IMF Country Report No. 13/284

CHAD

STAFF-MONITORED PROGRAM

September 2013

This paper on the Staff-Monitored Program for Chad was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on July 31, 2013.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

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EXECUTIVE SUMMARY

Chad is a fragile state with development indicators among the lowest in the world, but domestic political stability is creating conditions for sustained reform efforts. Weak institutional capacity and governance concerns have limited economic development and donor support. However, the end of the protracted civil war in early 2010 has led to a period of relative political stability, enabling the government to gradually extend its planning horizon. The security situation within the region is volatile; Chad is actively participating in regionally-supported efforts to restore order in the Central African Republic and Mali.

Macroeconomic outcomes and fiscal management have improved in recent years. While output—reflecting mainly the impact of climate conditions on agriculture— and oil revenues have been volatile, the budget registered overall surpluses in 2011 and 2012, with the non-oil primary deficit narrowing to 19.2 percent of non-oil GDP in 2012. The use of emergency spending procedures has declined and some PFM reforms, including the upcoming establishment of a public audit office, are being introduced.

The SMP focuses on sustaining recent improvements in fiscal outcomes, advancing PFM reforms, and building on the authorities' new Poverty Reduction Strategy. The reduction in the non-oil primary deficit envisaged in the 2013 budget appears appropriate, but expenditures linked to the regional security situation and lower than anticipated oil revenues imply large financing needs. PFM reforms will focus on restricting emergency spending procedures and strengthening treasury functions and public debt management capacity. Debt sustainability remains a concern, pending the resolution of renegotiations underway on a large nonconcessional facility from China Eximbank.

The government attaches high priority to attaining the completion point under the HIPC Initiative as soon as possible. Chad reached the decision point in 2001. A strong track record of performance under the SMP would provide the basis for discussions on an ECF-supported program early next year, a key step toward reaching the completion point.

There are significant economic and political risks to program implementation: the regional security situation remains volatile, the economy is highly dependent on volatile oil revenue and climatic conditions, and the PFM framework remains weak.

Approved By
David Robinson and Masato Miyazaki

Discussions took place in N'Djamena during May 29-June 6, 2013. The staff team comprised Messrs. Villafuerte (head), Nachega and Ramirez (all AFR), and Ms. Teodoru (SEC). Mr. Yambaye (Alternate Executive Director) and Mr. N'Sonde (Senior Advisor to the Executive Director) participated in some of the discussions. Mr. Topeur (local economist at the IMF office in N'Djamena) provided assistance to the mission. A mission from the World Bank (Messrs. Dessus and Beguy and Ms. di Gropello) also joined the discussions. The team met with Mr. Joseph Djimrangar Dadnadji (Prime Minister); Mr. Atteib Doutoum (Minister of Finance and Budget); Mr. Issa Ali Taher (Minister of Economy, Planning and International Cooperation); Mr. Djerassem Bemadjiel (Minister of Energy and Petroleum); Mr. Hassan Soukaya (Minister of Infrastructure and Equipment); Mr. Bedoumra Kordje (Secretary General of the Presidency); Mr. Allamine Bourma Treye (National Director of the Bank of Central African States (BEAC) for Chad); senior public administration officials; development partners; and the private sector.

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BACKGROUND

1. **Improved internal stability and economic conditions provide an opportunity for enhanced macroeconomic management and sustained poverty reduction**. Internal stability has been consolidated over the last 4–5 years, allowing the government to gradually extend its planning horizon. The new economic team installed in February has stated its intention to introduce reforms to modernize the economy and improve the state's management, including of public finances. But the challenges are vast—Chad was ranked 184th out of 186 countries on the United Nations' 2013 Human Development Index, with a life expectancy at birth estimated at 50 years in 2012 (compared with 55 years for sub-Saharan Africa) and mean years of schooling of 1.5 in 2010 (compared with 4.7 for sub-Saharan Africa).

2. **Weak implementation capacity and persistent governance concerns remain critical obstacles for economic development.** Chad is perceived to have serious governance problems, as evidenced by its low scores on various transparency and doing business ratings.[1] PFM reforms to ensure transparency and the centrality of the budget have lagged. As a result, donors have been reluctant to provide budget support and most donor financing is channeled directly to development projects. Chad reached the HIPC decision point in 2001, but has yet to reach the completion point.

3. **The regional security situation is volatile and has important economic impacts**. Chad is actively participating in regionally-supported efforts to restore order in the Central African Republic and Mali, and to counter security threats from southern Libya. The uncertain situation in the region has also led to Chad hosting refugees from the Central African Republic, Niger, Nigeria, and Sudan.

RECENT ECONOMIC DEVELOPMENTS AND SHORT-TERM OUTLOOK

4. **Macroeconomic performance in 2012 was strong, but there are challenges in the outlook for 2013 (Figure 1)**. Real GDP grew by 8.9 percent in 2012, supported by a bumper harvest from unusually good rains. Oil GDP contracted by 4 percent because of the continued decline in the Esso-led consortium's oil production. The 12-month inflation rate fell to 2 percent at end-December 2012 reflecting the good harvest as well as a fall in energy and housing costs, and is forecast to converge to the 3 percent target for the CEMAC region by 2014. Real GDP growth is expected to decelerate to 3.9 percent in 2013, due in part to a return to trend of agricultural production. The 12-month inflation rate is expected to increase to 5 percent by end-December 2013

[1] Chad was ranked 165th out of 174 on Transparency International's *Corruption Perception 2012 Index*, 184th (out of 185 countries) in 2011 and 2012 on the IFC's *Doing Business Index,* and last on the World Economic Forum's 2011–12 *Global Competitiveness Index*.

because of an upward adjustment in fuel prices, the liberalization of cement prices, and a fall in agricultural production following a good harvest year in 2012.[2]

5. **Absent new oil discoveries, oil revenues are likely to decline over the medium-term, emphasizing the importance of strengthening fiscal outcomes in the near-term**. Oil GDP is expected to grow at double-digit levels in 2014–15 as new projects by CNPC and Griffiths come fully on-stream, but is expected to contract over the medium- to long-terms without significant new oil developments. Fiscal oil revenue is projected to steadily decline over the medium- and long-terms, reflecting declines in both world oil prices and local production, requiring a sustained adjustment in the public finances. The high dependence of the public finances and the whole economy on oil revenue makes the outlook highly vulnerable to negative oil price shocks.

6. **The fiscal stance continued to tighten in 2012 while the external current account deficit stabilized**. The non-oil primary deficit (NOPD) fell further from 19.6 to 19.2 percent of non-oil GDP in 2012, significantly better than projected in the 2012 Article IV consultation and in the 2012 supplementary budget.[3] In spite of a decline in oil revenue, the overall fiscal balance recorded a surplus of 1.7 percent of non-oil GDP on a cash basis and public debt is estimated to have fallen to around 28 percent of GDP. The bulk of the fiscal improvement came through a reduction in security-related expenditures, reflecting efficiencies arising from initiatives to professionalize the security services. The external current account (including official transfers) deteriorated slightly, to a deficit of 1.4 percent of GDP, while the reserve coverage is estimated to have improved to around 2.6 months of imports.

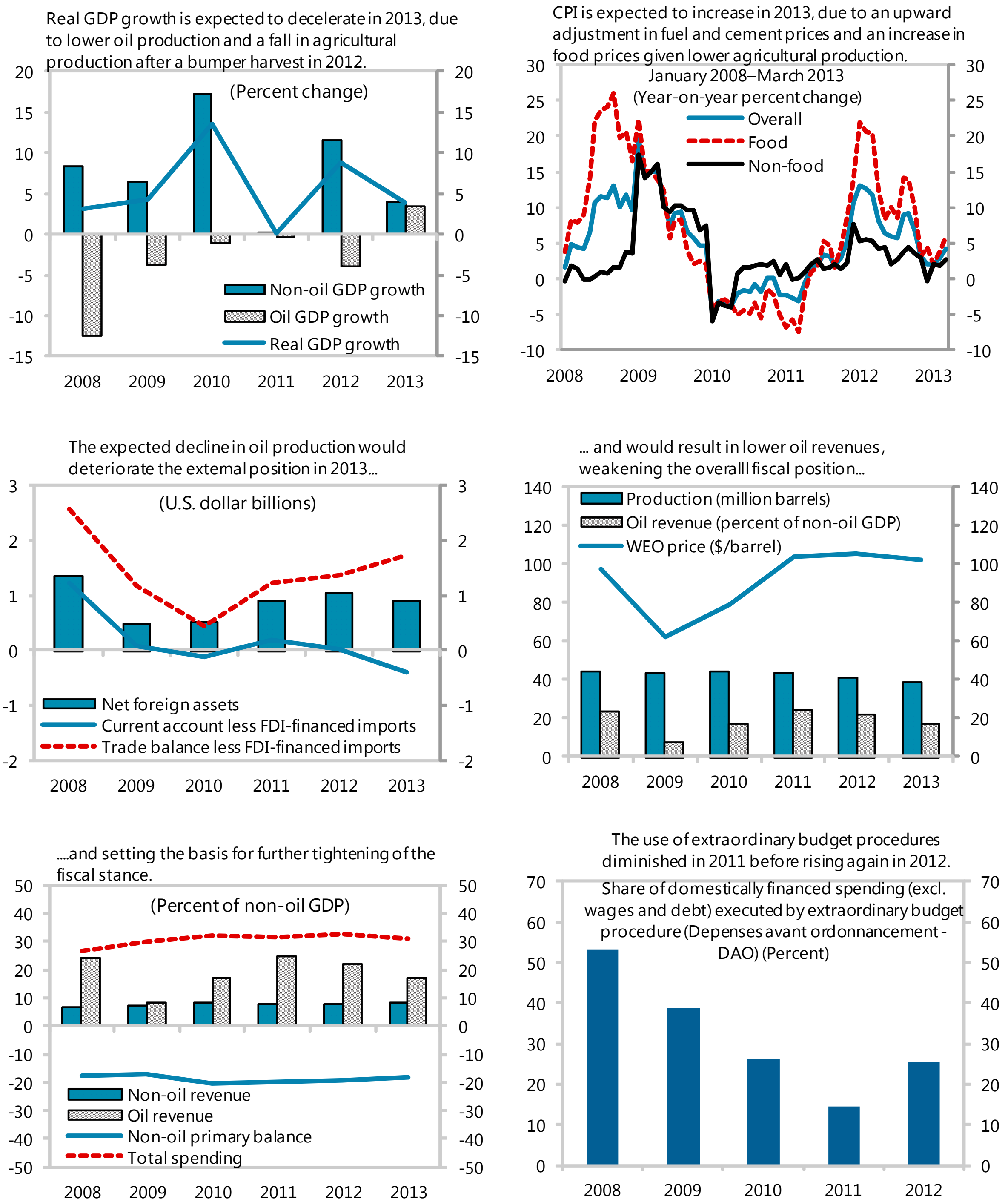
7. **The approved 2013 budget targets a further fall in the NOPD, but a projected decline in oil revenues will lead to overall fiscal and external current account deficits.** The approved 2013 budget targets an NOPD of 18.1 percent of non-oil GDP, in line with the 2012 Article IV consultation's recommendation of a gradual reduction in the NOPD in response to the anticipated decline in oil revenues over the long-term. This target was predicated on a significant increase in non-oil revenue and a lower level of security-related spending. Given a decline in oil revenue due to lower international prices, and the phasing out of signature bonuses paid in 2011–12, the approved budget implied a gross financing need of 3.2 percent of non-oil GDP. The external current account deficit is projected to increase to 5.4 percent of GDP in 2013.

8. **The regional security situation has introduced substantial uncertainty into fiscal prospects for 2013**. The costs of Chad's active participation in the security campaign in Mali have so far been financed by own budgetary resources at the expense of delaying other planned expenditures. The authorities have approached foreign donors to seek some compensation of the

[2] Fuel prices were adjusted upwards in December 2012 and are currently in line with cost-recovery estimates for the Djermaya oil refinery.

[3] These ratios are based on the recently rebased National Accounts data, using 2005 as the new base year.

Figure 1. Chad: Recent Economic Developments, 2008–2013[1]



[1] Unless otherwise indicated

Source: : Chadian authorities; and IMF staff estimates.

disbursed amounts, but there is substantial uncertainty on the level and timing of funding that would be provided by the international community. Starting in July 2013, however, the UN took leadership of the regional force in Mali and this is expected to lead to a reduction in the direct budgetary cost to Chad. As to the Central African Republic, the 2013 budget included an allocation of CFAF 5 billion for peacekeeping operations as well as for refugees from that country. However, recent political turmoil in the CAR has led to a rising number of refugees fleeing conflict into southern Chad.[4]

9. **Despite some improvements, public financial management (PFM) remains weak**. A large share of government spending has continued to be executed via emergency procedures.[5] This reflects more general PFM weaknesses, such as poor budgeting and insufficient safeguards on budget execution. A large share of contracts (54 percent, accounting for 82 percent of the total value of contracts in 2012) has been awarded without competitive tender. Treasury management has been weak, causing periodic cash shortages and payment arrears. To ease the treasury tensions, the government has in the past, at times, pressured commercial banks for financing and the Esso-led oil consortium for pre-payment of corporate income taxes.

10. **Continued expansion in bank credit to the non-government sector has helped fuel economic growth.** In addition, the overall health of the banking system has improved over the past two years following the recapitalization of state-owned banks. Non-performing loans have gradually been brought down (to 8.7 percent in 2012) and the banking system is profitable. In 2013, credit to the economy is projected to decelerate somewhat but will still increase as a ratio to non-oil GDP (to 9 percent from 8 percent in 2012).

STAFF-MONITORED PROGRAM

11. **The SMP aims to build a strong track record of economic management and reform to pave the way to an ECF-supported program**. The SMP, which covers the period April December 2013,[6] is driven by several key objectives: (i) to continue to reduce the NOPD in the context of a trend reduction of oil revenue over the medium- to long-terms;[7] (ii) strengthen PFM, in particular, expenditure control; and (iii) protect priority social spending. The SMP is in line with the

[4] According to the UNHCR, more than 5,800 people have left CAR and arrived in the Sido district of southern Chad since the beginning of March (in addition to the 17,000 refugees already in the Maro region since 2012).

[5] In 2007–10, about a third of domestically-financed spending (excluding wages and debt) were executed through emergency spending procedures. This share fell to about one-fifth in 2011–12. Traditionally, security outlays accounted for most spending executed in this manner; however, more recently, unbudgeted electricity subsidies and high-priority investment projects also accounted for a significant share.

[6] The quantitative targets and structural measures in the SMP were agreed with staff in early June. Management's approval was delayed pending confirmation of the adoption by the National Assembly of a revised budget law for 2013 consistent with the SMP's objectives.

[7] Oil revenue is projected to fall by 6½ percent of non-oil GDP between 2012 and 2017, and a further 3 percent of non-oil GDP in 2018.

recently approved third poverty reduction strategy (the National Development Plan 2013–15), which aims at improving living standards of the population and achieving the Millennium Development Goals through: (i) achieving high and sustainable growth; (ii) ensuring food security; (iii) creating and facilitating access to jobs; (iv) developing human capital; (v) promoting private sector development; (vi) developing information and communication technology; (vii) protecting the environment; and (viii) improving governance.[8]

A. Fiscal Policy

12. **The 2013 fiscal plan is framed under the medium-term objective of gradually reducing the NOPD in the face of a trend decline in oil revenue.** A reduction in the NOPD of 1.1 percent of non-oil GDP—from 19.2 percent of non-oil GDP in 2012 to 18.1 percent of non-oil GDP—is targeted for 2013. In line with the 2012 Article IV consultation, and based on current projections for oil and non-oil revenue and foreign financing (and using the rebased National Accounts data), the NOPD would have to fall to close to 10 percent of non-oil GDP by the end of the decade to stabilize public debt at 23 percent of GDP while accumulating a fiscal buffer. Achieving that target will require a strengthening of non-oil revenue collections and a rationalization of transfers to public enterprises over the medium-term. Stabilizing public debt below 30 percent of GDP over the medium term is an appropriate objective given Chad's relatively weak institutional capacity as reflected in the Country Policy and Institutional Assessment (a CPIA score of 2.5 in 2011). In addition, building a fiscal buffer of more than 5 percent of non-oil GDP over the next few years is prudent given past volatility in oil revenues and the dependence of the economy on agriculture.

13. **A revised 2013 draft budget law approved by the Council of Ministers in late June, and adopted by the National Assembly in July, reaffirms the original NOPD target, despite shocks to security spending and oil revenue projections.** The revised budget includes:

- additional exceptional security outlays linked to Chad's participation in Mali's international military campaign, peacekeeping efforts in Central African Republic, and enhanced security in the borders with Libya, Niger, and Nigeria (0.6 percent of non-oil GDP). In addition, foreign-financed capital expenditure has been adjusted by an amount of CFAF 160 billion (3.3 percent of non-oil GDP) to reflect the cost of replenishing the military equipment deployed in Mali and CAR that the government expects to be reimbursed by the international community. However, spending on such military equipment cannot be committed nor financed in the absence of donor support;[9] and,

[8] See Joint IDA-IMF Staff Advisory Note [Country Report No. 13/50]. A parallel World Bank mission reviewed progress against the HIPC completion point triggers and concluded that they could be met by end-2014. Performance under the National Development Plan 2013–15 will be one of the HIPC triggers.

[9] Furthermore, such military equipment will not and cannot be reconstituted through domestic resources this year given the absence of budgetary allocations to this effect within the revised 2013 budget.

- sizable reductions to oil and non-oil revenue projections (of about 2¼ and 1 percent of non-oil GDP, respectively). The downward revision to oil revenue mainly stems from a higher than initially forecast decline of Esso Consortium's production linked to temporary technical problems. As to non-oil revenue, performance in the first half of the year indicates significantly lower than expected collections given administrative and technical difficulties in tax agencies and reduced imports due to the closure of borders with Nigeria and Libya.

14. **The resulting financing needs will be accommodated through large placements of debt in regional markets, withdrawal of Treasury deposits, and a moderate cut in primary expenditure (Text Table 1).** To finance the overall fiscal deficit (of 3.4 percent of non-oil GDP) the authorities will issue Treasury bills in the domestic market (CFA35 billion or 0.7 percent of non-oil GDP) and will place medium-term securities (including with fellow governments) in the CEMAC region (around 2.7 percent of non-oil GDP).[10] In addition, the government will withdraw 1.7 percent of non-oil GDP in Treasury deposits from the banking system. The high level of liquidity in the region suggests that such financing may be available; and while liquidity in the banking system would tighten, the ratio of credit to the economy to non-oil GDP would still be expected to increase. The revised budget includes 1.4 percent of non-oil GDP in expenditure cuts, mainly in domestically financed capital expenditure. The adjustment to domestically financed capital expenditure (about 1 percent of non-oil GDP) focuses on new projects that have not yet started implementation, bringing the associated spending envelope (as a ratio to non-oil GDP) back to the level that prevailed in 2010-11. The lower adjustment to current non-wage primary spending relative to investment stems from the authorities' commitment to protect priority social spending, but also points to the need to ensure the efficiency of such spending. To that effect, the SMP includes quarterly quantitative targets for social spending in the areas of primary and secondary education, health, social protection, water and sanitation, and rural development.

15. **The authorities plan to submit the draft 2014 budget to Parliament by end-October 2013, targeting a continued reduction in the NOPD (MEFP, ¶17)**. The authorities' strategy for the 2014 budget will be discussed during the first review of the SMP. The authorities intend to implement measures to: (i) strengthen revenue and customs administration, drawing on recent Fund technical assistance; (ii) increase non-oil tax revenue by streamlining tax exemptions (informed by a compilation of existing tax exemptions to be undertaken in coming months

[10] Again, this overall fiscal deficit measure excludes the CFAF 160 billion for the replacement of military equipment, as it would only take place in the presence of still to be identified donor support.

Text Table 1. Financing Needs and Sources of Financing

	In billions of CFAF	In millions of US$	In percent of Non-oil GDP	In percent of GDP
I. Total financing needs	**334**	**672**	**6.9**	**4.9**
Financing gap under the original 2013 budget (gross)	155	312	3.2	2.3
Additional exceptional security spending [1]	30	60	0.6	0.4
Revision to oil revenue projections	112	225	2.3	1.7
Revision to non-oil revenue projections	37	74	0.8	0.5
II. Sources of financing	**334**	**672**	**6.9**	**4.9**
Domestic financing	266	536	5.5	3.9
Treasury bills	35	70	0.7	0.5
Regional capital market	131	263	2.7	1.9
Deposits at the BEAC	80	161	1.7	1.2
Rescheduling of BEAC statutory advances	21	42	0.4	0.3
Cuts in primary spending relative to original budget	68	136	1.4	1.0
Investment spending	46	92	0.9	0.7
Current non-wage primary spending	22	44	0.5	0.3
III. Residual financing gap	**0**	**0**	**0.0**	**0.0**

Sources: Chadian authorities and Fund staff projections.

[1] Including cost incurred for participation in regional security force in Mali.

to assess the magnitude of the related revenue leakage); and (iii) reduce subsidies and transfers to public enterprises (MEFP, ¶12). Therefore, the overall fiscal balance should improve substantially in 2014, turning into surpluses in 2015–17, and leading to a significant decline in the debt-to-GDP ratio.

B. Public Financial Management

16. **Strengthening PFM is a critical plank of the SMP**. The authorities' reform agenda for the coming months focuses on expenditure control, cash management, and procurement processes—in line with discussions during the 2012 Article IV consultation. An important element of the authorities' efforts is limiting the use of emergency spending procedures (so called DAOs), which have in the past led to reduced fiscal discipline, extra-budgetary spending, and a reallocation of spending relative to budgetary priorities. As of end-May this year, DAOs have almost exclusively been linked to exceptional security-related outlays, and the authorities are committed to limit them to less than 20 percent of domestically financed spending (excluding salaries, debt payments and security spending linked to the Mali military campaign). In order to improve cash management, the ministry of finance is preparing quarterly cash flow plans on a monthly basis and is proceeding to close non-essential government accounts at commercial banks. In terms of procurement, the government is committed to increase the use of competitive bidding in the award of public contracts. Other actions include the establishment of an audit court (which should be in place after the amended Constitution is enacted into law) and reconciliation of net credit to the government figures in fiscal and monetary monitoring. In terms of transparency, the authorities are determined to fully implement the EITI transparency and governance standards (under the most recent

assessment, Chad met 12 out of its 20 criteria and the government is committed to correct identified weaknesses).

17. **Government efforts will be supplemented by technical assistance from the IMF and other partners** (including the World Bank and the African Development Bank). The government recently requested technical assistance from the Fiscal Affairs Department to make a general diagnosis of its PFM system which will be used to develop an action plan for reforms in this area.

C. Debt Management

18. **Lack of monitoring over public debt operations and the fragmentation of responsibilities in the approval and signature of debt operations have hampered fiscal control and compromised debt sustainability**. Starting in September 2013, the authorities will reactivate and make fully operational the inter-ministerial committee in charge of approving and monitoring debt operations (Commission Nationale d'Analyse de la Dette---CONAD) as well as the technical unit (ETAVID) looking at the sustainability of debt. Over the medium term, they intend to centralize debt management operations within the debt unit of the ministry of finance, which serves as the technical secretariat of the CONAD. This effort will be followed by the approval of a public debt management law by early 2014 that, among other things, should clarify the responsibilities linked to debt analysis, approval, signature, and monitoring.

19. **The authorities have begun the process of renegotiating the large non-concessional borrowing under the Master Facility Agreement (MFA) signed with Eximbank of China in August 2011.**[11] While no disbursements have taken place under the MFA, it is not compatible with standard Fund program requirements or, more broadly, with the HIPC Initiative objectives. The 2012 Article IV consultation determined that the MFA ($2 billion, or 15 percent of 2013 GDP) was problematic because: (i) the borrowing terms fell short of the standard concessionality requirement; (ii) collateralization of payment obligations subordinated other creditors and contravened the surrender requirements under the BEAC law; and (iii) if disbursed over a short period, would significantly raise the risk of debt distress and compromise debt sustainability.[12] After an initial high-level meeting in May 2013, negotiations are ongoing.

20. **The authorities are committed to avoiding any new non-concessional external borrowing by the government and public enterprises.** After March 2013, the Government signed a non-concessional loan with OPEC totaling the equivalent of about US$12 million to finance a project considered to have substantial economic potential: a road between Ngouri and Bol (close to the borders with Nigeria and Cameroon). That loan had a grant element of 21 percent. However, the government and non-financial public enterprises are committed to adhere not to sign any new non-concessional external debt going forward with a view to preserving debt sustainability.

[11] For details, see the 2012 Article IV Consultation report for Chad (IMF Country Report No. 13/87).

[12] See Debt Sustainability Analysis in the 2012 Article IV Consultation report for Chad (IMF Country Report No. 13/87).

Furthermore, they intend not to collateralize future receipts to guarantee the payment of external debt.

21. **The authorities are committed to prevent the accumulation of external and domestic arrears.** Consistent with the program quantitative targets (MEFP, Table 1), the government has committed to the non-accumulation of new domestic arrears in 2013 (TMU, ¶15).

D. Program Monitoring and Implementation Risks

22. **The SMP will be monitored on the basis of quarterly quantitative targets and structural benchmarks.** The program sets quantitative targets at end-June, end-September, and end-December 2013 (MEFP, Table 1). The quantitative targets focus on the non-oil primary balance, the net domestic financing to the government, non-accumulation of external and domestic arrears, non-contracting of external non-concessional or collateralized debt, and poverty-reducing social spending. Structural benchmarks (MEFP, Table 2) include reforms in expenditure, cash, and debt management.

23. **Implementation of the SMP will face significant risks.** Regional security instability and a potential fall in international oil prices are the main sources of risk for the program. In addition, expenditure cuts under the revised budget will require adherence to a strict control over spending, including on infrastructure projects being planned toward hosting the 2015 African Union summit and on transfers to loss-making state-owned enterprises.

24. **In accordance with safeguards policy requirements for regional central banks, a quadrennial safeguards assessment of the Bank of the Central African States (BEAC) is underway**. The assessment occurs against the backdrop of extensive plans and measures initiated to address governance challenges and control failures that emerged in 2009. For its part, the BEAC adopted an action plan with the aim of reforming its own governance, strengthening key safeguards, and building capacity. In addition, a series of rolling measures were agreed between the BEAC and the IMF, as a basis for determining whether periodic IMF program reviews could continue for those BEAC members using IMF resources. A summary of the results of the current assessment will be reported upon its completion.

STAFF APPRAISAL

25. **Chad can make important progress in its development goals despite the country's vulnerability to regional security problems and the vagaries of international oil prices**. The relatively long period of domestic stability coupled with a closer cooperation with the international community and an economic team keen on advancing structural reforms, provide the opportunity to implement longer-term policies that would accelerate economic growth and the reduction of poverty.

26. **The government program for 2013 under an SMP appropriately aims at gradually consolidating the fiscal stance in response to a trend decline in oil revenue**. The SMP provides an opportunity for Chad to build a strong track record of economic management and reform that would strengthen macroeconomic outcomes and pave the way to an ECF-supported program. The NOPD target that anchors fiscal policy in 2013 builds on the declining trend in the NOPD since 2011, which is critical given the anticipated decline in oil revenues over the medium-term, absent new oil discoveries. The emphasis on financing rather than fiscal adjustment to cover relatively large financing needs in 2013 reflects the expected improvement in the overall fiscal balance in coming years and allows a non-disruptive adjustment to domestically-financed capital spending while protecting priority social spending. Staff welcomes the authorities' commitment to protect social spending; however, there is still a need to improve the targeting and efficiency of social spending.

27. **The focus on PFM reforms is crucial to ensure fiscal discipline and expenditure control, and to improve the quality of spending.** A critical reform in the short-term is to strictly limit the use of DAOs to real emergency situations. Overall, the implementation of PFM reforms with support from technical assistance by the Fund and other partners should foster a resumption of budget support by donors over the medium-term, including to finance the new poverty reduction strategy (i.e., the National Development Plan 2013–15).

28. **Debt management needs to be strengthened to help ensure debt sustainability.** Institutional reforms are needed to centralize debt approval and operational management. The decision to reactivate an associated inter-ministerial committee is positive and should be followed by a strengthening of the debt unit at the ministry of finance. Staff welcomes the authorities' decisions to renegotiate the Master Facility Agreement with Eximbank China, to bring it into line with standard concessionality and debt sustainability requirements, and to refrain from any new non-concessional borrowing and collateralization of future receipts to guarantee the payment of external debt.

29. **The main risks to the SMP implementation arise from the regional security instability, a potential fall in international oil prices, and PFM weaknesses**. The difficult security situation in the region could lead to increased security-related outlays. In that regard, the disbursement of compensations linked to the military campaign in Mali will help minimize risks to fiscal performance under the program. Going forward, Chad's participation in UN force in Mali will limit budgetary outlays on that account. Implementation of expenditure cuts under the revised budget will require a strict control on spending. The infrastructure projects being planned toward hosting the 2015 African Union summit should be aligned to the current fiscal plans.

30. **While the risks to the SMP are significant, the authorities are determined to achieve the program's objectives**. The SMP builds on discussions held during the last Article IV consultation and, with technical assistance support already identified, could generate meaningful progress in strengthening economic management and building better fiscal institutions. Successful

implementation of the SMP will also help create a track record of appropriate macroeconomic management and structural reforms, which could in turn allow the authorities to move toward an ECF-supported program and expand the authorities’ relations with international development partners.

Table 1. Chad: Selected Economic and Financial Indicators, 2009–2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
				Prel.	Projections					
	(Annual percentage change, unless otherwise indicated)									
Real economy										
GDP at constant prices	4.2	13.5	0.1	8.9	3.9	10.5	9.2	3.6	3.5	2.6
Oil GDP	-3.7	-1.1	-0.4	-4.0	3.5	31.8	23.1	-4.0	-4.2	-9.0
Non-oil GDP	6.4	17.2	0.2	11.6	4.0	6.6	6.1	5.6	5.3	5.0
GDP deflator	-9.6	6.4	8.6	5.3	-1.2	3.4	2.8	-1.3	0.1	-0.7
Non-oil GDP deflator	1.4	-2.9	2.5	0.6	0.7	3.7	3.5	2.0	2.4	1.2
Consumer price index (period average)	10.1	-2.1	1.9	7.7	2.6	3.9	3.0	3.0	3.0	3.0
Consumer price index (end of period)	4.7	-2.2	10.8	2.1	5.0	3.0	3.0	3.0	3.0	3.0
Oil prices										
WEO (US$/barrel)[1]	61.8	79.0	104.0	105.0	102.5	98.0	93.2	89.6	86.9	84.9
Chadian price (US$/barrel)[2]	55.5	73.6	97.7	102.0	100.4	93.9	90.1	86.0	84.3	82.9
Oil production (in millions of barrels)	43.6	44.7	43.6	41.2	38.6	54.2	68.1	65.0	61.9	55.7
Exchange rate FCFA per US$ (period average)	471.0	494.4	471.4	510.0	497.0	492.9	488.0	483.4	479.5	475.7
Money and credit[3]										
Net foreign assets	-74.7	13.3	25.3	14.8	-10.2	3.3	10.0	9.7	10.8	-0.8
Net domestic assets	70.1	12.0	-11.0	-1.3	18.6	7.2	-0.2	-2.0	-3.0	7.2
Of which : net claims on central government	67.7	7.2	-18.8	-13.1	9.9	-11.3	-7.2	-11.1	-12.0	-0.1
Of which : credit to private sector	5.9	10.7	9.0	12.9	8.9	18.7	7.0	9.1	9.0	7.3
Broad money	-4.6	25.3	14.2	13.4	8.4	10.6	9.8	7.7	7.8	6.4
Income velocity (non-oil GDP/broad money)	7.3	6.6	5.9	5.9	5.7	5.7	5.7	5.7	5.7	5.7
External sector (valued in CFA francs)										
Exports of goods and services, f.o.b.	-26.6	20.7	20.2	-2.8	-7.4	25.8	17.7	-7.4	-5.5	-9.6
Imports of goods and services, f.o.b.	-0.4	19.4	9.4	-1.0	-0.5	13.5	3.5	0.8	-0.5	0.9
Export volume	0.2	-6.9	-3.0	-9.7	-5.3	27.0	21.4	-4.5	-3.3	-8.3
Import volume	6.7	16.3	2.1	-0.1	-0.2	12.0	3.3	0.2	-1.5	-0.2
Overall balance of payments (in percent of GDP)	-8.0	0.1	2.9	0.7	-1.2	0.3	1.0	1.1	1.2	-0.2
Current account balance, including official transfers (in percent of GDP)	-3.1	-4.0	-0.8	-1.4	-5.4	-2.3	1.2	-1.0	-2.3	-4.5
Terms of trade	-21.5	26.3	15.7	8.6	-2.0	-2.3	-3.3	-3.7	-3.2	-2.5
External debt (in percent of GDP)	23.0	25.2	26.4	20.8	20.3	18.9	17.7	18.3	18.5	18.9
NPV of external debt (in percent of exports of goods and services)	36.3	30.9	50.8	49.9	55.4	46.1	40.9	45.9	50.2	57.6
	(Percent of non-oil GDP, unless otherwise indicated)									
Government finance										
Revenue and grants	18.6	26.7	34.6	33.4	27.7	28.5	31.8	28.8	26.6	24.0
Of which : non-oil	7.3	8.1	7.6	7.7	8.3	8.7	9.0	9.6	10.0	10.5
Expenditure	28.1	32.2	31.3	32.8	31.1	29.5	29.2	28.0	26.4	25.8
Current	18.0	19.2	17.9	15.7	17.0	15.9	15.7	15.3	14.8	14.8
Capital	10.0	13.1	13.3	17.0	14.1	13.6	13.5	12.7	11.6	11.0
Non-oil primary balance (commitment basis, excl. grants)[4]	-17.1	-20.1	-19.6	-19.2	-18.1	-15.0	-14.5	-13.0	-11.3	-10.5
Overall fiscal balance (incl. grants, commitments basis)	-9.4	-5.5	3.3	0.6	-3.3	-1.0	2.6	0.8	0.2	-1.8
Overall fiscal balance (incl. grants, cash basis)	-9.3	-4.2	0.6	1.7	-3.3	-1.0	0.5	0.8	0.2	-1.8
Total debt (in percent of GDP)[5]	30.5	30.5	35.9	27.8	28.1	26.2	23.5	23.3	22.9	23.1
Of which : domestic debt[5]	7.5	5.2	9.5	7.0	7.8	7.4	5.7	5.0	4.5	4.2
Memorandum items:										
Nominal GDP (in billions of CFA francs)[6]	4,369	5,279	5,736	6,579	6,753	7,714	8,659	8,856	9,177	9,343
Of which: non-oil GDP	3,515	3,999	4,108	4,614	4,833	5,344	5,867	6,320	6,813	7,246
Nominal GDP (in billions of US$)[6]	9.3	10.7	12.2	12.9	13.6	15.7	17.7	18.3	19.1	19.6
Of which: non-oil GDP	7.5	8.1	8.7	9.0	9.7	10.8	12.0	13.1	14.2	15.2

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

[1]WEO 2013 Spring Production.

[2]Chadian oil price is Brent price minus quality discount.

[3]Changes as a percent of broad money stock at the beginning of period.

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

[5]Central government, including government-guaranteed debt.

[6]GDP using National Accounts, base year 2005.

Table 2. Chad: Real GDP per sector, 2009–2018

(Annual percentage change, unless otherwise indicated)

	Weight[1]	2009	2010	2011	2012 Prel.	2013	2014	2015	2016	2017	2018
						Projections					
Primary sector	44	-3.1	16.1	-7.6	11.8	-6.7	14.7	13.0	0.1	0.0	-2.0
Agriculture	12	-1.9	49.8	-25.3	46.9	-21.5	5.7	5.3	5.1	4.9	4.7
Food crops	11	-1.3	54.1	-27.4	50.6	-23.0	5.0	4.7	4.6	4.5	4.5
Industrial crops	1	-8.8	-7.2	20.6	-1.2	8.1	15.0	13.5	11.5	9.2	7.3
Livestock, Forestry and Fishing	11	-4.6	1.9	3.9	1.2	3.0	2.8	2.5	2.2	2.2	2.2
Mining and Quarrying	3	14.3	13.6	12.0	12.1	14.8	6.0	5.1	4.3	3.7	3.1
Oil and Gas Extraction	19	-5.0	3.3	-1.1	-6.5	-1.2	33.2	25.6	-4.6	-4.8	-9.9
Secondary sector	12	13.1	10.2	9.0	8.5	23.4	8.2	5.6	5.4	5.0	4.5
Manufacturing (non petroleum)	1	8.9	9.9	11.3	12.2	24.0	16.5	14.9	12.6	10.1	8.1
Of which : cotton processing	0	10.4	-51.6	51.1	31.4	22.0	26.4	13.2	11.9	10.7	9.6
Handicrafts	5	8.8	9.7	9.0	4.3	13.4	4.8	5.2	5.2	4.6	4.6
Utilities	0	-13.4	10.1	10.1	14.3	27.2	10.9	8.7	7.0	6.3	5.6
Construction	6	18.2	10.0	2.0	7.7	29.8	5.2	4.1	3.9	4.1	3.8
Of which : oil related	2	13.1	-49.5	-31.9	20.9	72.2	0.0	-2.4	-4.1	-3.0	-7.1
Refinery	…	…	…	…	79.2	56.4	43.8	5.3	5.7	5.0	2.7
Tertiary sector	41	10.4	11.5	4.9	6.5	8.8	7.9	7.2	6.5	6.1	5.8
Commerce, transport	22	8.1	16.5	1.7	6.2	10.7	9.4	8.2	7.2	6.7	6.1
Commerce	20	8.2	17.6	1.0	7.1	9.5	8.1	6.9	5.8	5.3	4.7
Transport	3	7.6	8.8	7.5	-0.8	20.3	18.7	17.2	15.8	14.5	13.4
General government	7	23.1	-2.9	5.2	4.2	5.1	4.7	4.5	4.3	4.1	4.5
Other	12	8.7	10.1	11.0	8.1	7.1	6.7	6.4	6.1	5.8	5.5
Duties and taxes on imports	2	6.7	18.1	18.9	3.5	4.7	4.7	4.7	4.7	4.7	4.8
Total GDP	100	4.2	13.5	0.1	8.9	3.9	10.5	9.2	3.6	3.5	2.6
Oil GDP (including investment)	20	-3.7	-1.1	-0.4	-4.0	3.5	31.8	23.1	-4.0	-4.2	-9.0
Non-oil GDP	80	6.4	17.2	0.2	11.6	4.0	6.6	6.1	5.6	5.3	5.0

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

[1] Average share of 2005–10 GDP.

Table 3. Fiscal Operations of the Central Government, 2009–2018

(In billions of CFA francs, unless otherwise indicated)

	2009	2010	2011	2012	2013			2014	2015	2016	2017	2018
				Prel.	LFI	LFR[1]	Prog.	Projections				
Total revenue and grants	655	1,069	1,422	1,542	1,490	1,341	1,341	1,523	1,863	1,818	1,814	1,739
Revenue	540	1,000	1,331	1,375	1,373	1,224	1,224	1,410	1,739	1,685	1,671	1,591
Oil	284	676	1,017	1,020	933	821	821	946	1,209	1,078	990	833
Non-oil	256	324	314	355	440	403	403	464	530	607	681	758
Tax	239	313	296	339	415	378	378	437	502	566	633	701
Non-tax	16	11	18	16	25	25	25	27	28	41	48	57
Grants	115	69	91	167	117	117	117	113	124	133	144	148
Budget support	35	0	0	0	0	0	0	0	0	0	0	0
Project grants	80	69	91	167	117	117	117	113	124	133	144	148
Expenditure	987	1,289	1,284	1,512	1,539	1,661	1,501	1,576	1,711	1,769	1,801	1,873
Current	634	766	736	726	814	822	822	847	922	965	1,011	1,072
Wages and salaries	201	216	250	283	343	343	343	363	390	404	412	438
Goods and services	110	111	87	123	135	128	128	160	176	190	204	217
Transfers and subsidies	302	411	364	291	299	315	315	273	299	316	341	362
Subsidies and non-security transfers	109	191	163	197	267	253	253	…	…	…	…	…
Exceptional security	193	220	201	95	32	62	62	…	…	…	…	…
Interest	21	29	35	28	36	36	36	51	56	55	53	54
Domestic	5	14	25	16	18	18	18	26	30	27	24	22
External	16	16	10	12	18	18	18	25	26	28	30	32
Investment	353	522	548	787	725	839	679	729	790	805	791	800
Domestically financed	242	392	416	543	538	492	492	460	505	506	477	478
Foreign financed	111	130	132	243	187	347	187	270	285	299	314	322
Overall balance (incl. grants, commitment)	-332	-220	137	30	-49	-320	-160	-53	151	49	13	-133
Non-oil primary balance (excl. grants, commitment)[2]	-601	-805	-804	-886	-876	-875	-875	-800	-851	-823	-772	-763
Change in balances payable[3]	-83	-159	-166	-109	…		-247	-246	-245	-122	-126	-128
Float[4]	85	142	50	247	…		246	245	122	126	128	132
Errors and omissions	2	66	3	-92	…	…	…	…	…	…	…	…
Overall balance (incl. grants, cash)	-329	-170	25	76	…	-321	-161	-54	29	53	14	-129
Financing	329	170	-25	-76	…	162	161	54	-29	-53	-14	129
Domestic financing	327	58	-22	-119	…	169	169	-29	-115	-142	-143	-1
Bank financing	328	48	-110	-97	…	76	76	-98	-68	-115	-133	-1
Central Bank (BEAC)	327	48	-106	-73	…	78	78	-85	-68	-115	-133	-1
Deposits	211	-23	-100	-48	…	80	80	-63	-47	-93	-113	19
Advances (net)	120	76	0	-21	…	0	0	-21	-21	-21	-21	-21
IMF (reimbursement)	-4	-6	-5	-4	…	-2	-2	-1	-1	0	0	0
Commercial banks	0	0	-5	-25	…	-2	-2	-13	0	0	0	0
Non-bank financing (net)	-1	0	88	-25	…	94	93	69	-46	-28	-10	0
Privatization	1	10	1	3	…	0	0	0	0	0	0	0
Foreign financing	1	112	-3	43	-7	-7	-7	84	86	90	129	130
Loans (net)	1	112	-3	43	-7	-7	-7	84	86	90	129	130
Disbursements	30	157	41	76	70	70	70	157	161	165	170	174
Budget borrowings	0	141	0	0	0	0	0	0	0	0	0	0
Project loans	59	61	41	76	70	70	70	157	161	165	170	174
Amortization	-29	-45	-44	-33	-76	-77	-77	-73	-76	-76	-41	-43
Financing gap	…	…	…	…	155	160	0	0	0	0	0	0
Memorandum items:												
Non-oil GDP	3,515	3,999	4,108	4,614	4,833	4,833	4,833	5,344	5,867	6,320	6,813	7,246
Bank deposits (mostly BEAC)	82	105	205	253	…	173	173	235	282	376	488	469
(In months of domestically-financed spending)	1.1	1.1	2.1	2.4	…	1.6	1.6	2.2	2.4	3.1	3.9	3.6
BEAC statutory advances	142	166	209	188	…	188	188	167	146	125	104	83

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

¹Draft revised budget adopted by the Council of Ministers.

²Total revenue, less grants and oil revenue, minus total expenditures, less net interest payments and foreign financed investment.

³Prior to 2013, amounts in excess of float, represent clearance of arrears, accrued in prior fiscal years.

⁴Difference between committed and cash expenditure.

Table 4. Fiscal Operations of the Central Government, 2009–2018
(In percent of non-oil GDP, unless otherwise indicated)

	2009	2010	2011	2012	2013			2014	2015	2016	2017	2018
				Prel.	LFI	LFR[1]	Prog.	Projections				
Total revenue and grants	18.6	26.7	34.6	33.4	30.8	27.7	27.7	28.5	31.8	28.8	26.6	24.0
Revenue	15.3	25.0	32.4	29.8	28.4	25.3	25.3	26.4	29.6	26.7	24.5	22.0
Oil	8.1	16.9	24.8	22.1	19.3	17.0	17.0	17.7	20.6	17.1	14.5	11.5
Non-oil	7.3	8.1	7.6	7.7	9.1	8.3	8.3	8.7	9.0	9.6	10.0	10.5
Tax	6.8	7.8	7.2	7.3	8.6	7.8	7.8	8.2	8.6	9.0	9.3	9.7
Non-tax	0.5	0.3	0.4	0.3	0.5	0.5	0.5	0.5	0.5	0.6	0.7	0.8
Grants	3.3	1.7	2.2	3.6	2.4	2.4	2.4	2.1	2.1	2.1	2.1	2.0
Budget support	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	2.3	1.7	2.2	3.6	2.4	2.4	2.4	2.1	2.1	2.1	2.1	2.0
Expenditure	28.1	32.2	31.3	32.8	31.8	34.4	31.1	29.5	29.2	28.0	26.4	25.8
Current	18.0	19.2	17.9	15.7	16.8	17.0	17.0	15.9	15.7	15.3	14.8	14.8
Wages and salaries	5.7	5.4	6.1	6.1	7.1	7.1	7.1	6.8	6.7	6.4	6.1	6.1
Goods and services	3.1	2.8	2.1	2.7	2.8	2.6	2.6	3.0	3.0	3.0	3.0	3.0
Transfers and subsidies	8.6	10.3	8.9	6.3	6.2	6.5	6.5	5.1	5.1	5.0	5.0	5.0
Subsidies and non-security transfers	3.1	4.8	4.0	4.3	5.5	5.2	5.2	…	…	…	…	…
Exceptional security	5.5	5.5	4.9	2.1	0.7	1.3	1.3	…	…	…	…	…
Interest	0.6	0.7	0.9	0.6	0.7	0.7	0.7	1.0	1.0	0.9	0.8	0.8
Domestic	0.1	0.3	0.6	0.3	0.4	0.4	0.4	0.5	0.5	0.4	0.3	0.3
External	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.4
Investment	10.0	13.1	13.3	17.0	15.0	17.4	14.1	13.6	13.5	12.7	11.6	11.0
Domestically financed	6.9	9.8	10.1	11.8	11.1	10.2	10.2	8.6	8.6	8.0	7.0	6.6
Foreign financed	3.1	3.3	3.2	5.3	3.9	7.2	3.9	5.0	4.9	4.7	4.6	4.4
Overall balance (incl. grants, commitment)	-9.4	-5.5	3.3	0.6	-1.0	-6.6	-3.3	-1.0	2.6	0.8	0.2	-1.8
Non-oil primary balance (excl. grants, commitment)[2]	-17.1	-20.1	-19.6	-19.2	-18.1	-18.1	-18.1	-15.0	-14.5	-13.0	-11.3	-10.5
Change in balances payable[3]	-2.4	-4.0	-4.0	-2.4	…		-5.1	-4.6	-4.2	-1.9	-1.9	-1.8
Float[4]	2.4	3.6	1.2	5.4	…		5.1	4.6	2.1	2.0	1.9	1.8
Errors and omissions	0.0	1.7	0.1	-2.0	…	…	…	…	…	…	…	…
Overall balance (incl. grants, cash)	-9.3	-4.2	0.6	1.7	…	-6.6	-3.3	-1.0	0.5	0.8	0.2	-1.8
Financing	9.3	4.2	-0.6	-1.7	…	3.3	3.3	1.0	-0.5	-0.8	-0.2	1.8
Domestic financing	9.3	1.4	-0.5	-2.6	…	3.5	3.5	-0.5	-2.0	-2.3	-2.1	0.0
Bank financing	9.3	1.2	-2.7	-2.1	…	1.6	1.6	-1.8	-1.2	-1.8	-2.0	0.0
Central Bank (BEAC)	9.3	1.2	-2.6	-1.6	…	1.6	1.6	-1.6	-1.2	-1.8	-2.0	0.0
Deposits	6.0	-0.6	-2.4	-1.0	…	1.7	1.7	-1.2	-0.8	-1.5	-1.7	0.3
Advances (net)	3.4	1.9	0.0	-0.5	…	0.0	0.0	-0.4	-0.4	-0.3	-0.3	-0.3
IMF (reimbursement)	-0.1	-0.1	-0.1	-0.1	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.0	0.0	-0.1	-0.5	…	0.0	0.0	-0.2	0.0	0.0	0.0	0.0
Non-bank financing (net)	0.0	0.0	2.1	-0.5	…	1.9	1.9	1.3	-0.8	-0.4	-0.1	0.0
Privatization	0.0	0.2	0.0	0.1	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	0.0	2.8	-0.1	0.9	-0.1	-0.2	-0.2	1.6	1.5	1.4	1.9	1.8
Loans (net)	0.0	2.8	-0.1	0.9	-0.1	-0.2	-0.2	1.6	1.5	1.4	1.9	1.8
Disbursements	0.9	3.9	1.0	1.6	1.4	1.4	1.4	2.9	2.8	2.6	2.5	2.4
Budget borrowings	0.0	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	1.7	1.5	1.0	1.6	1.4	1.4	1.4	2.9	2.8	2.6	2.5	2.4
Amortization	-0.8	-1.1	-1.1	-0.7	-1.6	-1.6	-1.6	-1.4	-1.3	-1.2	-0.6	-0.6
Financing gap	…	…	…	…	3.2	3.3	0.0	…	…	…	…	…
Memorandum items:												
Non-oil GDP	3,515	3,999	4,108	4,614	4,833	4,833	4,833	5,344	5,867	6,320	6,813	7,246
Bank deposits (mostly BEAC)	2.3	2.6	5.0	5.5	…	…	3.6	4.4	4.8	5.9	7.2	6.5
(In months of domestically-financed spending)	1.1	1.1	2.1	2.4	…	…	1.6	2.2	2.4	3.1	3.9	3.6
BEAC statutory advances	4.0	4.2	5.1	4.1	…	…	3.9	3.1	2.5	2.0	1.5	1.2

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

[1]Draft revised budget adopted by the Council of Ministers.

[2]Total revenue, less grants and oil revenue, minus total expenditures, less net interest payments and foreign financed investment.

[3]Prior to 2013, amounts in excess of float, represent clearance of arrears, accrued in prior fiscal years.

[4]Difference between committed and cash expenditure.

Table 5. Balance of Payments, 2009–2018

(Billion of CFA francs, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
			Est.	Prel.	Projections					
Current account	-137	-213	-48	-93	-365	-176	106	-89	-214	-422
Trade balance, incl. oil sector	374	569	760	671	490	886	1,272	968	825	540
Exports, f.o.b.	1,320	1,752	2,032	2,145	1,914	2,434	2,867	2,607	2,427	2,151
Of which : oil	1,153	1,602	1,836	1,925	1,672	2,170	2,575	2,307	2,118	1,825
Imports, f.o.b.	-946	-1,183	-1,272	-1,474	-1,423	-1,549	-1,594	-1,639	-1,603	-1,611
Services (net)	-672	-923	-928	-894	-865	-1,051	-1,071	-1,019	-1,015	-1,006
Income (net)	-182	-176	-148	-346	-287	-310	-406	-363	-364	-311
Transfers (net)	344	317	268	476	296	299	311	326	341	356
Official (net)	35	22	17	20	70	23	26	28	31	33
Private (net)	309	294	251	456	276	275	285	298	310	323
Financial and capital account	-98	-30	145	141	285	199	-19	182	326	403
Capital transfers	49	59	85	164	113	109	120	130	140	145
Foreign direct investment	177	155	133	103	163	-64	-224	-44	-73	-63
Other medium and long term investment	27	65	99	33	-17	74	76	80	119	121
Public sector	36	74	108	43	-7	84	86	90	129	130
Private sector	-9	-9	-9	-10	-10	-10	-10	-10	-10	-10
Short-term capital	-351	-309	-172	-159	26	80	8	17	140	200
Errors and omisions	-116	249	72	…	…	…	…	…	…	…
Overall balance	-350	5	169	48	-80	23	87	93	113	-19
Financing	350	-5	-169	-48	80	-23	-87	-93	-113	19
Net foreign assets (BEAC)	350	-5	-169	-48	80	-23	-87	-93	-113	19
Memorandum items:										
Gross official reserves (imputed reserves, billions of USD)	0.6	0.6	1.0	1.1	0.9	1.0	1.2	1.4	1.6	1.6
(In months of imports of goods and services)	1.6	1.5	2.3	2.6	2.0	2.0	2.4	2.8	3.3	3.1
(Idem, excluding oil sector imports)	1.9	1.8	2.9	3.3	2.4	2.4	2.8	3.2	3.7	3.4

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

Table 6. Monetary Survey, 2009–2013

(Billions of CFA francs)

	2009	2010	2011	2012	2013
				Prel.	Proj.
Net foreign assets	238.9	303.1	456.0	558.1	478.1
Central bank	227.4	262.0	430.5	538.6	458.7
Commercial banks	11.4	41.1	25.5	19.4	19.4
Net domestic assets	244.0	302.2	235.3	226.2	372.3
Domestic credit	313.9	403.6	349.6	347.6	486.5
Claims on the government (net)	141.4	176.0	62.4	-28.4	49.2
Treasury (net)	104.8	149.4	39.6	-40.9	36.7
Banking sector	104.8	149.4	39.6	-40.9	36.7
Central bank	145.2	202.2	86.7	28.6	108.6
Claims on general government	217.4	289.8	278.9	279.8	279.8
Liabilities to general government	-72.2	-87.6	-192.2	-251.2	-171.2
Commercial banks	-40.3	-52.8	-47.1	-69.5	-71.9
Claims on general government	27.0	61.5	54.5	50.1	47.7
Liabilities to general government	-67.3	-114.3	-101.5	-119.7	-119.7
Fund position	38.3	8.3	5.9	2.5	0.0
Other non-treasury	36.5	26.6	22.8	12.5	12.5
Credit to the economy	171.8	223.6	278.1	367.3	436.9
Capital Accounts	-62.9	-64.8	-89.9	-104.7	-104.7
Other items (net)	-2.9	-28.2	-12.1	-9.4	-9.4
Money and quasi money	482.9	605.3	691.3	784.3	850.4
Currency outside banks	291.9	345.7	373.5	400.7	434.5
Demand deposits	158.0	223.0	258.9	326.0	353.5
Time and savings deposits	33.0	36.6	58.9	57.5	62.4
Memorandum items:					
Broad money (annual percentage change)	-4.6	25.3	14.2	13.4	8.4
Credit to the economy (annual percentage change)	21.0	30.2	24.4	32.1	18.9
Credit to the economy (percent of GDP)	3.9	4.2	4.8	5.6	6.5
Credit to the economy (percent of non-oil GDP)	4.9	5.6	6.8	8.0	9.0
Velocity (non-oil GDP)	7.3	6.6	5.9	5.9	5.7
Velocity (total GDP)	9.0	8.7	8.3	8.4	7.9
Net claims on the government (flows)	342.6	34.7	-113.6	-97.4	75.9

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

Appendix—Letter of Intent

N'Djamena, July 31, 2013

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Madame Lagarde:

I wish to state once again that the government of the Republic of Chad stands ready to work together with staff of the International Monetary Fund (IMF). Furthermore, I welcome the renewed impetus that we plan to give to our cooperative relationship as we endeavor to enhance our capacities to meet the needs of growth and poverty reduction.

As you are aware, various factors including the consequences of past domestic conflicts, instability in neighboring countries, repeated food crises caused by insufficient rainfall, and fiscal management weaknesses have hampered the implementation of Fund-supported financial and non-financial programs and the attainment of the HIPC completion point.

More recently, however, enhanced internal stability has allowed Chad to make important strides in improving the conduct of economic policy and in building its physical infrastructure. For instance, the non-oil budget primary deficit was successfully reduced over 2011-12 and financial savings were accumulated.

To consolidate a decisive departure from past problems in macroeconomic policy management and to accelerate the implementation of key structural reforms, the government of Chad hereby requests a staff-monitored program (SMP) covering the period April 1-December 31, 2013. The objectives and measures of the program are defined in the attached Memorandum on Economic and Financial Policies (MEFP). In this program, in addition to continuing to reduce the non-oil primary deficit, special emphasis will be placed on strictly curtailing the use of exceptional budgetary procedures (*dépenses avant ordonnancement*) and stopping the execution of expenditure without prior budget appropriations. These efforts will be firmed up in the implementation of the 2014 budget that the government will prepare in consultation with its technical and financial partners.

The government strongly hopes that satisfactory implementation of the SMP, together with a realignment of the Master Facility Agreement (MFA) with Eximbank of China with both concessionality and debt sustainability requirements, will lead to a new arrangement under the

Extended Credit Facility (ECF) in early 2014 and to an enhanced dialogue with multilateral and bilateral donors. Furthermore, an ECF-supported program should play a catalytic role in mobilizing the external resources necessary for the implementation of the government's National Development Plan (PND), with a view to reducing poverty and significantly improving living conditions in Chad. Part of those resources should follow the attainment of the completion point of the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief (MDRI) Initiative.

The government is convinced that the policies and measures defined in the MEFP are appropriate for meeting the objectives of the program. However, if further measures prove necessary for this purpose, the government will consult with Fund staff on the adoption of such measures and in advance of revisions to the policies contained in the MEFP. To facilitate the monitoring and assessment of this program, the government will regularly submit all necessary information to Fund staff, within the required deadlines specified in the attached Technical Memorandum of Understanding (TMU). Finally, the government consents to publication of this letter, the MEFP, the TMU, and the IMF staff report on the SMP.

Sincerely yours,

/s/
Joseph Djimrangar Dadnadji
Prime Minister, Head of Government
Republic of Chad

Attachements: – Memorandum of Economic and Financial Policies
– Technical Memorandum of Understanding

Attachment I—Memorandum of Economic and Financial Policies

INTRODUCTION

1. This Memorandum presents Chad's economic and financial policies from April 1 to December 31, 2013 within the context of an IMF staff-monitored program.

2. **Chad is a fragile State that has suffered a long period of political instability and insecurity and which, despite relative domestic stability, is still affected by insecurity around its borders**. During its fifty years of independence, Chad has been one of the African countries that have been plagued by repeated episodes of destabilization characterized by civil war and various forms of rebellion. Instability has led to the disorganization of public administration and a constant adjustment of State priorities. Thus, after reaching the HIPC decision point in 2001, Chad has been unable to attain the HIPC completion point. New-found internal stability, which has been maintained for more than 4 (four) years now, has helped the country to expand the scope of its planning horizon and participate actively in regionally-supported efforts to restore order in Mali and Central African Republic, efficiently manage refugees from Sudan and Central African Republic, as well as returnees from Libya. A combination of these factors, compounded by recurrent food insecurity in the Sahel-Sahara strip and floods in the southern part of the country, are expected to ultimately exacerbate the fiscal gaps caused by other exogenous factors such as the foreseeable and unexpected decline of Esso consortium's production and oil revenue.

3. **In light of a return and consolidation of peace as indicated above, the Government has a strong commitment to reaching the HIPC completion point.** The current political and economic conditions appear propitious to the achievement of that goal. Taking advantage of the availability of oil resources, the Government has launched a vast socioeconomic investment program under which schools and health facilities have been built in urban and rural areas to improve access by the population to essential social services. Such public investment has led to the diversification of the economy in order to accelerate growth and reduce poverty. The investment is also likely to improve the key indicators covered by the HIPC completion point triggers.

4. Despite such determination and a relatively favorable economic environment, the Government is conscious of the lingering institutional weaknesses and persistent governance challenges undermining the country's development.

RECENT ECONOMIC DEVELOPMENTS AND GOVERNMENT'S 2013 PROGRAM

5. **Macroeconomic performance in 2012 was strong, but there are challenges in the outlook for 2013 and the medium-term**. Real GDP grew by 8.9 percent in 2012, supported by a bumper harvest from unusually good rains and the actions undertaken by the Ministry of Agriculture and Irrigation under the National Food Security Program (PNSA). Oil GDP contracted by 4 percent because of the continued decline in Esso consortium's oil production. The 12-month inflation rate fell to 2.1 percent at end-December 2012 reflecting the good harvest as well as a fall in energy and housing costs, and is forecast to converge to the 3 percent target for the CEMAC region by 2014.[13] In 2013, real GDP growth will decrease to 3.9 percent, partly due to a return to the trend after an unusually good agricultural production in 2012. The inflation rate will be higher (at the end of the period) compared to the previous year (5 percent) owing to the revision of refined oil prices, cement price liberalization, and a fall in agricultural production after an exceptional year in 2012. In 2014, oil GDP is expected to grow by 10.5 percent as new projects by CNPCIC and Griffiths come fully on-stream. Oil revenue is projected to steadily decline, reflecting declines in both world oil prices and local production, requiring a sustained adjustment in the public finances. The high dependence of the public finances and the whole economy on oil revenue makes the outlook highly vulnerable to negative oil price shocks. In the medium and long terms, economic growth will return to a slightly higher level than the population growth rate.

6. **In 2012 budget execution improved compared to 2011 while the external current account deficit stabilized**. The non-oil primary deficit (NOPD) fell further from 19.6 to 19.2 percent of non-oil GDP in 2012, significantly better than projected in the 2012 supplementary budget. In spite of a decline in oil revenue, the overall fiscal balance recorded a surplus of 1.7 percent of non-oil GDP on a cash-basis and public debt is estimated to have fallen to around 27.8 percent of GDP. The bulk of the fiscal improvement came through a reduction in security expenditures. The external current account (including official transfers) slightly deteriorated to a deficit of 1.4 percent of GDP, while the reserve coverage is estimated to have improved to 2.6 months of imports.

7. **Despite some improvements in the last two years, public financial management remains weak**. A large share of government spending continues to be executed via emergency procedures. After three successive years during which recourse to emergency fiscal procedures, which leads to unauthorized expenditures (DAO), reduced significantly, the latter increased to some 25 percent of expenditure (excluding wages and debt) in 2012. In 2012, a large share of contracts (54 percent) was still awarded without competitive bidding. Treasury cash management is weak, causing periodic cash shortages and domestic payment arrears.

[13] By contrast, fuel prices were adjusted upwards in December 2012 and are in line with cost-recovery estimates for the Djermaya oil refinery.

8. **The 2013 budget targets an NOPD of 18.1 percent of non-oil GDP, with a view to ensuring fiscal sustainability which requires a gradual reduction of NOPD given that oil revenue is expected to decrease in the long run.** However, on June 27, 2013 the Council of Ministers has approved a draft revised budget, which while maintaining the NOPD target unchanged in percent of non-oil GDP, reflects more realistic revenue estimates and new security commitments:

- the increase in exceptional security spending (about CFAF 30 billion) is due to the military intervention in Mali, the preventive measures taken due to simmering security risks in the Sahel region, the peacekeeping efforts in Central African Republic, and the security impact of Boko Haram's activities in the west of Chad. While there is no firm commitment by donors to reimburse the expenses already incurred for the operations in Mali, the Chadian authorities still hope that, by the end of the year, the international community will fulfill its promise. In addition, foreign-financed capital expenditure has been adjusted by an amount of CFAF 160 billion to reflect the replacement cost of military equipment deployed in Mali that should also be reimbursed by the international community. Such military equipment cannot be committed nor financed in the absence of donor support.

- non-oil and oil revenues will decline by about 1.1 percent and 2.3 percent of non-oil GDP, respectively, relative to the target set in the budget. Indeed, the level of non-oil revenue targeted in the 2013 budget based on the performance of government financial services in the first half of the year shows that annual non-oil revenue realizations will be lower than expected given the administrative and technical difficulties of financial services and the closing of the borders with Nigeria and Libya. However, the government has taken steps to improve revenue collection, in particular, by removing illegal exemptions, increasing the tax base, extending ASYCUDA++ to 10 (ten) regional customs offices, and installing mobile scanning machines in customs offices. The downward revision of oil revenue mainly stems from a higher than initially forecast decline of Esso Consortium's production.

9. **To maintain the initial target to reduce NOPD by 1.1 percentage points of non-oil GDP compared to 2012, the Government will reduce spending allocations, particularly for domestically-financed public investment.** The latter will be cut by CFAF 45 billion (1 percent of non-oil GDP) mainly by suspending new projects that have not yet started. In addition, and to cover the resulting overall fiscal deficit (of 3.4 percent of non-oil GDP) excluding the CFAF 160 billion in costs incurred by Chad in the interventions in Mali and Central African Republic to be covered by external grants, the Government will place CFAF 35 billion in Treasury bills and regional obligations, including from some governments in the CEMAC region. The latter will ensure that government financing does not crowd out domestic credit to the private sector. Finally, the Government will withdraw CFAF80 billion in Treasury deposits, bringing deposit coverage to a still reasonable level of 2 months of domestically-financed spending. It should be noted that the supplementary budget will include expenses necessary to improve poverty reduction indicators in line with the strategy developed by the Government in the National

Development Plan (see below). This will help the country to make significant progress towards achieving the HIPC triggers especially in education and health.

10. **The authorities are committed to pursue efforts to improve public finance management and transparency,** in particular, by limiting recourse to emergency procedures in the execution of public expenditure to cases of genuine emergency giving rise to extra-budgetary expenditure (in line with the list specified in Order No. 086/PR/PM/MFB/SE/SG/2013 of May 2013). Expenditure management will be enhanced by (i) operationalizing the Integrated System for the Administrative and Payroll Management of State Personnel (SIGASPE) by end-September 2013; (ii) linking ten ministries and government agencies to the Ministry of Finance and Budget by end-September 2013; and, (iii) gradually setting up an integrated expenditure management system (CID). The government is also committed to further increase the use competitive bidding in the award of public contracts. In order to improve cash management, the Minister of Finance and Budget has set up a TOFE-Cash Plan Committee which prepares quarterly cash flow plans on a monthly basis and a Net Credit to the Government (NCG) Committee which has closed non-essential commercial bank accounts of the State in close collaboration with the central bank (BEAC). In addition, the Ministry of Finance and Budget is finalizing the process to include the Public Treasury as a direct participant in the payments system operated by the BEAC and which will help the Treasury in issuing short-term T-bills with significantly lower interest rates. The government is currently creating an audit court which will become operational as soon as the amended Constitution is enacted into law. Lastly, after meeting twelve of twenty EITI criteria, Chad is determined to follow through the process of joining the initiative by making the necessary efforts on the remaining 8 (eight) criteria. As a sign of its commitment to promote transparency, the government has joined the African Peer Review Mechanism (APRM) of NEPAD and set up a transparency watchdog.

11. **Government efforts will be supplemented by technical assistance from the IMF and other key partners.** Chad is making considerable efforts to modernize public accounting, strengthen the administrative capacity of tax authorities, and update national accounting statistics. The Government recently requested technical assistance from the IMF Fiscal Affairs Department to make a general diagnosis of its public financial management system which will be used to develop an action plan for reforms in this area. Furthermore, with the support of the World Bank, the government is currently carrying out an assessment of the public debt management system.

12. **Subsidies and transfers to public enterprises put a strain on the budget and the authorities are committed to control them.** Subsidies and transfers increased from 2.5 percent of non-oil GDP in 2011 to 3.5 percent of non-oil GDP in 2012. The beneficiaries of subsidies are the regulatory body of hydrocarbons products; electricity and water production and distribution companies; and cotton, Chad Postal Giro Corporation (STPE), textile and and fruit juice manufacturing companies. The Government will maintain transparency in the oil sector including in the activities of the Chad Hydrocarbons Corporation (SHT). SHT will operate seamlessly and the authorities will ensure that its involvement in the market for petroleum products is not

detrimental to free competition in the sector. The Government will make sure that transfers to SHT are entered in the budget of the central administration in a transparent manner and on a gross basis. Any decision involving a commitment to the central administration must obtain the prior approval of the Council of Ministers. The government will ensure that SHT produces an annual report on its activities and that its annual financial statements be certified by an audit firm of international repute. As regards the group Sotel Chad which is currently facing financial difficulties requiring government subsidies, the authorities undertake to produce a road map for its restructuring.

13. **In mid-April 2013, the government adopted the National Development Plan (PND) covering the period 2013–2015**. The PND has benefited from a broad participatory process at every level of the society and has benefited from inputs from international donors. It aims at improving living standards of the population and achieving the Millennium Development Goals through (i) achieving high and sustained growth; (ii) ensuring food security; (iii) creating and facilitating access to jobs; (iv) developing human capital; (v) promoting private sector development; (vi) developing information and communication technology; (vii) protecting the environment; and, (viii) improving governance. Total financing needs for the PND are estimated at around $7.35 billion. The PND also emphasizes the need for PFM reforms, including strengthening cash management and budget control and execution; reducing subsidies to public enterprises; and designing a cost-evaluation mechanism. Furthermore, the PND aims at restoring fiscal sustainability through a sustained reduction in the NOPD and a buildup of stabilization buffers and precautionary savings.

14. **In light of the country's many infrastructure needs, the government has initiated major externally-financed investment projects, notably the Master Facility Agreement (MFA) signed with Eximbank of China in August 2011.** In addition to the refinery and cement factory, the Government has launched a project to build a new airport in N'Djamena and other infrastructure works to provide minimum conditions for strong and lasting non-oil GDP growth. However, conscious that the total amount of loans and the financial terms related to such projects could threaten fiscal and external stability, the government has decided to renegotiate the MFA to make it compatible with both concessionality and debt sustainability requirements. In addition, the Government signed after March this year a non-concessional loan of the equivalent of about US$12 million to finance a project with a substantial economic potential: the construction of a road between Ngouri and Bol (close to the borders with Nigeria and Cameroon). Going forward, the Government and non-financial public enterprises will refrain from entering into new non-concessional external or pledged loans, including through oil revenue (continuous program performance indicators). In any event, the Government will ensure that all external funding agreements comply with standard requirements of concessionality and debt sustainability under the HIPC initiative and IMF-supported programs, including by subjecting all new loan proposals to the review and opinion of ETAVID (the Chadian Team for Analysis and Sustainability of Debt) and CONAD (National Commission for Debt Analysis), and seek the advisory services of the IMF and the World Bank on these issues. All these efforts put the

Government in a strong position to seek a staff-monitored program with the IMF and to put Chad back on the path of attaining the HIPC completion point.

STAFF-MONITORED PROGAM

15. **Chad seeks an agreement with Fund staff on policies eligible for support under a staff-monitored program covering the period April 1 to December 31, 2013**. We understand that nine months of good performance under an SMP will open the door to an Enhanced Credit Facilty (ECF) program, a precondition for our objective of attaining the HIPC Initiative completion point by end-2014. Furthermore, in order to reach the HIPC completion point, the Government will spare no effort in focusing economic policies on poverty reduction in order to meet the HIPC initiative triggers. Finally, the Government is determined to address its structural weaknesses in program implementation and monitoring capacities.

16. **Drawing on failures recorded in past SMPs and in spite of the challenges involved, the government is committed to sustain the reform program**. There has been an improvement in the internal security situation and international relations. Moreover, the Government is conscious that Chad is one of the few African countries that are still at the interim stage of the HIPC initiative and is more than ever encouraged by the prospect of attaining the HIPC completion point as soon as possible.

17. **Chad has prepared this document based on the policy agenda discussed with the IMF staff in the context of the 2012 Article IV consultation**. Drawing on that agenda, the Government undertakes to:

- improve public financial management. Several objectives should guide the work: (i) preparing and updating a monthly treasury cash plan; (ii) restricting the use of emergency spending procedures to genuine emergencies; (iii) keeping payments to suppliers within budget allocations; and (iv) observing public procurement procedures and processes;

- improve execution of the priority social outlays with greater focus on their recurrent components, and targeting poverty reduction more effectively in the 2014 budget, drawing on the conclusions of the JSAN by the World Bank and the Fund—which will be submitted to both Executive Boards by July—and the priorities established in the PND;

- implement measures to strengthen revenue administration, as recommended by recent Fund TA, to achieve an increase in non-oil tax revenue, including, as a preliminary step and with the support of external partners, compilation of existing tax exemptions to assess the magnitude of the related revenue leakage with a view to streamlining these exemptions starting with the 2014 budget;

- strengthen the institutional framework for public debt management (including through a law on the management of public debt setting the various activities in the chain of the public debt and also centralizing its management within the debt unit according to best practices);

- ensure timely provision of data required to monitor an SMP, including complete fiscal accounts reconciliation with the monetary data on net credit to government; and,

- prepare the 2014 budget in line with the timetable outlined in the Law and in collaboration with IMF staff having in mind the further reduction of the NOPD based on the accumulation of financial savings over the medium-term and further increases in the non-oil tax revenue to non-oil GDP ratios.

PROGRAM MONITORING

18. **The SMP will cover the period from April 1 to December 31, 2013.** Quantitative conditionality will focus on the following variables (Table 1):

- A floor on the non-oil primary balance.
- A ceiling on the net domestic government financing.
- A zero ceiling on the accumulation of domestic arrears by the government.
- A zero ceiling on the accumulation of external payment arrears by the government or non-financial public enterprises.
- A US$12 million ceiling on contracting or guaranteeing of new non-concessional external debt by the government and non-financial public enterprises (all maturities).
- A zero ceiling on any new guaranteed external debt contract contracted or guaranteed by the government or non-financial public enterprises.
- A floor for poverty-reducing social spending.

19. **In addition, fundamental structural conditions will be critical to ensure spending discipline under the SMP.** The measures outlined in Table 2 below have been chosen for this purpose and could help in the satisfactory monitoring of a future arrangement under the ECF, ensure the provision of accurate data, and in assessing the domestic and external debt situation of the government prior to the HIPC completion point.

20. **To ensure that spending is in line with the budget, the government undertakes to maintain dynamic consultations with IMF staff on budget execution.** Through the High Inter-Ministerial Committee for Program Preparation and Negotiation and with the assistance of the Technical Secretariat, the government will ensure the monitoring of the SMP until the negotiation of a three-year ECF-supported program.

21. **There are significant economic and political risks to program implementation.** While the political situation is as propitious as it has been for a while and the current government appears committed to reform, Chad remains a fragile country in a region affected by security threats, highly dependent on volatile oil revenue, and a weak PFM framework. Fiscal slippages, or even arrears' accumulation, can then result from factors like a fall in oil revenue, emergency security spending, and increased transfers to loss-making state-owned enterprises.

Table 1. Chad: Quantitative indicators for the period from April 1 to December 31, 2013, and forecasts beyond this period[1]

(Billions of CFA francs; cumulative from the beginning of the year, except where otherwise indicated)

	30 June	30 September	31 December
Floor on non-oil primary budget balance	(468)	(672)	(876)
Ceiling on net domestic government financing	96	157	175
Ceiling on the accumulation of domestic payment arrears by the government [2]	0	0	0
Ceiling on the accumulation of external payment arrears by the government or non-financial public enterprises[3]	0	0	0
Ceiling on contracting or guaranteeing of new non-concessional external debt by the government and non-financial public enterprises, but for ordinary external trade financing of at most one-year maturity[2 3 4]	12	12	12
New guaranteed external debt contracted or guaranteed by the government or non-financial public enterprises[3]	0	0	0
Floor for poverty-reducing social spending	140	220	330
Memorandum items:			
Oil revenue	443	631	821
Foreign budget support grants	0	0	0

Sources: Chadian authorities; and IMF staff forecasts.

1. Quantitative indicators are clearly defined in the TMU.
2. Since end-March 2013.
3. To be respected continuously.
4. Includes about US$12 million in a loan from OPEC for the construction of a road between Ngouri and Bol signed in April 2013.

Table 2. Chad: Proposed Structural Conditionality under the SMP

Measures	Proposed Due Dates
Limit emergency spending procedures to no more than 20 percent of domestically financed spending (excluding wages, debt, and security spending).	End-Dec. 2013
Reconciliation of treasury and central bank data on net claims of the banking system on the government at end-2012 (based on a coherent definition of the single treasury account) .	End-Sept. 2013
Preparation and updating of a monthly treasury cash management plan (with a three-month rolling horizon).	End-Dec. 2013
Starting in September 2013, all new loan proposals will be examined and be subject of an opinion by ETAVID (the Chadian Team for Analysis and Sustainability of Debt) and CONAD (National Commission for Debt Analysis).	End-Dec. 2013
Submission to Parliament of a 2014 draft budget in line with the objective of gradually raising the non-oil primary balance.	End-Oct. 2013

Attachment II—Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Memorandum on Economic and Financial Policies (MEFP) for the period April 1-December 31, 2013 prepared by the authorities of Chad. It describes more specifically: (a) reporting procedures; (b) definitions and computation methods; (c) quantitative targets; and (d) adjusters of the quantitative targets; (e) structural benchmarks and (f) the other commitments taken within the framework of the MEFP.

A. Reporting to the IMF

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

B. Definitions and Computation Methods

3. Unless otherwise indicated, the term **government** refers to the central government of the Republic of Chad comprising all the execution bodies, institutions and any structure receiving special public funds and whose competence is included in the definition of Central Administration as defined in the *Government Finance Statistics Manual* of 2001 (GFSM 2001), paragraphs 2.48-50.

4. A **non-financial public enterprise** is a government-owned and/or government-controlled industrial or commercial unit which is corporate or sells goods and services to the public on a large scale. Concerning Chad, and within the framework of the program, this definition includes the following companies: STE, SNE, STPE, Cotontchad SN, TOUMAÎ Air Tchad, NSTT.

5. **Oil revenue** is defined as the sum of royalties, statistical fees, income tax, dividends, bonuses, revenues from exploration duties, surface tax, and any other flows of revenue paid by oil companies, except indirect duty and taxes. The authorities will notify IMF staff if changes in the oil taxation systems lead to changes in revenue flows. Oil revenue is recorded on a cash basis.

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

7. **Total government expenditure** is understood to be the sum of expenditure on wages and salaries of government employees, goods and services, transfers (including subsidies, grants, social benefits, and other expenses), interest payments, and capital expenditure. All these categories are recorded on a commitment basis, unless otherwise stated. With the exception of capital expenditure,

which is defined as shown in the *Manual on Government Finance Statistics* of 1986 (GFSM 1986), all other spending items are defined as in GFSM 2001 (paragraphs 6.1-6.88). Total government expenditure also includes expenditure executed before payment authorization (*dépenses avant ordonnancement*—DAO) and not yet regularized.

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

9. For the purposes of this memorandum, the terms **debt and arrears** are defined as follows:

- The term "**debt**" is as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000 (Decision 12274-00/85) and as revised on August 31, 2009 (Decision No. 14416-09/91), but also includes contracted or guaranteed commitments for which values have not been received. For purposes of these guidelines, the term "debt" is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract.

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

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

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

- **Expenditure payment arrears** are defined as all payment orders to the Treasury created by the entity responsible for authorizing expenditure payments but not yet paid 90 days after authorization to pay given by the treasury. Expenditure payment arrears so defined are part of "balance payable" (or "amounts due"). Balance payable corresponds to government unpaid financial obligations and include the domestic floating debt besides the expenditure arrears. They are defined as expenditure incurred, validated and certified by the financial controller and authorized by the public Treasury but which have not been paid yet. These obligations include bills payable but not paid to public and private companies, but do not include domestic debt financing (principal plus interest). Under the framework of the program target, domestic payment arrears are "balances payable" whose maturity goes beyond the 90 days regulatory deadline, while floating debt represents "balances payable" whose maturity does not go beyond the 90 days deadline. As of end March 2013, the expenditure arrears stock stood at 64,8 billions CFAF, while the floating debt stock stood at CFAF 0 billion at the same date.

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

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

12**.** **Poverty-reducing social spending** comprises public spending on: primary and secondary education, health, community-organized development, water and sanitation, micro finance, and rural development (support for farmers and cattle breeders).

13. **Domestic government financing** is defined as the issuance of any instrument in CFAF to internal creditors or on the CEMAC financial markets; loans from BEAC (including support from the IMF), BDEAC, and CEMAC Member States, or any other debt contracted from those creditors. **Net domestic financing to the government** is subdivided into net bank financing and non bank net financing. Net bank financing is defined as the change in the net government position towards the

banking system (BEAC and commercial banks), including the refund to the IMF,[14] since the end of the previous year. Net non bank financing to the government includes the issuance of government bonds and loans within CEMAC (including those contracted with BDEAC and from CEMAC Member States) net of related amortizations since the end of the previous year.

14. **External debt,** for the purposes of the relevant assessment criteria, is defined as debt borrowed or serviced in a currency other than the CFA franc.

15. A **guaranteed external indebtedness** agreement is defined as any loan agreement for which, in order to guarantee the obligation to pay, the government (including a public sector entity): a) **creates a guarantee** on future specified revenue guaranteeing the payment of the principal and /or interest and any other debt fees owed to the main creditor; or b) **sells its dues and interest** in the form of future sums to be received at the special purpose vehicle and through which the government gives irrevocable instructions to foreign importers who buy its exports (mainly oil) and requesting it to make payments in an **escrow account** monitored by an administrator.

C. Quantitative Targets

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

- **A floor for the non-oil primary balance**. The non-oil primary balance is defined in paragraph 11 above.

- **A ceiling on the net domestic financing to the government**. The net domestic financing to government is defined in paragraph 13. This ceiling is applied to internal loans net amounts defined as gross amount of the internal/CEMAC loans minus refunds during the period under consideration. This ceiling includes a CFAF 20 billion margin beyond the projected net cumulative flow for each period. The net domestic financing ceiling does not apply to the new agreements on internal debts restructuring and arrears securitization. For any new loan beyond a cumulative amount of CFAF 50 billion in FY 2013, the government commits to issue public securities only by tender through BEAC or by any other form of bidding process on CEMAC internal financial market recorded with COSUMAF, in consultation with IMF staff.

[14] As a reminder, net claims of the banking system to the State represent the difference between government debts and its credits in the Central Bank and commercial banks. The scope of the net claims of the bank system on the State is defined by BEAC and represents the government net position.

- **A zero ceiling for the accumulation of domestic arrears by the government** from end-March. Domestic arrears are the sum of payment arrears on expenditure and payment arrears on domestic debt as defined in paragraph 9 above. The stock of domestic arrears at end March 2013 amounted to CFAF [50.3] billion, of which CFAF [27.2] billion as expenditure arrears and CFAF [23.1] billion as domestic debt payment arrears.

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

- **A floor on poverty-reducing social spending**. Poverty-reducing social spending is defined in paragraph 12.

- **A US$12 million ceiling on government and non-financial public enterprises contracting or guaranteeing of new nonconcessional external debt (excluding the normal financing of foreign trade maturing in up to a year).** Debt is nonconcessional if it has a grant element of less than 35 percent (as described in ¶10 above). Normal short-term import credits are excluded, these being self-liquidating operations because the proceeds from sales of imports are used to repay the debt. This ceiling will be assessed continuously. This ceiling includes the equivalent of US$12 million in an external non-concessional loan from OPEP that was signed in April 2013 to finance the road Ngouri-Bol.

- **A zero ceiling for the new guaranteed external debt contracted or guaranteed by the government or non-financial public enterprises**. A guaranteed indebtedness contract is defined in paragraph 15 above. This ceiling will be assessed continuously.

D. ADJUSTERS OF QUANTITATIVE TARGETS

17. To take account of factors or changes beyond the government's control, various quantitative targets will be adjusted, as follows:

- In the event oil revenue exceeds the programmed amount, the **ceiling for net domestic financing to the government** will be lowered by the excess of oil revenue.

- Should oil revenue be less than programmed, the ceiling for net domestic financing to the government will be raised accordingly up to a maximum of CFAF 20 billion.

- The **floor for the non-oil primary balance** will be adjusted downward up to CFAF 15 billion of any additional foreign budget support grants. Spending of any amount beyond such limit will be subject to consultation with staff.

E. STRUCTURAL BENCHMARKS

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

- *Limit emergency spending procedures to no more than 20 percent of total domestically-financed expenditure (excluding salaries, debt payments, and security expenditures linked to Mali military campaign) on external financing. The emergency spending procedures refer to the use of DAOs (dépenses avant ordonnancement).This limit will be measured as of end-2013, including the complementary period.*
- *Reconciliation of the net claims of the banking system on the government produced by the public treasury and that calculated by BEAC at end-2012.*

Data	*Provider*	*Periodicity and Target Date*
Oil and non-oil revenue, by category *Collection situation* *Revenue position of the revenue-collecting agencies*	Ministry of Finance (Treasury)	Monthly, within 30 days of month-end Monthly, within 30 days of month-end
Budget execution data, including on poverty-reducing social spending, showing commitments, payment authorizations, validations, and payments *Table showing the four phases; payroll table, including benefits* *Table of expenditure before payment authorization; TOFE, on a cash basis;* *Comparative table on budget execution, consolidated balance tables (changes in debts, claims, etc.); and consolidated Treasury balance*	Ministry of Finance General Budget Directorate and General Treasury Directorate (Debt Division) DGTCP	Monthly, within 15 days after month-end. Monthly, within 30 days of month-end
Detailed budget execution information for transfers in the same classification as the budget	Ministry of Finance (General Budget Directorate)	Monthly, within 30 days of month-end
Details by project financed domestically, execution of the investment budget, with the information organized	Ministry of Finance (General Budget Directorate)	Quarterly, within 30 days of the end of the quarter.

by Ministry		
Details, by externally financed project; investment budget execution; information organized by Ministry	Ministry of Finance Ministry of Economy,Planning and International Cooperation	Quarterly, within 30 days of the end of the quarter.
Information on public procurement in the previous month and updating of payment maturity for the rest of the year	Ministry of Finance (Financial Control)/SGG (OCMP/Procurement Directorate)	Monthly, within 30 days of month-end
Details on the servicing of the domestic debt and payment arrears of the government[15]	Ministry of Finance (Debt Directorate, DCP)	Quarterly, within 30 days of the end of the quarter.
Details on the servicing of the external debt of the government[16]	Ministry of Finance DGTCP (Debt Directorate)	Quarterly, within 30 days of the end of the quarter.
Details on new loans contracted or guaranteed by the government and non financial public companies	Ministry of Finance (Debt Directorate) Ministry of Economy, Planning and International Cooperation (DGCI)	Within 45 days of transaction completion.
Monetary survey	BEAC	Monthly, within 45 days of month-end
Provisional monetary data from the BEAC *(Exchange rates, foreign reserves, assets and liabilities of the monetary authorities3,base money, broad money, central bank balance sheet, consolidated balance sheet of the banking*		Monthly, within 45 days of month-end

[15] Including maturities.

[16] Including the breakdown by currency and maturity.

system, interest rates[17])		
Balance of SDR account at month end	BEAC NGP Committee	Monthly, within 3 months of month-end
Net banking system claims on the government (NGP)	BEAC	Monthly, within 30 days of month-end
Consumer price index	INSEED	Monthly, within 30 days of month-end
Gross domestic product and gross national product	Macroeconomic Framework Committee (SG MFB)	Annually, within 120 days of year end.
Balance of payments (External current account balance, exports and imports of goods and services, etc.)	BEAC	Annually, within 180 days of year end (donnees provisoires) (end of June +1)
Gross external debt	Ministry of Finance DGT (Debt Directorate)	Annually, within 90 days of year end

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