statistical Issues

(As of December 23, 2008)

I. Assessment of Data Adequacy for Surveillance

General: Data provision have serious shortcomings that significantly hamper surveillance.

1. **National accounts:** The accuracy and reliability of key national aggregates are seriously affected by weak source data due to inadequate funding for the National Institute of Statistics, Economic and Demographic Studies (INSEED). Consequently, there is a high degree of uncertainty regarding estimates of the level and growth rate of GDP and expenditure components that impact on ratios scaled by GDP. Timeliness of the national accounts also impacts on surveillance: since early 2007, with assistance from AFRISTAT and Central AFRITAC, the authorities made a number of improvements and are currently in process of finalizing the national accounts estimates for 2005. Sustained improvement in the utility of the national accounts for surveillance will require a durable and substantial increase in resources, as well as ensuring absorption and retention of know-how transferred through technical assistance.

2. **Price statistics:** In January 2008, the Harmonized Consumer Price Index (IHPC) covering the capital replaced the dated CPI. However, significant work is still needed to improve the reliability and visibility of the IHPC. An August 2008 Central-AFRITAC mission agreed with INSEED a short-term program to improve timely production of the IHPC using new software.

3. **Government finance statistics:** reported for surveillance purposes include a quarterly Tableau des opérations financières de l'État (TOFE) and monthly debt statistics. The TOFE generally follows the presentational recommendations of the *GFSM 1986,* but is compiled by a working group drawing source data from disparate administrative sources, resulting in discrepancies between the central government operations and financing data.

4. **Monetary and financial statistics:** Monetary statistics, interest rates, and exchange rates are provided for surveillance purposes. The 2005 data ROSC mission found that the coverage of monetary statistics 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. The monetary data on net credit to government frequently can not be reconciled with the fiscal data, owing to differences in the institutional coverage and grouping of units in general government and the public sector.

5. In addition, the accuracy of monetary statistics may be affected by large cross-border movements of banknotes among Central African Economic and Monetary Union (CEMAC) member countries. About 40 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.

6. 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.

7. **External sector statistics:** 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 national directorate in the compilation of balance of payments statistics. 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 to items such as imports, cotton and cattle exports, freight, and public transfers. Tighter coordination among the CEMAC, INSEED, and other agencies is required in order to improve the data coverage.

II. Data Standards and Quality

8. Chad participates in the General Data Dissemination System. A data ROSC was published in August 2007.

III. Reporting to STA (Optional)

9. Chad does not report government finance statistics for publication in the *Government Finance Statistics Yearbook* or in *International Financial Statistics (IFS).* Balance of payments statistics are not reported for publication in the *Balance of Payments Statistics Yearbook* or *IFS.* Monetary and financial statistics, as well as international liquidity and exchange rates are reported for publication in *IFS.*

III—Appendix I. Chad: Table of Common Indicators Required for Surveillance
(As of December 22, 2008)

	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]	Memo Items: Data Quality—Accuracy and Reliability[9]
Exchange Rates	Daily	Daily	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	June 2008	July 2008	M	M	M		
Reserve/Base Money	Oct. 2008	Oct 2008	M	M	M	LO, LNO, LNO, LO	LO, O, O, LO, NA
Broad Money	Oct. 2008	Oct 2008	M	QM	M		
Central Bank Balance Sheet	Oct. 2008	Oct 2008	M	M	M		
Consolidated Balance Sheet of the Banking System	Oct. 2008	Oct 2008	M	M	M		
Interest Rates[2]	August 2008	Sept 2008	MI	QM	M		
Consumer Price Index	Oct. 2008	Oct 2008	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3] —General Government[4]	May 2008	July 2008	Q	Q	Q	LO, LNO, LO, LO	O, LO, LO, LO, NO
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	May 2008	July 2008	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2007	July 2008	Q	Q	Q		
External Current Account Balance	2006	July 2008	A	A	A	O, O, O, LO	LO, LO, O, O, O
Exports and Imports of Goods and	2006	July 2008	A	A	A		

Services							
GDP/GNP	2007	July 2008	A	A	A	LNO, LO, LNO, LO	LNO, LNO, LNO, LNO
Gross External Debt	Dec. 2007	July 2008	Bi-M	Bi-M	Bi-M		
International Investment Position[6]	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*.

INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND
CHAD

Joint Fund-Bank Debt Sustainability Analysis Under the Debt Sustainability Framework for Low-Income Countries

Prepared by the staffs of the International Development Association and the International Monetary Fund

Approved by Sudhir Shetty and Carlos Alberto Braga (IDA) and Anthony Boote and Emilio Sacerdoti (IMF)

January 13, 2009

Based on the external Low-Income Country (LIC) Debt Sustainability Analysis (DSA), Chad's risk of debt distress is moderate although subject to important risks in the external environment and the conduct of economic policy. The inclusion of domestic debt does not alter the assessment of Chad's risk of debt distress.[1]

I. BACKGROUND

Recent Developments in external debt

1. Chad's external debt situation has improved considerably over the past few years, thanks to the strong growth in overall GDP stemming from the oil sector, reduced external financing, and continued debt servicing. By end-2005—the basis for the last DSA[2]—the stock of debt had already declined to below 30 percent of GDP, from over 60 percent at the HIPC Initiative decision point. Since then, it has declined further to 23 percent of GDP at end-2007. All of Chad's external debt is public debt, and the bulk is owed to the multilateral creditors IDA and the African Development Bank (AfDB) (see Text Table 1). Nominal debt levels are sensitive to exchange rate changes, mainly through the Euro-dollar rate given that the CFA franc has a fixed parity with the Euro (about one quarter of debt is denominated in Euro or CFA). Debt levels have been reduced further because Chad made principal payments as scheduled while contracting only moderate amounts of new debt. Moreover, disbursements suffered when creditors started encountering problems in project execution. In 2008, the debt stock declined significantly after Chad prepaid to the IBRD the balance on the loan that financed the government's equity share in the oil pipeline plus to IDA the two associated credits for capacity building (around CFAF 31 billion in total).

[1] The DSA has been produced jointly by World Bank and Fund staffs in consultation with the staff of the African Development Bank. The fiscal year for Chad is January through December.

[2] The last DSA was submitted to the Boards of the WB and IMF on December 11, 2006. It can be found in the Chad section of the IMF public website, www.imf.org., among the papers published in January 2007 for the 2006 Article IV Consultation.

2. Chad's debt management is guided by the framework adopted in March 2007 by the Economic and Monetary Community of Central Africa (CEMAC) to which it belongs.[3] In that context, Chad's debt management capacity has been significantly strengthened. A new software introduced in 2008 permits the integration of domestic and external debt. It will also be used to publish a new statistical bulletin, and the debt department is planning its own website. Starting 2009, to get a better grip on treasury arrears (*arrierés comptables*) any unpaid bills at the end of the complementary period of the budget year will be formally recognized as debt and transferred to the debt department.

External debt relief—HIPC Initiative and MDRI

3. Chad is eligible for the enhanced Heavily-Indebted Poor Countries (HIPC) Initiative. The decision point was reached on May 24, 2001, and HIPC Initiative debt relief was estimated at US$170 million in 2001 NPV terms (of which US$68 million by IDA and US$18 million by the IMF). Part was to be delivered as interim assistance with the remainder at the completion point. Creditors delivering interim assistance to Chad include IDA, IMF, AfDB, the Paris Club, and other bilateral creditors. However, in the seven years that elapsed, most creditors have reached the limit of their interim relief (the IMF in 2005, the AfDB in 2006 and IDA in 2007).[4]

4. Macroeconomic performance and political obstacles have prevented Chad from reaching the HIPC Initiative completion point. Specifically, Chad's inability to meet agreed fiscal targets and satisfactorily implement a program under the IMF's Poverty Reduction and Growth Facility (PRGF)—a key completion point trigger—has been the principal obstacle. The 2005 PRGF expired in 2008 without any reviews being concluded. Subsequent efforts in 2008 to develop a policy track record to a new PRGF through a Staff-Monitored Program were derailed by further fiscal slippages. The timing of the completion point will depend on the authorities' efforts to progress to a new PRGF arrangement, and satisfactory performance under the PRGF-supported program. Besides this, the completion point requires one year satisfactory implementation of the Poverty Reduction Strategy Paper (PRSP), and meeting a number of floating completion point triggers in governance and five Priority sectors.[5] The Government of Chad adopted a new PRSP in April 2008.

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[3] To find a copy, Google "CEMAC Reglement No. 12/07-UEAC-186-CM-15."
[4] The IMF, IDA and AfDB provided close to CFAF 40 billion in HIPC interim relief.
[5] See Box 11 on page 30 in the Decision Point document dated May 4, 2001, which can be found in the Chad section of the IMF public website, www.imf.org.

Text Table 1. Chad: Recent Developments in Debt, 2001-08
(Billions of CFA francs)

	2001	2002	2003	2004	2005	2006	2007	2008
				Stock of debt				
Overall total	794.7	786.6	736.9	797.2	898.9	896.2	794.0	745.2
(Percent of GDP)	63.4	56.8	46.3	34.2	29.0	27.2	23.6	19.9
Multilateral institutions	678.1	687.7	652.5	715.3	810.2	805.5	718.6	
IMF	65.3	67.3	57.0	47.7	47.5	37.4	25.4	
World Bank/IDA	380.6	398.3	394.0	444.5	507.8	486.1	453.4	
African Development Fund/Bank	182.8	169.8	159.9	168.5	179.8	205.8	173.7	
EIB	3.9	7.9	7.3	13.0	13.0	12.4	9.9	
Others	45.5	44.4	34.2	41.6	62.0	63.8	56.2	
Bilateral creditors	116.2	98.6	84.1	81.9	88.8	90.7	75.4	
Paris Club official debt	30.2	25.8	24.0	25.2	24.3	23.2	23.6	
Pre-cut-off	25.0	21.0	20.3	21.7	21.4	20.9	21.9	
Of which: France	21.0	17.4	16.8	17.3	17.6	17.4	18.5	
Italy	3.3	2.8	2.8	2.7	3.1	2.8	2.7	
Post cut-off date	5.2	4.9	3.7	3.5	2.9	2.3	1.7	
Of which: Spain	4.2	4.1	3.0	2.8	2.1	1.6	1.1	
Non-Paris Club official debt	86.1	72.7	60.1	56.7	64.4	67.5	51.8	
Of which: China, People's Republic	28.6	25.4	22.0	13.6	15.4	13.9	-	
Taiwan, Province of China	29.2	25.0	20.8	19.2	20.8	16.2	15.0	
Saudi Arabia	10.4	9.3	6.2	15.2	16.9	14.4	11.4	
Kuwait	15.3	12.9	11.0	8.6	11.2	11.7	10.8	
Other creditors	0.4	0.4	0.4	0.0	0.0	0.0	0.0	
				Debt disbursements				
Overall total	45.0	83.6	52.8	96.7	64.9	67.9	23.5	
Multilateral institutions	44.6	83.6	52.8	94.2	63.5	59.6	17.9	
IMF	12.8	12.2	0.0	0.0	3.3	0.0	0.0	
World Bank/IDA	17.8	57.1	42.1	60.9	33.1	14.0	6.5	
African Development Fund/Bank	5.6	3.6	9.3	17.1	12.5	38.6	6.4	
EIB	0.0	4.0	0.0	6.7	0.0	0.0	0.0	
Others	8.4	6.6	1.3	9.5	14.5	7.0	4.9	
Bilateral and Commercial	0.4	0.0	0.0	2.5	1.4	8.3	5.6	
Paris Club offical debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Non-Paris Club official debt	0.4	0.0	0.0	2.5	1.4	8.3	5.6	
Other creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
				Debt service				
Principal total	10.1	17.5	20.8	17.4	22.0	27.4	19.5	55.9
Multilateral	8.2	15.4	14.9	15.3	18.5	23.1	16.8	52.0
IDA	3.5	4.2	4.0	3.3	3.1	7.4	4.2	6.7
IBRD	0.0	0.0	0.0	0.0	1.3	0.0	0.0	34.2
IMF	2.4	4.9	4.4	7.8	7.4	9.5	6.7	3.2
AfDB	0.8	2.1	2.0	2.0	3.1	2.7	2.6	3.2
Others	1.5	4.2	4.5	2.1	3.6	3.6	3.3	4.7
Bilateral and Commercial	1.9	2.0	6.0	2.0	3.5	4.2	2.6	3.9
Paris Club offical debt	0.2	0.5	2.8	0.3	0.8	0.8	0.7	0.7
Non-Paris Club official debt	0.3	0.5	1.4	1.3	2.2	3.4	1.9	3.2
Other creditors	1.4	1.0	1.7	0.4	0.5	-	-	-
Interest total	4.5	7.8	10.1	6.8	8.2	9.5	7.6	9.8
Multilateral	3.6	5.9	5.8	5.7	6.6	7.6	5.6	7.2
IDA	2.3	2.9	2.9	3.0	2.8	4.4	2.5	3.4
IMF	0.3	0.3	0.2	0.4	0.3	0.3	0.1	0.1
AfDB	0.5	1.8	1.5	1.5	1.8	1.8	1.1	1.5
Others	0.5	0.9	1.3	0.8	1.8	1.2	1.8	2.3
Bilateral and Commercial	0.9	2.0	4.2	1.0	1.6	1.8	2.0	2.6
Paris Club offical debt	0.1	0.1	2.8	0.5	0.4	1.6	0.4	1.5
Non-Paris Club official debt	0.7	1.7	1.4	0.5	1.1	0.3	1.6	1.1
Other creditors	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0

Source: Chadian authorities.

5. Upon reaching the HIPC Initiative completion point, Chad would also become eligible for debt relief under the Multilateral Debt Relief Initiative (MDRI). MDRI relief covers the full stock of debt owed to three multilateral creditors, IDA, IMF, and the African Development Fund (AfDF) that remains at the time of the completion point on disbursements before end-2004 in the case of IMF and AfDF and before end-2003 in the case of IDA. For Chad, MDRI debt relief would be equivalent to approximately US$1 billion in nominal terms over 45 years or US$567 million in end-2006 NPV terms.

Public domestic debt

6. Chad has no public domestic debt instruments. CEMAC plans for creating a domestic securities market have been slow in coming to fruition. Nonetheless Chad has a stock of domestic debt resulting from past arrears. Building on the work of several government debt commissions, an independent auditor identified in 2006 claims worth CFA 142 billion (4.6 percent of GDP) as of end-2005, to be paid either immediately or upon further verification. The debt is reported in three categories: treasury arrears (*arrierés comptables*), from the current or previous budget years; rescheduled debt (*debt conventionnées*); and legal obligations (*engagements juridiques*) (see Text Table 2).

7. Since 2005, public domestic debt has fallen as a result of repayments even though new debts were added. All domestic debt is in national currency. Only a small portion of the rescheduled debt earns interest. The authorities view settlement of all verified arrears and debts as an opportunity to improve the public sector's credit standing and increase private sector confidence. A partial domestic debt repayment plan envisaging payment of CFAF 40 billion over 2008-10 was adopted in April 2008. In July 2008, a government commission started to update the stock of debt as of end-2007 and complete the necessary verification to enable the government to adopt a final arrears clearance and domestic debt settlement plan in early 2009. No public debt guarantees are registered in the debt department.

Text Table 2. Chad: Stock of Public Domestic Debt, 2005-08

	2005	2006	2007	2008
	(Billions of CFA francs)			
Budget arrears	34.1	24.8	22.3	1.3
Rescheduled debts	69.4	71.8	52.4	33.7
Legal commitments	38.6	31.3	24.5	24.5
Total	142.2	127.9	99.2	59.4
	(Percent of GDP)			
Total	4.6	3.9	3.0	1.6

Source: Chadian authorities.

II. UNDERLYING DSA ASSUMPTIONS

8. Over the 20 year period covered by the DSA, Chad's macroeconomic performance will be much affected by the gradual depletion of its current oil resources and the policy reactions to its economic implications. The basic macroeconomic assumptions underlying the baseline scenario are summarized in Text Table 3.

Text Table 3. Chad: Macroeconomic Assumptions for the Baseline DSA 2008-2028

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2008-2013 Average	2014-2028 Average
Real Sector	(Percent growth, unless otherwise indicated)										
GDP in constant prices	7.9	0.2	0.2	-0.4	3.6	3.5	3.6	2.7	2.5	2.6	3.8
Non-oil sectors	11.0	4.7	3.1	3.2	5.0	4.7	4.7	4.7	4.7	4.5	4.8
Oil sector	1.5	-10.5	-7.7	-11.6	-1.5	-1.2	-1.0	-6.1	-8.1	-4.9	-8.1
Oil production (millions of barrels)	62.9	56.7	52.4	46.5	45.6	45.6	45.6	43.3	39.8	44.4	19.3
Reference oil price (US$/barrel)	53.4	64.3	71.1	97.0	50.0	60.0	64.8	67.0	68.8	67.9	86.8
Inflation (percent, GDP deflator)	23.1	6.2	1.8	11.9	-19.0	7.5	3.8	1.9	1.2	1.2	2.3
Balance of Payments	(Percent of GDP, unless otherwise indicated)										
Current account balance	-17.4	2.4	-9.0	-10.5	-9.5	-19.6	-8.6	-8.8	-7.7	-10.8	-10.0
Imports of goods and services	-48.6	-51.5	-52.2	-48.8	-51.0	-47.2	-46.7	-45.1	-44.1	-47.2	-35.6
Exports of goods and services	55.5	56.4	54.8	56.2	33.9	36.5	36.9	36.0	29.6	38.2	21.5
Of which: oil exports	46.2	47.1	45.6	47.4	23.0	26.1	26.6	25.5	18.9	27.9	8.8
Net factor incomes	-9.8	-18.3	-17.1	-20.0	-7.9	-2.7	-3.3	-3.4	-2.3	-6.6	-0.6
Current transfers	5.3	4.4	4.0	3.2	5.3	4.8	4.3	4.7	4.8	4.5	4.9
Import volumes (percent change)	-13.7	-21.7	0.2	-3.6	-1.5	1.8	3.1	3.1	2.9	1.0	-1.6
Export volumes (percent change)	231.6	-0.7	-12.3	-8.2	-14.3	4.2	0.4	0.7	-5.0	-3.7	2.4
Government balances	(Percent of GDP, unless otherwise indicated)										
Public sector revenues (incl. grants)	12.7	18.8	24.2	29.4	11.3	15.6	16.9	18.1	17.4	18.1	18.3
Of which: oil revenue	4.6	12.2	16.8	22.6	3.2	6.7	7.8	8.0	6.6	9.1	2.7
Public sector expenditures	13.1	16.5	21.1	22.9	19.5	15.0	15.2	15.5	16.3	17.4	18.9
Of which: interest expenditures	0.3	0.4	0.4	0.4	0.4	0.3	0.2	0.2	0.2	0.3	0.2
Primary deficit	-4.1	0.0	1.3	4.7	-9.9	-1.6	-0.5	-0.1	-1.7	-1.5	-3.9
Non-oil primary deficit (percent of non-oil GDP)	-5.2	-15.0	-22.0	-28.1	-14.4	-7.9	-7.9	-7.5	-7.4	-12.2	-4.0

Sources: Chadian authorities; and staff projections.

9. Oil is a critical determinant of Chad's economic outlook. While exploration is ongoing, Chad's "proved" oil reserves have not changed since the commencement of production in the Doba field. To be conservative, no new discoveries have been factored in. Long-term oil production projections are therefore based on the gradual depletion of the Doba field, with annual production declining from 46 million barrels in 2008 to 11 million in 2028. Due to its quality, Chad's oil sells at a discount of $10-15 per barrel relative to international reference prices such as Brent. For the medium term, the base line assumes the reference oil price behaves in line with the latest IMF projections used for the World Economic Outlook; for the long term, the baseline assumes oil prices will trend in real terms towards the price level attained in 2006 of about $60 per barrel.[6] For the outer years oil revenue—the government "take"—is assumed to be 50 percent of gross oil revenues.

10. As oil production trends down, non-oil real growth is assumed to pick up to 4-5 percent, resulting in overall GDP growth of 3-4 percent. This economic diversification will have benefited from the productivity-enhancing investments in human and physical infrastructure financed with the oil revenues. But it is also predicated on a general improvement in the private sector business climate. The balance of payments reflects these trends with growing non-oil exports gradually substituting for declining oil exports.

[6] This is the International Energy Agency's projection for oil prices 20 years ahead in its 2007 World Energy Outlook.

11. The assumed fiscal policy reaction to the decline in oil revenues is a combination of adjustment—reducing expenditures—and financing—raising revenues through the broad-based taxation of the growing non-oil sectors, targeting a non-oil primary deficit of below 4 percent which a permanent income analysis suggests would be sustainable. It is highly preferable that this adjustment comes about through a forward-looking medium-term budget policy that respects the government's anti-poverty objectives. If not, then a more costly adjustment will be forced by the inevitable decline in oil revenue absent other financing possibilities.

12. Assumed in the baseline is that Chad, currently one of the ten poorest countries in the world, will remain over the projection period, an IDA-eligible country. It should therefore continue to receive external financial support through project and program grants and loans on a concessional basis. Presently total grants and loans are at an unusually low level: in terms of GDP, the 2007 level was only half that of 2004. As oil revenue declines and Chad improves its governance and relations with development partners, this level is projected to pick up somewhat. Of new borrowing, 70 percent is assumed to have a grant element of around 60 percent (IDA terms) and 30 percent a grant element of 35 percent. The combined effect of the grants and concessional borrowing is to raise the grant-equivalent financing to 3.6 percent of GDP in the outer years. Following the settlement of current domestic debt by 2010, a small build-up of new debt is projected, in line with CEMAC plans for stimulating domestic government securities. In the absence of a PRGF arrangement, there is no target date for the HIPC completion point, and the baseline therefore does not take into account possible debt relief.

III. External DSA

A. Baseline

13. A standard component of a LIC DSA is to assess the external debt burden indicators in relation to policy-dependent thresholds because of the key empirical finding that LICs with better quality policies and institutions can sustain a higher level of external debt. Policy performance is classified as strong, medium and weak depending on the country's rating on the World Bank's Country Policy and Institutional Assessment (CPIA). Chad's rating is very low, 2.77 on average for 2005-07, which puts it in the Weak Policy category. Moreover, Chad's CPIA declined from 2.9 in 2005 to 2.6 in 2007.[7] The corresponding thresholds together with Chad's performance under the baseline are shown in Text Table 4; the debt ratios are in present value (PV) terms. Under the baseline scenario the indicators of Chad's public- and publicly-guaranteed debt are always comfortably below the threshold values. Moreover, the ratios are either stable or declining, suggesting the outlook is favorable.

[7] For CPIA methodology and results, see http://go.worldbank.org/AL5SDP3T90.

Text Table 4. Chad: Thresholds for "Weak Policy Performance" and External Debt Burden Indicators

	Threshold Levels	Chad under Baseline Scenario			
	Weak Performance	2007	2008-28 1/	Peak Level	Peak Year
NPV of external debt in percent of:					
GDP	30	17	12	17	2009
Exports	100	32	47	57	2020
Revenue	200	76	77	151	2009
External debt service in percent of:					
Exports	15	2	3	4	2017
Revenue	25	4	6	12	2009

1/ Simple average.

B. Alternative Scenarios and Stress Tests

14. The LIC DSA template subjects the baseline external debt projections to a number of standard stress tests, namely two alternative scenarios and six bound tests (see Table 2a). The charts in Figure 1 show how the ratios behave under the baseline and the most extreme of the stress tests relative to the thresholds. The alternative "historical" scenario assumes key variables stay at their historical averages. In Chad's case this implies that the fairly large current account deficits of the past—on account of oil sector imports—continue, financed mostly by large foreign direct investment inflows, but still generating a debt build up. As a result in Figure 1, panel c the historical ratio crosses the performance-based threshold. Given that larger current account deficits could derive from several factors, including lower oil prices, this scenario indicates the sensitivity of the baseline to balance of payments shocks.

15. Five of the six standard bound tests involve "shocking" key variables in the first two years of the projection period by setting them one standard deviation below their historical average. The sixth test assumes a 30 percent depreciation in the first year only. The charts show the test yielding the most extreme result, that is, the highest ratio, in 2018. In two instances (Figure 1, panels c and e) this turns out to be "export growth," and in three instances (Figure 1, panels b, d, and f) the "depreciation" test. For two of the five ratios the extreme bound tests cross the thresholds (see Figure 1, panels c and d). For the PV of debt-to-exports ratio under the "export growth" test this reflects the high historical volatility of Chad's exports due to the coming on stream of oil production in 2003. The test assumes minus 40 percent export growth in 2009 and 2010. This shock is severe but not impossible given the extreme oil price volatility to which Chad is subject (e.g., the price Chad fetched for its oil at end-2008 was 60 percent below the peak price of July 2008).

IV. PUBLIC DSA

A. Baseline

16. All of Chad's external debt is public debt, and domestic public debt is limited. The baseline assumes repayment of the current stock of domestic debt by 2010, followed by a small build-up of domestic debt (CFAF 5 billion per year) over the projection period as a market for domestic securities is developed. Growth in non-oil revenue compensates for the loss in oil revenue. On those assumptions, the analysis of the sustainability of public debt under the baseline confirms broadly the conclusion of the previous analysis that Chad's debt outlook is favorable (see Figure 2). Peaking in 2009 due to the sudden sharp drop in revenue, the three ratios show a slight steady decline over the projection period.

B. Alternative Scenarios and Stress Tests

17. In the LIC DSA, the baseline public debt projections are subjected to three scenarios and five bound tests (see Table 2b). Figure 2 compares the ratios under these scenarios with the baseline. As in the case of external debt, the "historical" scenario sets key variables at their historical average. Under this scenario Chad will incur primary deficits over the projection period, which generate additional debt, rather than the surpluses of the baseline.[8] The result is a significant deterioration in all three ratios relative to the baseline over the long term. The "historical" scenario indicates how sensitive the baseline is to the assumption that growing non-oil revenue will compensate for declining oil revenue. Under the scenario "fix primary balance" the unusually large primary surplus of 2008 continues and as a result all debt is repaid rapidly.

18. The most extreme bound test is the "lower long-run GDP growth," which assumes lower real GDP growth over the full projection period. For 2009-28 it implies an average growth rate of 1.4 percent compared to 3.6 percent under the baseline. Under this test, the three ratios move rapidly away from the baseline, with PV of debt-to-GDP reaching 100 percent in the outer years. The 1.4 percent rate is actually quite close to the overall real GDP growth rate that would result if non-oil GDP growth did not accelerate as assumed under the baseline to 4.8 percent per year but stayed at 3.6 percent, the rate achieved over 1988-97, the decade preceding the development of the oil sector. That lower non-oil GDP growth rate, in combination with the decline in oil GDP, would result in overall real GDP growth for 2009-28 of 1.3 percent per year on average. Hence, the worrisome trends of this bound test expose the sensitivity of the baseline to the non-oil growth assumption.

[8] The baseline projects primary *surpluses* of 1.5 percent of GDP over 2008-13, thanks to oil revenue, whereas the "historical" scenario assumes *deficits* of 1.1 percent of GDP over 2008-13. In Table 2b a negative number in the line for "primary deficit" amounts to a surplus.

V. Debt Distress Classification and Conclusions

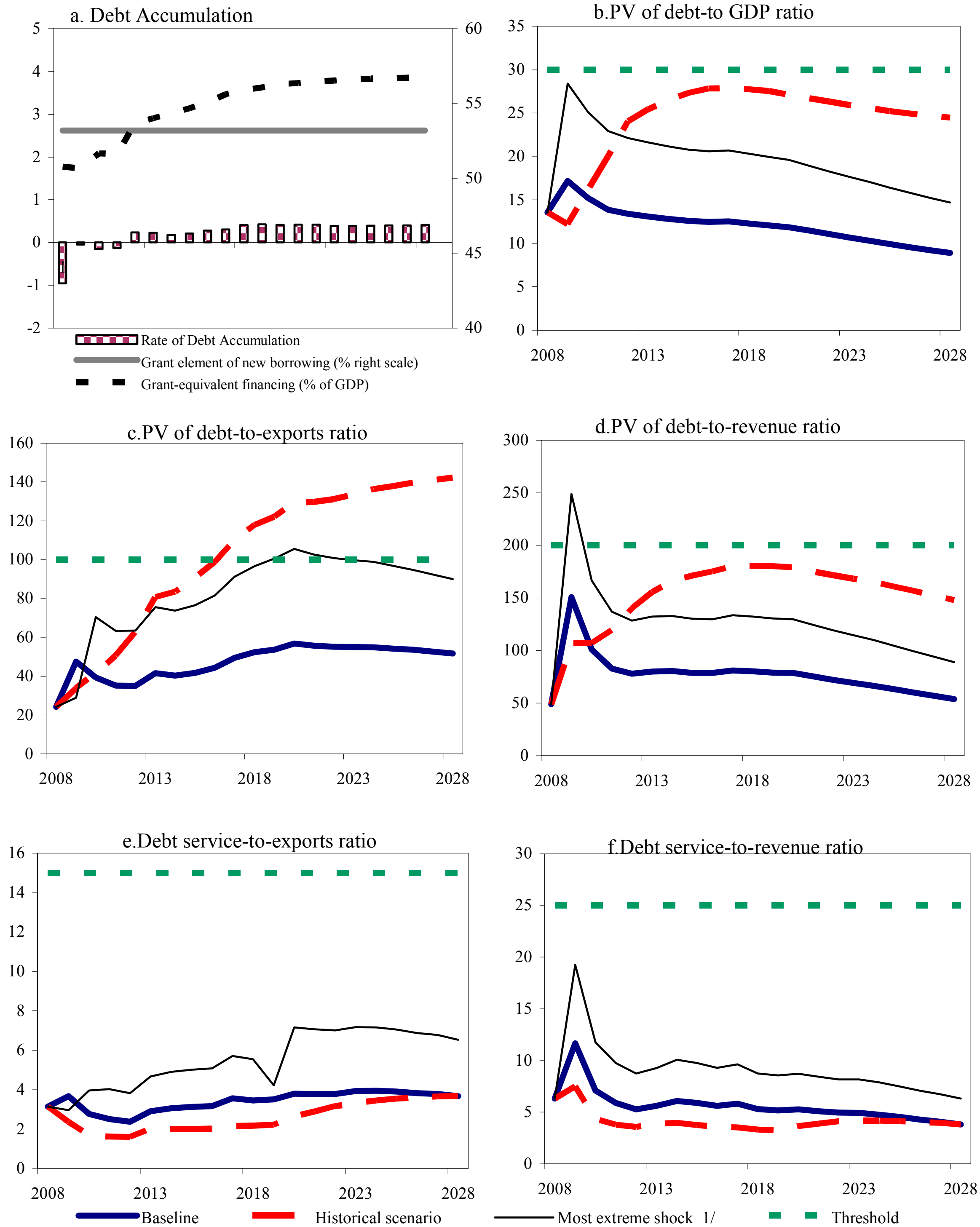
19. In the staff's view Chad should be considered at moderate risk of debt distress based on external debt burden indicators. The inclusion of domestic debt does not alter the assessment of Chad's risk of debt distress. This assessment, "moderate risk," is justified by the fact that while the baseline scenario does not indicate a breach of thresholds, the "historical" scenario does and so do two of the bound tests. It is further justified by the fact that the conduct of economic policy and debt management imply sizeable risks to the baseline.

20. This assessment of Chad's debt situation is an improvement over the one in 2006. At that time, staff judged Chad's debt outlook to be fragile and the risk of debt distress high. Prudent debt management and a more favorable balance of payments outlook account for this improvement.

21. An important risk borne out by the DSA is that a shock emanating from the external sector could well push the ratios over the threshold. But probably the most important long-term risk highlighted by the DSA is that non-oil GDP growth may stagnate at the low rate prior to the advent of the oil era. The challenge is to use oil revenues effectively to enhance the economy's productive capacity, through efficient investments in human and physical infrastructure, accompanied by structural reforms that improve governance and the business climate. If the government fails to meet this challenge, it would thwart the baseline strategy to offset decreasing oil export proceeds by increasing non-oil exports, and decreasing government oil revenue by increasing non-oil revenue.

22. As at the time of the 2006 DSA, there is a considerable risk that fiscal discipline will not prevail in the near term, possibly leading to the accumulation of new domestic arrears. Another risk is the temptation for the government to assume large debts in connection with oil ventures, possibly collateralized against future oil income and on non-concessional terms. On the other hand, Chad's debt outlook could improve if the ongoing exploration results in new significant oil or mineral discoveries. Finally, attainment of the HIPC Initiative completion point would ensure debt sustainability even under more adverse circumstances.

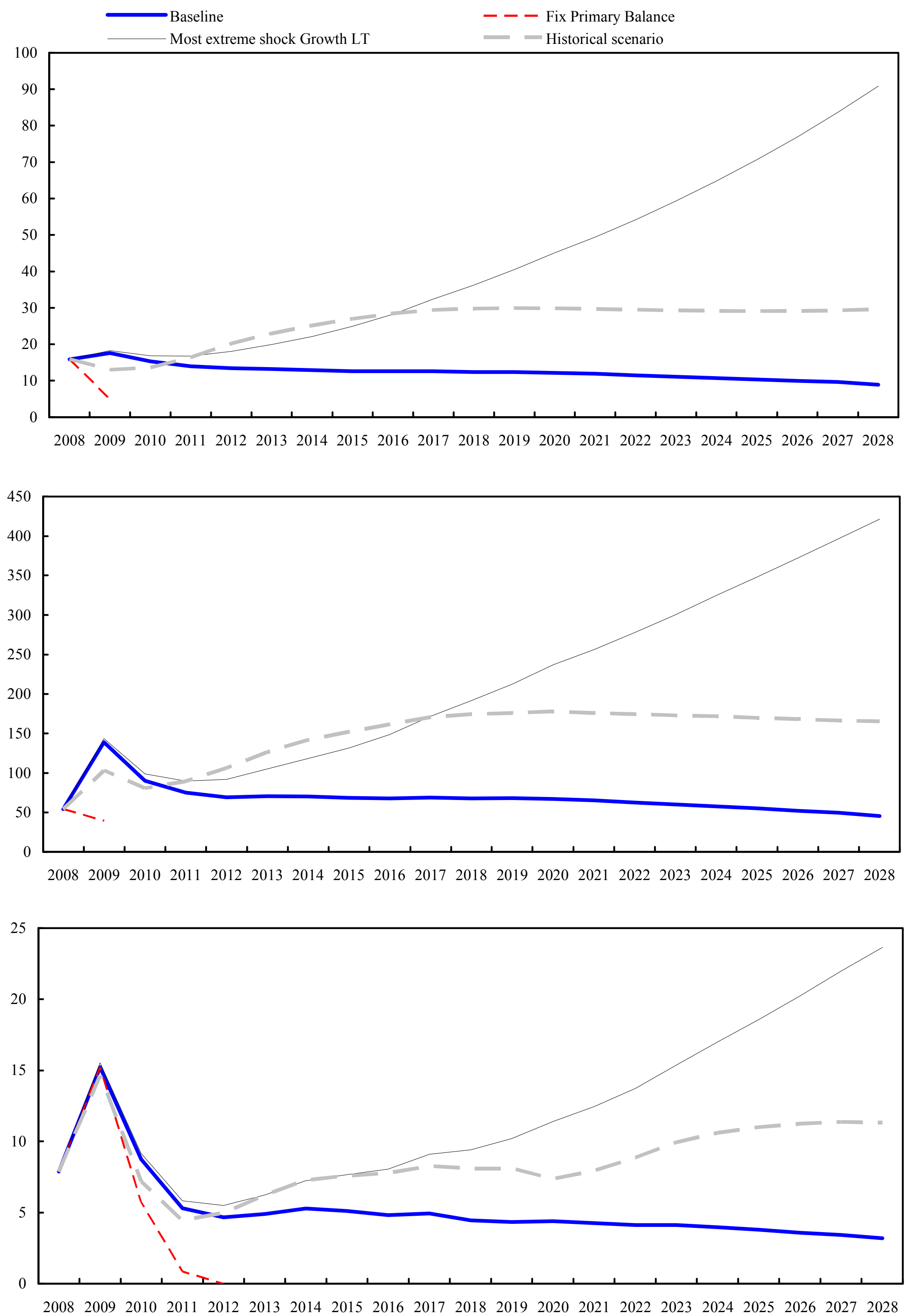
Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2008-2028 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2018. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in picture f. to a One-time depreciation shock

Figure 2. Chad: Indicators of Public Debt Under Alternative Scenarios, 2008-2028 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2018.

2/ Revenues are defined inclusive of grants.

Table 1a. Chad: External Debt Sustainability Framework, Baseline Scenario, 2005-2028 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation 6/	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-2013 Average	2018	2028	2014-2028 Average
External debt (nominal) 1/	**30.5**	**25.9**	**22.2**			**20.7**	**23.6**	**20.6**	**18.6**	**17.9**	**17.6**		**17.1**	**13.7**	
Of which: public and publicly guaranteed (PPG)	30.5	25.9	22.2			20.7	23.6	20.6	18.6	17.9	17.6		17.1	13.7	
Change in external debt	-1.2	-4.6	-3.6			-1.6	3.0	-3.0	-2.1	-0.6	-0.3		-0.2	-0.3	
Identified net debt-creating flows	-8.6	-3.5	-2.2			-4.6	6.6	-3.0	-3.8	-4.4	0.1		2.4	3.1	
Non-interest current account deficit	**-2.6**	**8.7**	**10.3**	**25.8**	**29.5**	**9.4**	**16.8**	**7.2**	**6.7**	**5.9**	**10.1**		**10.0**	**7.9**	9.2
Deficit in balance of goods and services	-6.9	-4.9	-2.6			-7.2	14.5	8.3	6.5	5.9	11.5		13.8	12.5	
Exports	55.5	56.4	54.8			56.0	36.2	38.7	39.5	38.2	31.5		23.5	17.2	
Imports	48.6	51.5	52.2			48.8	50.6	47.0	46.0	44.2	43.1		37.4	29.8	
Net current transfers (negative = inflow)	-5.3	-4.4	-4.0	-4.2	0.7	-3.2	-5.1	-4.5	-4.1	-4.3	-4.4		-4.9	-4.4	-4.7
Of which: official	-3.5	-2.9	-2.5			-1.9	-2.8	-2.7	-2.5	-2.9	-2.9		-3.4	-3.6	
Other current account flows (negative = net inflow)	9.6	18.0	16.9			19.7	7.4	3.4	4.3	4.3	2.9		1.1	-0.3	
Net FDI (negative = inflow)	**1.7**	**-10.4**	**-10.1**	**-14.0**	**14.9**	**-14.3**	**-9.6**	**-9.7**	**-10.0**	**-10.0**	**-9.8**		**-7.2**	**-4.3**	-6.4
Endogenous debt dynamics 2/	**-7.6**	**-1.7**	**-2.4**			**0.3**	**-0.6**	**-0.5**	**-0.5**	**-0.3**	**-0.2**		**-0.4**	**-0.5**	
Contribution from nominal interest rate	0.2	0.3	0.2			0.2	0.3	0.3	0.2	0.2	0.2		0.2	0.1	
Contribution from real GDP growth	-1.9	0.0	0.0			0.1	-0.9	-0.7	-0.7	-0.5	-0.4		-0.6	-0.6	
Contribution from price and exchange rate changes	-6.0	-2.0	-2.6			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**7.4**	**-1.1**	**-1.4**			**3.0**	**-3.6**	**0.0**	**1.7**	**3.8**	**-0.4**		**-2.6**	**-3.4**	
Of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	17.2			13.6	17.2	15.2	13.9	13.4	13.1		12.3	8.9	
In percent of exports	...	...	31.5			24.2	47.5	39.3	35.1	35.0	41.5		52.3	51.7	
PV of PPG external debt	**...**	**...**	**17.2**			**13.6**	**17.2**	**15.2**	**13.9**	**13.4**	**13.1**		**12.3**	**8.9**	
In percent of exports	**...**	**...**	**31.5**			**24.2**	**47.5**	**39.3**	**35.1**	**35.0**	**41.5**		**52.3**	**51.7**	
In percent of government revenues	**...**	**...**	**75.7**			**48.8**	**150.7**	**100.9**	**82.9**	**77.9**	**80.1**		**80.2**	**53.8**	
Debt service-to-exports ratio (in percent)	**1.8**	**2.0**	**1.5**			**3.1**	**3.7**	**2.8**	**2.5**	**2.4**	**2.9**		**3.5**	**3.7**	
PPG debt service-to-exports ratio (in percent)	**1.8**	**2.0**	**1.5**			**3.1**	**3.7**	**2.8**	**2.5**	**2.4**	**2.9**		**3.5**	**3.7**	
PPG debt service-to-revenue ratio (in percent)	**10.4**	**6.6**	**3.5**			**6.3**	**11.7**	**7.1**	**5.9**	**5.3**	**5.6**		**5.3**	**3.8**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.0	0.1			-0.3	0.6	-0.1	-0.2	-0.3	0.1		0.4	0.9	
Non-interest current account deficit that stabilizes debt ratio	-1.4	13.3	13.9			10.9	13.8	10.1	8.8	6.5	10.4		10.2	8.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.9	0.2	0.2	8.2	10.5	-0.4	3.5	3.5	3.6	2.7	2.5	2.6	3.5	4.7	3.8
GDP deflator in US dollar terms (change in percent)	23.3	7.0	11.1	8.4	11.6	20.5	-24.1	8.1	5.0	2.6	1.4	2.3	1.5	3.3	2.1
Effective interest rate (percent) 5/	1.0	1.1	0.9	1.0	0.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.0	1.0	1.0
Growth of exports of G&S (US dollar terms, in percent)	43.8	8.9	8.0	45.5	85.7	22.7	-49.2	19.8	11.0	2.0	-14.2	-1.3	-2.4	6.4	1.8
Growth of imports of G&S (US dollar terms, in percent)	7.3	13.5	12.8	30.3	53.3	12.3	-18.5	3.9	6.4	1.1	1.4	1.1	1.8	6.3	3.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	53.2	53.2	53.2	53.2	53.2	53.2	53.2	53.2	53.2	53.2
Government revenues (excluding grants, in percent of GDP)	9.4	16.9	22.8			27.8	11.4	15.1	16.7	17.2	16.4		15.4	16.6	15.7
Aid flows (in Billions of US dollars) 7/	0.2	0.1	0.1			0.2	0.1	0.2	0.2	0.3	0.3		0.4	0.9	
Of which: Grants	0.2	0.1	0.1			0.1	0.1	0.1	0.2	0.2	0.2		0.3	0.7	
Of which: Concessional loans	0.0	0.0	0.0			0.0	0.1	0.0	0.0	0.1	0.1		0.1	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.8	1.7	2.1	2.1	2.8	2.9		3.6	3.9	3.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			88.2	81.1	92.7	92.7	85.5	85.5		85.5	86.9	86.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.9	6.3	7.0			8.4	6.6	7.4	8.1	8.5	8.8		10.5	20.9	
Nominal dollar GDP growth	33.1	7.2	11.3			20.0	-21.4	11.9	8.8	5.4	4.0	4.8	5.0	8.2	5.9
PV of PPG external debt (in Billions of US dollars)			1.2			1.1	1.1	1.1	1.1	1.1	1.2		1.3	1.9	
(PVt-PVt-1)/GDPt-1 (in percent)						-1.0	0.0	-0.2	-0.1	0.2	0.2	-0.1	0.4	0.4	0.4

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b. Chad: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2028

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2005	2006	2007	Average	Standard Deviation 5/	2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
Public sector debt 1/	33.8	28.8	24.5			21.6	24.1	20.8	18.7	18.1	17.7		17.2	13.7	
Of which: foreign-currency denominated	30.5	25.9	22.2			20.7	23.6	20.6	18.6	17.9	17.6		17.1	13.7	
Change in public sector debt	1.9	-5.0	-4.3			-2.9	2.5	-3.3	-2.1	-0.6	-0.4		-0.2	-0.3	
Identified debt-creating flows	-4.3	-6.4	-5.3			-6.5	11.2	-3.0	-4.2	-4.3	-2.8		0.3	-0.6	
Primary deficit	-0.1	-2.8	-3.5	2.7	3.8	-6.8	7.3	-0.7	-2.7	-3.6	-2.3	-1.5	0.9	0.4	0.8
Revenue and grants	12.7	18.8	24.2			29.3	12.7	17.0	18.6	19.4	18.7		18.2	19.8	
Of which: grants	3.4	1.9	1.5			1.5	1.3	1.9	1.9	2.3	2.3		2.9	3.2	
Primary (noninterest) expenditure	12.6	16.0	20.8			22.5	20.0	16.3	15.9	15.9	16.4		19.2	20.1	
Automatic debt dynamics	-4.3	-4.5	-2.6			-0.4	3.6	-2.3	-1.4	-0.7	-0.5		-0.7	-0.9	
Contribution from interest rate/growth differential	-2.9	-0.7	-0.4			-0.3	-0.7	-1.0	-0.9	-0.7	-0.6		-0.8	-0.8	
Of which: contribution from average real interest rate	-0.5	-0.7	-0.4			-0.4	0.1	-0.2	-0.2	-0.2	-0.2		-0.2	-0.1	
Of which: contribution from real GDP growth	-2.3	-0.1	-0.1			0.1	-0.7	-0.8	-0.7	-0.5	-0.4		-0.6	-0.6	
Contribution from real exchange rate depreciation	-1.5	-3.8	-2.2			-0.1	4.2	-1.3	-0.5	-0.1	0.1		...	...	
Other identified debt-creating flows	0.1	0.9	0.7			0.7	0.4	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.1	0.9	0.7			0.7	0.4	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	6.2	1.4	1.0			3.6	-8.8	-0.3	2.1	3.7	2.4		-0.4	0.2	
Other Sustainability Indicators															
PV of public sector debt	3.3	2.9	18.4			15.9	17.6	15.3	14.0	13.5	13.2		12.4	8.9	
Of which: foreign-currency denominated	0.0	0.0	16.2			15.0	17.2	15.2	13.8	13.4	13.1		12.3	8.9	
Of which: external	...	...	16.2			15.0	17.2	15.2	13.8	13.4	13.1		12.3	8.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	1.1	-0.5	-1.8			-3.9	9.3	0.8	-1.8	-2.7	-1.4		1.7	1.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	26.2	15.6	76.0			54.3	138.9	90.2	75.0	69.3	70.5		67.9	45.3	
PV of public sector debt-to-revenue ratio (in percent)	35.6	17.3	80.9			57.2	154.5	101.6	83.5	78.4	80.6		80.6	54.0	
Of which: external 3/	…	…	71.1			53.8	150.4	100.7	82.7	77.7	79.9		80.0	53.7	
Debt service-to-revenue and grants ratio (in percent) 4/	9.0	6.7	3.8			7.9	15.2	8.7	5.3	4.7	4.9		4.5	3.2	
Debt service-to-revenue ratio (in percent) 4/	12.2	7.5	4.0			8.3	16.9	9.8	5.9	5.3	5.6		5.3	3.8	
Primary deficit that stabilizes the debt-to-GDP ratio	-2.0	2.2	0.9			-3.9	4.8	2.6	-0.7	-2.9	-2.0		1.1	0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.9	0.2	0.2	8.4	11.1	-0.4	3.5	3.5	3.6	2.7	2.5	2.6	3.5	4.7	3.8
Average nominal interest rate on forex debt (in percent)	1.0	1.1	0.9	1.0	0.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.0	1.0	1.0
Average real interest rate on domestic debt (in percent)	65.0	-1.4	2.1	7.7	23.5	-8.6	22.2	...	...	...	...	6.8	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.1	-12.8	-8.5	-8.6	8.0	-0.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	23.1	6.2	1.8	6.0	8.8	12.0	-16.4	7.6	4.5	2.2	1.0	1.8	1.5	3.3	2.1
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.3	0.3	0.1	0.2	0.1	-0.1	-0.2	0.0	0.0	0.1	0.0	0.1	0.0	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	53.2	53.2	53.2	53.2	53.2	53.2	53.2	53.2	53.2	...

Sources: Country authorities; and staff estimates and projections.

1/ The public sector is defined as central government and debt is on a gross basis.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2a. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028
(In percent)

	Projections											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**	2028
						PV of debt-to GDP ratio						
Baseline	14	17	15	14	13	13	13	13	12	13	**12**	9
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	14	12	16	20	24	25	27	27	28	28	**28**	24
A2. New public sector loans on less favorable terms in 2008-2028 2	14	17	15	14	14	13	13	13	13	13	**13**	10
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	14	18	17	15	15	15	14	14	14	14	**14**	10
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	14	13	18	16	16	16	15	15	15	15	**15**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	14	13	12	11	11	11	10	10	10	10	**10**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	14	21	23	21	21	21	20	20	20	20	**20**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	14	-4	-19	-19	-19	-19	-19	-20	-20	-21	**-20**	-6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	14	28	25	23	22	22	21	21	21	21	**20**	15
						PV of debt-to-exports ratio						
Baseline	24	48	39	35	35	42	40	42	44	49	**52**	52
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	24	34	42	51	63	81	83	91	99	110	**118**	142
A2. New public sector loans on less favorable terms in 2008-2028 2	24	48	40	35	35	42	41	43	46	51	**54**	56
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	24	47	39	35	35	41	40	42	44	49	**52**	52
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	24	29	71	63	63	76	74	77	81	91	**97**	90
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	24	47	39	35	35	41	40	42	44	49	**52**	52
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	24	59	60	54	55	65	64	67	72	80	**85**	70
B5. Combination of B1-B4 using one-half standard deviation shocks	24	-7	-34	-33	-34	-42	-42	-46	-50	-57	**-61**	-23
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	24	47	39	35	35	41	40	42	44	49	**52**	52
						PV of debt-to-revenue ratio						
Baseline	49	151	101	83	78	80	80	79	79	81	**80**	54
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	49	107	107	119	140	155	166	171	175	180	**181**	148
A2. New public sector loans on less favorable terms in 2008-2028 2	49	151	101	83	79	81	82	81	81	83	**83**	58
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	49	159	112	92	87	89	89	88	87	90	**89**	60
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	49	114	118	98	92	95	96	94	94	97	**97**	61
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	49	113	81	67	63	64	65	63	63	65	**64**	43
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	49	188	154	128	122	126	128	127	127	132	**131**	73
B5. Combination of B1-B4 using one-half standard deviation shocks	49	-34	-126	-112	-109	-116	-121	-123	-126	-133	**-133**	-34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	49	249	167	137	129	132	133	130	130	134	**132**	89

Table 2a. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028 (continued)
(In percent)

	Projections											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2028
	Debt service-to-exports ratio											
Baseline	3	4	3	2	2	3	3	3	3	4	**3**	4
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	3	2	2	2	2	2	2	2	2	2	**2**	4
A2. New public sector loans on less favorable terms in 2008-2028 2	3	4	3	3	2	3	3	3	3	4	**4**	4
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	3	4	3	2	2	3	3	3	3	4	**3**	4
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	3	3	4	4	4	5	5	5	5	6	**6**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	3	4	3	2	2	3	3	3	3	4	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	3	4	3	3	3	3	3	4	4	4	**4**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	2	1	0	0	0	0	0	0	1	**0**	-3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	3	4	3	2	2	3	3	3	3	4	**3**	4
	Debt service-to-revenue ratio											
Baseline	6	12	7	6	5	6	6	6	6	6	**5**	4
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	6	8	4	4	4	4	4	4	4	4	**3**	4
A2. New public sector loans on less favorable terms in 2008-2028 2	6	12	7	6	5	6	6	6	6	7	**6**	4
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	6	12	8	7	6	6	7	7	6	6	**6**	4
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	6	12	7	6	6	6	6	6	6	6	**6**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	6	9	6	5	4	4	5	5	5	5	**4**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	6	12	8	7	6	6	7	7	6	7	**6**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	6	8	3	1	1	1	1	1	1	1	**1**	-4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	6	19	12	10	9	9	10	10	9	10	**9**	6
Memorandum item:												
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	52	52	52	52	52	52	52	52	52	52	**52**	52

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2b. Chad: Sensitivity Analysis for Key Indicators of Public Debt 2008-2028

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
	PV of Debt-to-GDP Ratio							
Baseline	16	18	15	14	13	13	12	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	13	14	16	20	23	30	30
A2. Primary balance is unchanged from 2008	16	5	-2	-6	-9	-14	-45	-98
A3. Permanently lower GDP growth 1/	16	18	17	17	18	20	36	91
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	16	19	19	20	21	23	31	38
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	16	17	21	20	19	19	18	13
B3. Combination of B1-B2 using one half standard deviation shocks	16	15	18	17	16	16	16	13
B4. One-time 30 percent real depreciation in 2009	16	25	22	21	20	19	18	12
B5. 10 percent of GDP increase in other debt-creating flows in 2009	16	27	24	22	21	21	21	15
	PV of Debt-to-Revenue Ratio 2/							
Baseline	54	139	90	75	69	71	68	45
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	54	103	81	89	106	126	174	165
A2. Primary balance is unchanged from 2008	54	40	-11	-33	-48	-74	-248	-495
A3. Permanently lower GDP growth 1/	54	144	99	90	92	105	191	422
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	54	151	113	105	107	119	166	188
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	54	134	125	105	98	101	100	67
B3. Combination of B1-B2 using one half standard deviation shocks	54	120	106	90	84	87	90	67
B4. One-time 30 percent real depreciation in 2009	54	199	131	111	102	103	98	62
B5. 10 percent of GDP increase in other debt-creating flows in 2009	54	210	140	118	110	113	114	77
	Debt Service-to-Revenue Ratio 2/							
Baseline	8	15	9	5	5	5	4	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	15	7	4	5	6	8	11
A2. Primary balance is unchanged from 2008	8	15	6	1	0	-1	-8	-32
A3. Permanently lower GDP growth 1/	8	16	9	6	5	6	9	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	8	16	10	6	6	7	8	13
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	8	15	9	7	6	6	6	6
B3. Combination of B1-B2 using one half standard deviation shocks	8	15	8	6	6	6	5	5
B4. One-time 30 percent real depreciation in 2009	8	17	12	8	7	7	7	6
B5. 10 percent of GDP increase in other debt-creating flows in 2009	8	15	11	8	6	7	6	7

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND
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700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2008 Article IV Consultation with Chad

On January 28, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Chad.[1]

Background

Chad is one of poorest countries in the world. It is landlocked and wracked by conflict and political instability. Its main economic challenge is to seize the opportunity offered by oil revenues to boost growth, diversify the economy and reduce poverty. The second poverty reduction strategy paper (PRSP) adopted in 2008, sets out an economic strategy through 2011 which includes good governance and an environment conducive to growth as its main objectives.

Economic developments since the late 1990s have been dominated by the lead up to, and onset of, oil production in 2003, with sharp fluctuations in overall growth related to the oil sector. Growth has been sluggish in 2007 and 2008 due to weak non-oil growth and declines in oil production. A very difficult security situation has weakened economic activity. Real GDP in 2008 is expected to decline by ½ percent because of a further drop in oil production and the impact of the 2008 February rebel attack on economic activity over the first half of the year. After falling prices in 2007, inflationary pressures picked up in the first half of 2008 owing to rising food prices, reaching 11¾ percent on a 12-month basis at end-November 2008. Steadily increasing oil prices through mid-2008 have helped strengthen the external current account and official reserves. Import cover is expected to rise to 10½ months of imports of non-oil goods and

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

services in 2008, from 5¼ months in 2006. However, the global economic crisis will seriously affect Chad through lower oil prices, with major implications on the fiscal position.

The fiscal position has weakened significantly over the oil era. The non-oil primary deficit deteriorated from 4 percent of non-oil GDP in 2004—the onset of oil revenues—to an expected 28 percent (commitment basis) in 2008. This mainly derives from higher spending in all areas, but particularly in security and investment spending. Fiscal management has also been problematic, with weak budget control manifested as bypassing of budget procedures, extrabudgetary spending, and limited medium-term planning. Problems have also been highlighted over absorptive capacity in some sectors, and over the composition, cost, and quality of public spending.

As a member of the CFA franc zone, Chad has no independent monetary policy. Broad money and private sector credit have been growing rapidly in 2008, driven by the build up of reserves. The banking system is subject to some vulnerabilities, stemming from its lack of depth, some undercapitalization, and the need to strengthen supervision. The fixed exchange regime has provided an important nominal anchor for macroeconomic policies. However, the real exchange has appreciated significantly (25 percent) since 2000, even though it depreciated over 2007-08.

The 2005-2008 PRGF arrangement went off track due to widening non-oil fiscal deficits, inadequate poverty orientation of spending, and slow structural reform. The decision point under the HIPC Initiative was reached in May 2001, and significant interim debt relief has been provided since.

Executive Board Assessment

Directors emphasized the opportunities offered by Chad’s oil revenue to address the country’s widespread poverty. They noted, however, that non-oil sector activity remains weak, despite increased budgetary allocations to infrastructure and other priority sectors. Improvements in the security environment, infrastructure and human capital, and the business climate will be essential to lay the basis for sustainable growth. Directors noted that inflation is expected to decline with an unwinding of the food price shock, but called for vigilance to ensure a rapid return to the inflation target established by the Central African Economic and Monetary Community.

Directors expressed concern over the large recent increases in the non-oil fiscal deficit, and encouraged the authorities to improve long-run fiscal sustainability through a concerted medium-term fiscal adjustment effort. They strongly supported the authorities’ fiscal strategy built on improving public financial management, raising non-oil revenues, and improving the targeting and efficiency of spending. A permanent income framework that relates fiscal policy to Chad’s oil wealth, reducing the impact of short-term oil price volatility, will provide an appropriate anchor for Chad. At the same time, Directors recognized that the fiscal adjustment path should take into account the country’s large investment needs while being consistent with absorptive capacity and financing constraints.

Directors commended the authorities for signaling their commitment to fiscal adjustment with the 2009 budget, but called for stronger efforts. The current budget is exposed to considerable risks, notably the optimistic oil price assumptions and dependence on large reductions in security spending, which could lead to financing gaps in the course of the year. Directors therefore noted the importance of issuing a revised budget premised on realistic oil revenues and entailing stronger efforts to begin streamlining non-security outlays—such as the wage bill and transfers to inefficient state-owned enterprises—that have grown rapidly over recent years.

Directors highlighted the critical importance of improving fiscal management to achieve medium-term fiscal policy objectives, improve the quality of public spending, and eliminate budgetary overruns. Efforts are also required to strengthen medium-term budgeting, cash management, and procurement, and to enhance the role of line ministries in budget formulation and execution—supported by further technical assistance. In this context, Directors commended the authorities for starting to clear domestic arrears.

Directors expected Chad's early participation in the Extractive Industries Transparency Initiative, building on its transparent oil revenue collection regime. The authorities should work closely with the Fund and other partners in designing a new permanent oil revenue management mechanism.

Directors observed that, although the real exchange rate has appreciated significantly since the beginning of the decade, it does not appear inconsistent with external stability. As oil production becomes more established, it will be important to monitor developments in the prices of non-traded goods. Directors stressed the critical importance of improved infrastructure—particularly through reductions in transport and energy costs—as well as of strengthened governance, financial sector development, and other structural reforms in order to enhance productivity and competitiveness, and boost Chad's weak export performance.

Directors noted that the oil windfall combined with prudent debt management has improved the debt situation since the last Article IV consultation. Although the risk of debt distress is now moderate, lower exports and growth remain important risks. Directors therefore welcomed the intention to improve debt sustainability and take all actions to attain the HIPC Initiative completion point as soon as possible, including by strengthening Chad's relationship with key partners. Several Directors encouraged the authorities to refrain from non-concessional borrowing.

Directors noted the authorities' interest in a staff-monitored program. They encouraged the authorities to demonstrate the improvements in fiscal policy and management in 2009 to proceed towards such a program as quickly as possible.

Directors emphasized that the serious shortcomings in Chad's macroeconomic statistics undermine effective surveillance. The authorities should provide adequate resources to the National Statistics Institute, supported by further technical assistance in priority areas.

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Chad: Selected Economic Indicators, 2007-11

	2007	2008	2009	2010	2011
			(Annual percentage change)		
Real GDP	0.2	-0.4	3.5	3.5	3.6
Oil GDP	-7.7	-11.7	-1.7	-1.1	-1.0
Non-oil GDP	3.1	3.2	5.0	4.7	4.7
Consumer price index (average)	-8.8	8.1	3.0	3.0	3.0
Oil production (in million barrels)	52.4	46.5	45.6	45.6	45.6
Broad money	5.4	11.1	8.4	8.3	7.9
Exports, f.o.b	-1.0	14.0	-44.1	19.3	10.5
Imports, f.o.b	3.3	4.4	-10.2	3.1	6.5
Current account (in percent of GDP)	-10.5	-9.6	-17.1	-7.3	-7.0
			(Percent of non-oil GDP)		
Total revenue	41.6	51.2	16.8	22.8	25.4
Total expenditure	38.6	42.1	30.2	24.8	24.9
Non-oil primary balance	-22.0	-28.1	-16.8	-10.7	-10.6
Overall fiscal balance	3.0	9.1	-13.4	-1.9	0.5
			(Billions of CFAF)		
Nominal GDP	3.358	3.744	3,239	3,610	3,909
Nominal non-oil GDP	1,840	2,032	2,203	2,386	2,575

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

Statement by Laurean W. Rutayisire, Executive Director for Chad
January 28, 2009

1. We are thankful to Management and the staff for the fruitful policy dialogue they have maintained with the Chadian authorities. Against the backdrop of declining oil production over the past few years, the Chadian authorities have been able to make progress toward achievement of their policy objectives. The overall fiscal surplus in percent of non-oil GDP is estimated to have increased threefold between 2007 and 2008, as oil revenue augmented and the increase in total expenditures in percent of non-oil GDP were maintained significantly below that of total revenue. The authorities also increased the level of priority expenditures, notably on education and health. International reserves remain at healthy levels although they have been affected by the decline in oil prices. Between 2006 and 2008, gross official reserves are estimated to have doubled, reaching about 10 ½ months of imports of non-oil goods and services.

2. However, the difficult security situation which prevailed early last year has had a big toll on recent economic performance and non-oil primary balance. As a result of its adverse impact on non-oil GDP and the decline in oil production, real GDP growth has remained low. The non-oil primary deficit increased, partly reflecting higher priority spending. Inflation picked up sharply at the onset of the recent food price shock. This shock prompted the authorities to take a number of temporary measures aimed at mitigating the adverse impact, ranging from tax relief to temporary export suspension and assistance to low-income public sector workers. In order to mitigate inflationary pressures, the regional central bank, BEAC, adopted a tighter monetary stance notably through the imposition of higher reserve requirements and policy rates.

3. The authorities continue to attach high value to compliance with the convergence criteria set forth by the CEMAC. All primary criteria but the one related to annual inflation were met. It is noteworthy that in the absence of shocks, inflation is forecast to return to a level consistent with the CEMAC criterion over the medium-term.

Economic Outlook and Policy and Reform Agenda

4. Non-oil GDP growth is expected to rebound starting from 2009, fueled by construction, service, and manufacturing. As a result of lower production, oil GDP is expected to continue to decline this year—albeit at a much slower pace. As noted above, inflation is forecasted to drop sharply this year and to be subdued going forward, barring unexpected shocks.

5. As stressed in the second PRSP, the authorities remain committed to preserving fiscal sustainability, improving public financial management, and making effective use of oil revenue while laying the foundations for sustained growth. The 2009 budget mirrors the authorities' determination to preserve fiscal sustainability, notably by programming a reduction in the non-oil primary deficit of about 7 percentage points of non-oil GDP. The

authorities will be closely monitoring budget execution and are prepared to take corrective actions that may be warranted. In particular, they intend to revise the budget around mid-2009 in the event oil prices remain out of line with their projections.

6. Going forward, the authorities remain determined to implement sound fiscal policy. In support of their efforts to boost non-oil revenues, the authorities will benefit from Fund technical assistance in the areas of tax and customs administration. We thus call on Management to approve the request they have formulated in this regard. With regard to oil revenues, the authorities remain committed to their effective use, notably with the aim at diversifying the economy. They plan to carry out a comprehensive review of the oil fiscal regime and work is underway to enhance monitoring of oil revenue collection.

7. The authorities will continue to strengthen public financial management, building on recent improvements in the budget framework aimed notably at preventing extrabudgetary spending and at better monitoring capital expenditures. In this endeavor, my Chadian authorities request donor assistance in support of their action plan to modernize public financial management (PAMFIP).

8. Chad's economy has not yet been affected by the current global financial turmoil and economic slowdown. However, this could change should the financial crisis affect indirectly domestic banks, and oil prices continue to decline and remain low for a sustained period of time. At this current juncture, most financial sector soundness indicators in Chad remain strong. In particular, the banking system continues to perform well, with highly profitable banks, improving asset quality ratios of nonperforming loans to banking loans, and adequate liquidity. Nevertheless, in recognition of the ample scope for further developing Chad's financial system, the authorities are determined to take steps to strengthen the system and improve credit access. In particular, the new microfinance strategy is meant to serve these purposes.

9. On the structural front, the authorities will pursue their reform agenda for large state-owned enterprises such as the cotton company, Cottontchad, and the water and electricity company, STEE, which aims, in particular, to improve the efficiency of their operations and reduce their fiscal costs. They have launched a financial and technical audit of Cottontchad which will help determine the restructuring needs of the company and the roadmap for the reform of the cotton sector. A restructuring of STEE is also envisaged that entails notably the breakup of the company into two distinct water and electricity entities.

10. The authorities will continue to exercise prudence in managing public debt. They are determined to safeguard public debt sustainability and make progress toward HIPC completion point. With regard to domestic debt, the authorities have resumed last year

clearance of domestic arrears and are intent on continuing to make further progress on this front.

11. In conclusion, it is noteworthy that weak capacities and a fragile security situation have been among the key sources of the policy challenges facing the Chadian authorities over the past years, particularly on the fiscal front. In addressing these challenges, the authorities will welcome donor assistance and Fund advice in particular. Fund assistance to members under similar circumstances is proven to have added significant value. In this connection, it is our view that the authorities will benefit greatly from close collaboration with the Fund, especially in a program context. The authorities continue to express their interest in an SMP with a view to facilitating access to a new PRGF arrangement. We thus call on Management and staff to consider favorably the authorities' request for an SMP and to lay the foundations for a quick start of the implementation of such a program.