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CHAD

September 2014

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CHAD

In the context of Chad's request for a three-year arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 1, 2014, following discussions that ended on May 6, 2014, with the officials of Chad on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on July 24, 2014.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Chad.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Chad*
Memorandum of Economic and Financial Policies by the authorities of Chad*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

CHAD

July 24, 2014

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

KEY ISSUES

Context: Chad is a fragile country with weak institutional capacity that needs to manage volatile and exhaustible oil revenues prudently to tackle its large development needs. Chad is enjoying a period of domestic political stability, but major regional security issues are imposing significant fiscal costs in both the short and medium term. Macroeconomic policy over the last few years has achieved a gradual tightening of the underlying fiscal policy stance together with a sizable increase in public investment. Satisfactory performance under an SMP in 2013 demonstrated the authorities' commitment to improved macroeconomic management and has set the ground for an upper credit tranche arrangement with the Fund.

Policy Framework: The government's medium-term economic program, anchored by the 2013-2015 National Development Plan (NDP), aims at reinforcing economic growth and making it more inclusive, while maintaining macroeconomic stability and fiscal sustainability. Given the continued heavy dependence on volatile oil revenues that are projected to decline over the long-term and the currently high risk of debt distress, macroeconomic policies target a sustained fiscal adjustment, a buildup of liquidity buffers, and economic diversification. Those objectives will be underpinned by a reform agenda focused on strengthening public financial and debt management and improving the business environment.

Request for an Extended Credit Facility arrangement: In the attached letter of intent, the authorities request a three-year arrangement under the Extended Credit Facility (ECF) in the amount of SDR 79.92 million (120 percent of quota) in support of their medium-term economic program. The ECF arrangement is expected to address the country's protracted balance of payments' problems resulting from a trend reduction in oil revenues, maintain adequate international reserves' coverage, and play a catalytic role for bilateral and multilateral assistance to Chad. The accompanying memorandum of economic and financial policies spells out in more detail the objectives of the program and policy actions that the government of Chad envisages to undertake during 2014–17.

Approved By
David Robinson and Mark Flanagan

Discussions took place in Washington DC (April 1–11 and June 16–18, 2014) and in N'Djamena (April 28–May 6, 2014). The staff team comprised Mauricio Villafuerte (head), Jean-Claude Nachega, Samson Kwalingana, Gabriel Léost (all AFR), and Jana Gieck (SPR). Mr. Yambaye (Alternate Executive Director) and Mr. N'Sonde (Senior Advisor to the Executive Director) participated in some of these discussions. Mr. Topeur (local economist at the IMF office in N'Djamena) provided assistance to the mission. The team met with Mr. Kalzeubé Pahimi Deubet (Prime Minister); Mr. Bedoumra Kordje (Minister of Finance and Budget); Mrs. Mariam Mahamat Nour (Minister of Plan and International Cooperation); Mr. Djerassem Le Bemadjiel (Minister of Energy and Petroleum); Mr. Mahamat Allamine Bourma Treye (National Director of the Bank of Central African States (BEAC)) for Chad; Mr. Orozi Fodeibou (Deputy Secretary General of the Presidency); senior public administration officials of the ministries mentioned above and of the BEAC; development partners; and the private sector.

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BACKGROUND

1. **Chad has benefitted from internal political stability, but is being negatively affected by regional security issues**. The country has enjoyed its longest period of domestic political calm since independence.[1] However, Chad is dealing with major regional security issues. The country has been forced to strengthen security measures along its borders, particularly with Libya, the C.A.R., Nigeria, and Cameroon. In addition, Chad has had to provide assistance to tens of thousands of refugees and *retournés* (nationals returning to the country) fleeing from the conflict in the C.A.R. The international community (United Nations' organizations with financing from the US and the EU) has stepped up its short-term humanitarian assistance, but there are concerns about the longer-term costs that this flow of refugees can have on public services and on social cohesion in the South of the country.

2. **Progress in human development indicators remains slow**. Chad was ranked 184th out of 186 countries on the UN's 2013 Human Development Index. The weak performance, despite significant oil revenues, reflects the domestic armed conflicts that plagued the country up to 2009 and a history of pro-cyclical fiscal policy that transmitted the volatility of oil revenue to government expenditures, poor governance, and inefficient spending.

3. **Economic management has improved recently, including under a Staff-Monitored Program (SMP) in 2013, and there have been steps to strengthen transparency**. The fiscal stance has been tightened, some progress is being made in public financial management (PFM), and there has been a more decisive implementation of the current National Development Plan. To promote transparency, the government has joined the African Peer Review Mechanism established in 2003 by the African Union in the framework of the implementation of the New Partnership for Africa's Development (NEPAD) and is making efforts to achieve full compliance with the Extractive Industries Transparency Initiative (EITI). Despite reaching the Decision Point in 2001, Chad has not achieved the Heavily Indebted Poor Countries (HIPC) Initiative Completion Point. Reaching this goal is a priority for the authorities. Relations with the international community have improved recently.

RECENT ECONOMIC DEVELOPMENTS

4. **Macroeconomic performance was relatively strong in 2013**. GDP grew by 3.9 percent in 2013 despite a contraction in oil production. Non-oil GDP expanded by 5.9 percent, down from 11.6 percent in 2012, largely driven by the sectors of commerce, transport and telecommunications, and despite a decline in agricultural production as the harvest returned to more normal levels following the bumper crop in 2012. Inflation fell sharply in 2013, with the annual average rate at only 0.2 percent from 7.7 percent in 2012 due to a sizable fall in food prices. Inflation has continued to decline, with annual average inflation falling to -0.4 percent in May 2014.

[1] Regional elections are scheduled to take place by 2015 and legislative and presidential elections by 2016.

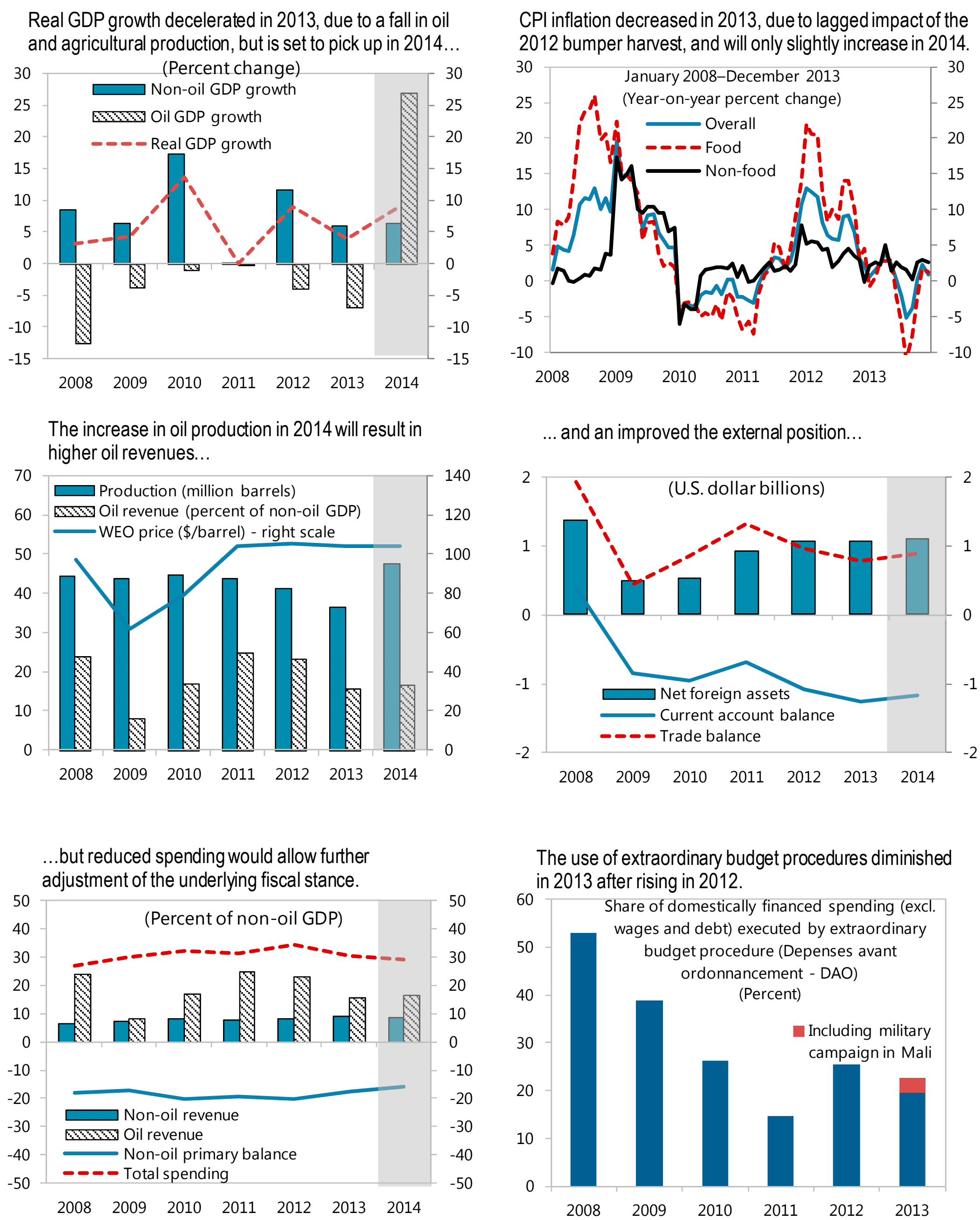
5. **The underlying fiscal policy stance improved markedly last year.** The non-oil primary deficit (NOPD) fell by 2.5 percent of non-oil GDP in 2013 thanks to a significant increase in non-oil revenue and a contraction in domestically-financed investment spending. Non-oil revenue increased by close to 1 percent of non-oil GDP due to strong collections by the tax department. However, the overall fiscal balance on a cash basis posted a sizable deficit (6.4 percent of non-oil GDP) as oil revenues fell significantly below budget levels. This deficit is also due to the obligation to accommodate exceptional security spending linked to Chad's participation in the international military campaign in Mali. Fiscal performance as of end-April 2014 was characterized by a relatively higher pace of domestically-financed primary spending (notably investment and transfers), leading the NOPD to reach about CFAF 392 billion (7.4 percent of annualized non-oil GDP) or about 46 percent of its annual target under both the initial budget and the revised budget. Strong non-oil domestic tax revenue offset relatively low revenue from customs following the temporary closure of Douala port early in 2014.

6. **The external current account deficit is estimated to have widened to 9.5 percent of GDP due to a decline in oil exports**. A sharp contraction in crude oil exports by the Esso-led consortium, whose activities were affected by setbacks to the gas-powered electricity generation system, was partly offset by declines in oil- and public sector-related imports. FDI inflows are estimated to have declined slightly in 2013, but they still covered about 40 percent of the external current account deficit. The remainder was financed by public sector borrowing. Thanks to an appreciation of the euro relative to the U.S. dollar, international reserves increased to US$1.2 billion at end-2013 (from US$0.9 billion in 2012) to an equivalent of 2.5 months of imports of goods and services in 2013. They have since fallen back to US$0.9 billion at end-March 2014 (consistent with past seasonal patterns). Staff's assessment of Chad's non-oil real effective exchange rate (REER) remains unchanged, suggesting that the exchange rate is over-valued by about 15—22 percent.[2]

7. **Banking activities have expanded and the banking system is relatively sound.** Broad money has continued to grow at a healthy rate, with bank credit to the economy growing at a moderate rate of 6.1 percent in 2013. As of end-May 2014, broad money grew by 18 percent on a year-on-year basis, while credit to the economy growth accelerated to 20 percent. Total assets of the banking system grew by 23 percent in 2013, to reach FCFA 850 billion, equivalent to 13 percent of GDP. The banking sector remains exposed to the public sector, and therefore vulnerable to shocks associated with fluctuations in the oil revenues. That being said, bank liquidity has continued to improve since 2011, in particular thanks to oil companies' deposits made to cover their local currency spending.

[2] For more details, see Article IV 2013 report (EBS/14/10).

Figure 1. Chad: Recent Economic Developments, 2008–14[1]



[1] Unless otherwise indicated. Shaded areas indicate projections for 2014
Sources: Chadian authorities; and IMF staff estimates.

PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM

8. **Chad implemented a program that Fund staff-monitored from June to December 2013 under a Management-approved SMP.** The SMP aimed at sustaining recent improvements in macroeconomic outcomes through PFM reforms and the implementation of Chad's National Development Plan 2013-15. Implementation of the SMP was supported by stepped up technical assistance by the Fund.

9. **Performance relative to quantitative targets was broadly satisfactory.** Most quantitative targets were met, including those on the underlying fiscal policy stance (the NOPD), the level of poverty-reducing social spending, and the pace of arrears clearance, all observed with comfortable margins. However, a US$600 million oil sales advance operation resulted in non-observance of the continuous ceilings on contracting or guaranteeing new non-concessional external debt and on new collateralized external debt contracted or guaranteed by the government and/or non-financial public enterprises. The authorities were forced to rely on such non-concessional borrowing operation in response to the unexpected oil revenue shortfall and in the absence of better financing alternatives or fiscal adjustment options, considering that the 2013 revised budget already introduced 1.4 percent of non-oil GDP cuts in domestically-financed investment, transfers, and goods and services.

10. **Implementation of structural benchmarks was mixed**. In particular, the ceiling on emergency spending procedures (*Dépenses Avant Ordonnancement*—DAO) was met, while efforts were made to regularize them swiftly in line with FAD technical assistance recommendations. In contrast, cash management reforms were not met partly because of the need to improve the forecasting of oil revenue to take into account new producers with quite diverse fiscal regimes. Also, the reconciliation of data on net claims of the banking system on the government was not fully achieved due to ongoing work in distinguishing central government from broader public liabilities to commercial banks.

MACROECONOMIC STABILITY AND SUSTAINED NON-OIL GROWTH: POLICIES UNDER A THREE-YEAR ECF ARRANGEMENT

A. Justification and Main Objectives

11. **Performance under the SMP set the ground for an upper credit tranche arrangement with the Fund**. The Chadian government demonstrated capacity to deliver on macroeconomic management objectives, meeting most of the quantitative indicators and structural benchmarks under the SMP. Slippages in implementation were due to unforeseen shocks and technical barriers requiring more time for resolution.

12. **Protracted balance of payments problems over the medium- and long-term given a trend reduction in (volatile) oil revenue and sizable development needs provide a rationale for an ECF-supported program**. Such a program would help the government of Chad to advance toward more stable and sustainable economic growth as part of the 2013-2015 National Development Plan's objective of significant and durable poverty reduction. Specifically, program policies would reduce vulnerabilities to external shocks that would force disruptive adjustments to government spending and reduce the availability of foreign exchange. This program will provide continuity with the recent SMP by capitalizing on its success and encouraging the implementation of structural reforms, including those not completed during the SMP period. In addition, it would serve as a catalyst in mobilizing financing from bilateral and multilateral partners, including through the possible achievement of the completion point under the HIPC Initiative.

13. **The ECF arrangement will hence promote policies to:** (i) ensure fiscal sustainability; (ii) strengthen fiscal institutions and governance; (iii) promote sustained and inclusive growth over the medium-term; and (iv) facilitate the move to the HIPC Completion Point. Given limited institutional capacity and an expected gradual increase in donors' technical and financial support, structural reforms will ramp up progressively over the course of the program. The focus at the beginning will be on "quick wins" in the more pressing areas, while the following phases of the program should increasingly concentrate on other aspects, particularly on deepening structural reforms in support of inclusive non-oil growth.

B. Medium-Term Macroeconomic and Fiscal Frameworks

14. **The program's macroeconomic framework is predicated upon high economic growth and low inflation outcomes.** Real GDP is projected to grow at around 8 percent per year over 2014–17 in large part due to new oil-related projects coming fully on-stream by 2016. However, after peaking in 2017, oil production is expected to fall steadily in the absence of new oil discoveries. Non-oil GDP growth would hover around 5 percent per year over the medium term, consistent with the average growth in recent years and driven by agriculture, commerce, and transportation. Inflation should remain around CEMAC's target of 3 percent a year.

15. **With increased oil exports over the medium term, the external current account is projected to gradually improve.** Even assuming a decline in Chadian oil prices from around US$103 per barrel in 2014 to less than US$90 per barrel by 2017, in line with oil price projections in the Fund's World Economic Outlook, oil exports would increase steadily over the next four years as new oil fields come on-stream. This would lead to a decline in the external current account deficit to 4.2 percent of GDP by 2017. Over the medium term, the external deficit should be mostly financed through oil-related FDI inflows. Nevertheless, an external financing gap—which is estimated to average US$64 million per year during 2014-17 —remains and is expected to be filled with disbursements under the ECF arrangement and HIPC debt relief (the latter from 2015 onwards). On the basis of ECF disbursements and a prudent fiscal policy, international reserves would increase steadily to US$2.1 billion or 3.3 months of imports (excluding oil imports) by 2017.

16. **The medium- and long-term fiscal prospects are influenced by a recent acquisition of state equity in the oil sector** (Box 1)**.** On June 13, 2014, SHT, the state-owned oil company, announced that it has become a partner in the Esso consortium (a joint venture that also includes ExxonMobil and Petronas) through the acquisition of Chevron's full participation in the joint venture (a 25 percent share in upstream activities and a 21.5 percent share in the associated oil export pipelines). The Chadian government regards the purchase of a strategic income-generating asset as a commercial operation with a positive long-term financial return (MEFP ¶13-14). This acquisition (amounting to about US$1.4 billion, 8.8 percent of GDP) is being financed through a new oil sales advance operation with Glencore Energy to be repaid over four years against part of SHT's production share from the joint venture. Staff projections show that the breakeven point in terms of budgetary receipts (relative to a scenario without SHT's acquisition) would be achieved shortly after repayment of the loan with Glencore Energy.

Box 1. The State's Purchase of Chevron's Shares: Fiscal and Institutional Implications

In June 2014, the Chadian State bought a 25 percent stake in ESSO, a consortium of three oil companies, namely Exxon (40 percent), Petronas (35 percent), and Chevron (25 percent) operating in the country. Following the decision by Chevron to wind up its operations in Chad, the State purchased its shares in the consortium and in the two oil pipeline companies, namely TOTCO (21.3 percent) and COTCO (21.5 percent) for a total of US$1.4 billion. To finance the transaction, SHT (a state-owned national oil company) contracted a loan from Glencore Energy under commercial terms that is to be repaid against crude oil shipments over four years (2014-18). The loan repayment schedule allows SHT to cover its associated "cash calls" obligations within the joint venture. In addition, a reserve fund will be constituted to compensate for eventual shortfalls relative to the minimum loan repayment amounts.

The acquisition extends the scope of SHT's operations in the oil sector. Hitherto, the main role for SHT had been to sell on behalf of the government the royalty paid in kind by all producers since 2011. This operation will extend its activities to the upstream operations through its share ownership in ESSO and midstream activities through its participation in the pipeline.

The long-term fiscal and debt sustainability implications of the operation are broadly positive under current oil production and price assumptions. On the one hand, and in addition to the standard royalties, the State will now collect the full amount of the profits from the oil sales rather than the 60 percent Corporate Income Tax portion. On the other hand, SHT will have to contribute to ESSO's capital and operating expenses (its share of the consortium's cash calls) and service the Glencore loan over the next four years. Nonetheless, the net impact in terms of the government's cash flow relative to the previous arrangement is estimated to be positive over time, and the operation is expected to reach a breakeven as early as 2018.

17. **The fiscal adjustment path reflects projections regarding oil revenues that incorporate the recent changes to the oil sector structure.** Oil revenue projections have been adjusted downward for 2014-2015 and upward for 2016 and 2017 relative to the 2014 Article IV (Box 2). In particular, after starting to export in the second half of 2014, CNPC is projected to significantly increase its export levels only in 2016. This profile means a back loaded increase in income tax receipts since past investment costs will need to be expensed first. The baseline scenario foresees a gradual reduction in the NOPD totaling about 3.5 percent of non-oil GDP by 2017 (although, as discussed below, financing constraints in the near-term may require larger a temporary adjustment in 2015). Small overall fiscal surpluses in 2016-17 should lead to a build-up of deposits to smooth government spending over the long-term and facilitate the diversification of the economy. Public debt would fall below 22 percent of GDP (excluding the impact of debt relief).

Text Table 1. Chad: Medium-Term Projections

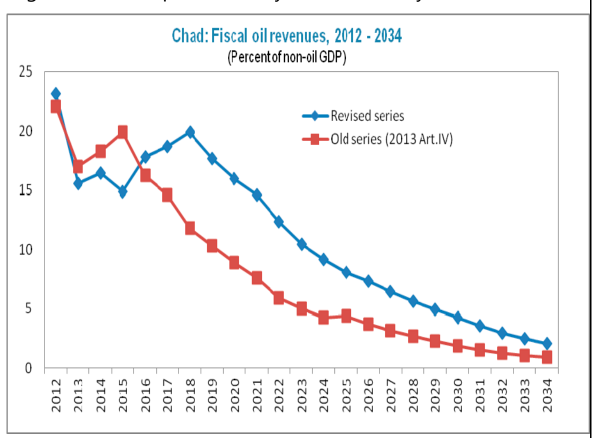
	2013	2014	2015	2016	2017
Real GDP growth (percent per year)	3.9	9.6	6.7	9.7	6.9
Oil	-6.8	30.3	15.8	32.0	14.2
Non-oil	5.9	6.3	4.9	4.9	4.9
Consumer price inflation (percent per year)	0.2	2.8	3.1	3.0	3.0
External current account balance (percent of GDP)	-9.5	-7.2	-7.1	-5.9	-4.2
	(In percent of non-oil GDP)				
Government revenue and grants	26.8	28.8	26.7	30.2	31.5
Of which : oil revenue	15.5	17.3	14.9	17.8	18.7
Of which : grants	2.3	2.7	2.6	2.6	2.6
Government expenditure (commitment basis)	30.3	29.3	29.0	30.0	29.9
Overall fiscal balance (incl. grants; cash basis)	-6.4	-0.5	-2.5	0.3	1.7
Non-oil primary fiscal bal. (excl. grants; commitment basis)	-17.5	-15.9	-14.1	-14.6	-14.0
Memorandum items:					
Chadian crude oil price (US$/barrel)	103.9	103.0	97.9	93.0	88.6

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

Box 2. Chad: Oil Sector Prospects and the Impact on Fiscal Revenues

Oil production is estimated to have declined by 11.4 percent to 36.5 million barrels in 2013—the lowest level since 2004—leading to a significant fall in fiscal revenue. Apart from the natural decline in the rate of production in mature fields, other factors-mostly technical and temporary- led to such a huge decline. Correspondingly, fiscal oil revenue fell by about 7.7 percent of non-oil GDP, leading to a sizeable overall fiscal deficit (6.4 percent of non-oil GDP).

The entry of two new producers in the industry is expected to boost production and exports in 2014 and the medium term. Caracal/Glencore started its operations towards the end of 2013, making its first oil exports in early 2014. Similarly, CNPC, which has hitherto produced crude oil only for the domestic refinery, is expected to commence export production in the second half of 2014. Those companies have revised their production profiles as the results of their exploration activities become clearer, forcing a revision of Chad's macroeconomic projections. Based on the current profiles, production is expected to double between 2013 and 2016, reaching a peak of some 88 million barrels in 2017. However, absent any new discoveries, production would steadily decline over the long term, resulting in lower fiscal oil revenues.



Despite the gradual increase in production, the projected profile of fiscal oil revenue over the medium term remains uneven, necessitating the accumulation of some fiscal buffers to smooth government spending. In fact, fiscal oil revenue in 2015 is projected to be even lower than in 2014 due to the expensing of accumulated investment costs. Fiscal oil revenue would only start to pick up in 2016, reaching a peak in 2017, before gradually declining again to below 10 percent of non-oil GDP by the end of the decade (see graph).

18. **The 2014 revised budget approved by the National Assembly delivers strong upfront adjustment, while accommodating security and investment needs.** The NOPD would be reduced to just under 16 percent of non-oil GDP, due to cuts in primary current expenditures totaling 1.1 percent of non-oil GDP relative to the initial budget (MEFP ¶22) and resulting in an adjustment for that spending category of 1.8 percentage points of non-oil GDP relative to 2013. The expenditure savings result from a reduction in non-security transfers (following a cleanup of the list of eligible public institutions) as well as wage savings arising from a removal of "ghost" workers from the payroll following the introduction of an automated payroll management system early this year. This expenditure rationalization policy will enable the accommodation of (one-off) investments linked to the organization of the 2015 African Union summit (1 percent of non-oil GDP) and additional security related spending linked to the conflicts in neighboring countries (0.1 percent of non-oil GDP). Still, the downward revision in oil revenues and the incorporation of debt service obligations linked to last year's oil advance operation with Glencore lead to an increase in financing needs to about 5 percent of non-oil GDP.[3] Those needs will be mostly financed from extraordinary proceeds from the settlement of disputes with oil companies, issuance of Treasury bills, proceeds from mobile phone licenses, and two by-products from the State's acquisition of Chevron's participation in the Esso consortium (a US$100 million payment by Chevron to settle eventual tax liabilities, and a rescheduling of US$60 million in repayments to last year's loan from Glencore).

Text Table 2. Financing Gap for 2014

	CFAF Billion	USD Million	In percent of Non-oil GDP	GDP
I. Total financing requirement	**289**	**603**	**5.4**	**3.8**
Financing gap under the 2014 budget	96	201	1.8	1.3
Debt service on Glencore loan	127	265	2.4	1.7
Debt service on other new loans (excl. Glencore)	8.9	19	0.2	0.1
Adjustment of oil revenues relative to initial budget	57	118	1.1	0.7
II. Sources of Funding	**279**	**582**	**5.2**	**3.7**
Domestic financing	246	513	4.6	3.2
Regional capital market	45	94	0.8	0.6
Official financing	10	21	0.2	0.1
Treasury notes	35	73	0.7	0.5
Privatization and other extraordinary receipts	201	419	3.8	2.6
Rescheduling of Glencore 2013 loan advance	29	60	0.5	0.4
Non-oil revenue (updated projection)	4	8	0.1	0.0
Net cuts in primary spending relative to initial budg	1	2	0.0	0.0
III. Financing gap before IMF	**10**	**20**	**0.2**	**0.1**

Sources: Chadian authorities and Fund staff projections

19. **For 2015, given available financing the government is targeting an NOPD of 14.1 percent of non-oil GDP, which could be raised to 15 percent of GDP should additional financing materialize (MEFP ¶25).** The 14.1 percent of non-oil GDP target is consistent with current oil revenue projections and identified financing sources. The adjustment relative to 2014 is significant (1.8 percent of non-oil GDP) and would basically stem from a reduction in domestically-financed investment, particularly the conclusion of the one-off works linked to the 2015 African Union Summit. However, a smoother adjustment path would be desirable. In this context, the program envisages the possibility of revising the NOPD target up to 15 percent of non-oil GDP if

[3] The authorities signed oil sales' advance agreements with Glencore Energy for a total of US$600 million (4.5 percent of GDP) that were disbursed in three tranches in 2013 to finance the government's 2013 budget (¶9). This financing mechanism was non-concessional, carrying an annual interest rate of 6.9 percent on top of an upfront commitment fee of 2.75 percent, and is to be repaid against crude oil shipments over 2013—15.

additional resources become available. In particular, only a part (up to CFAF 20 billion or 0.3 percent of non-oil GDP) of excess receipts (cumulative from oil revenue, extraordinary receipts, and privatizations) can be spent in 2014 and any remaining balance will be allocated to the financing of the 2015 budget. Any such increased spending would be well targeted to development needs.

20. **Social and other priority spending will be safeguarded under the program**. This commitment is incorporated as a performance criterion under the ECF arrangement and aims at achieving the objectives of the current National Development Plan.

21. **The authorities are planning to meet their future external financing needs through grants and concessional loans (MEFP ¶20).** The debt sustainability analysis (DSA) concludes that the risk of debt distress is high given the projected reduction in oil exports over the long-term. Specifically, the increase in the stock of external public debt including the recent oil advance operations leads to a breach of the debt service threshold under the baseline scenario. Therefore, the authorities are committed to limit their borrowing to loans with a minimum grant element of 35 percent (proposed continuous performance criterion; MEFP Table 1).

22. **Additional spending pressures can still arise from the difficult regional security situation and additional assistance from the international community would be critical to address this**. The Chadian government is concerned in particular by the cost of increased need for humanitarian assistance linked to the displacement of population. Given the already significant expenditure cuts of the last two years and the need to protect priority spending, there is limited space to adjust spending futher in the event of pressures. The government has thus recently approached the international community for support for food assistance, social protection, and access to basic health care for the families of retournés from the C.A.R. A donor conference held in Paris on June 20-21 produced pledges of US$2.1 billion for the NDP 2013–15 and the National Program for Food Security (PNSA) 2014—21, effectively closing their total financing gap. Development partners at the Conference stressed the importance of setting up effective monitoring and evaluation mechanisms of the NDP and the PNSA and the need to integrate the PNSA in the successor five-year development plan 2016–20.

C. Fiscal Reforms in Support of Program Objectives

23. **Chad needs gradual but sustained implementation of structural reforms to increase non-oil fiscal revenue, enhance fiscal control, and improve the efficiency of public spending.** However, since reforms are needed in many areas, careful prioritization is required in line with institutional capacity and prospective technical support from international donors (Table 13 describes the timing and sequencing of the various reforms envisaged under the program period).

24. **Building on progress under the SMP, the authorities are committed to implement further PFM reforms,** driven by the *Plan d'Action pour la Modernisation des Finances Publiques* (PAMFIP - Action Plan for the Modernization of Public Finances). The reconciliation of data between the Treasury and the BEAC on the net claims from the banking system on the government, a critical step in creating a single Treasury account, will be completed by end-2014. Medium-term reforms

(MEFP ¶28) include the integration of the government accounting system with the expenditure chain to allow its full monitoring from commitment to final payment and the establishment of a rolling cash-flow management plan with a quarterly horizon. Fiscal reporting will be enhanced, including through the preparation and dissemination of quarterly budget implementation reports (structural benchmark for September 2014). The quality and content of the reports will be improved over time with the implementation of the accounting and treasury reforms mentioned above.

25. **Reducing the use of emergency spending procedures (DAOs) will be an important indicator of strengthened budgetary practices**. The program envisages a sustained reduction in the use of DAOs over the medium term, from 20 percent of domestically financed spending (excluding wages and debt service) in 2013 in a phased manner to 12 percent by 2016 (MEFP ¶28, structural benchmark for 2014). Such efforts will be coupled with the implementation of enhanced mechanisms to ensure the periodic and complete regularization of DAOs, in line with technical assistance recommendations from the Fiscal Affairs Department. The authorities are committed to that reduction even though they acknowledge that major uncertainties related to the security environment present a risk in terms of forcing the use of DAOs.

26. **Improvements in public procurement will continue to be achieved by aligning public procurement procedures with international standards**. Reforms in this area should help improve public investment efficiency and are a trigger for the HIPC Completion Point (Table 8, specifically resumption in the preparation and publication of quarterly procurement bulletins). Significant progress was achieved in 2013 with a substantial increase in the number and value of contracts awarded through competitive bidding. Going forward, the government will undertake a separation of the control and regulation functions of public procurement and seek to enhance the transparency of procedures with the final objective of reducing the proportion of negotiated contracts and prioritizing the use of competitive bidding (MEFP ¶28).

27. **The authorities are committed to increase the collection of non oil tax revenues and improve oil revenue forecasting and transparency.** The 2013 Article IV consultation showed the existence of a large non-oil tax collection gap that is linked to weaknesses in both tax policy design and revenue administration. The authorities have requested technical assistance from the Fiscal Affairs Department to reform direct taxation, in particular the personal income tax. In addition, aligning tax exemptions with CEMAC guidelines and reducing VAT exemptions would increase non-oil tax revenues, which remain low in absolute terms or compared with other countries in the region (MEFP ¶29). The authorities have also requested technical assistance to update and optimize their forecast model for oil revenue (in particular to include new petroleum projects), a critical venture given the significant difficulties in that area over the last couple of years and intend to revise reporting procedures to take into account SHT's new role in Esso's consortium.[4] Additional direct technical assistance on cash management should help spearhead the preparation of monthly and

[4] The State's equity participation and the coming on stream of CNPC, Caracal, and other exploration licenses add to an increasingly complicated fiscal and institutional framework not initially envisaged under the transparency provisions of the Petroleum Revenue Management Program, PRMP.

quarterly cash flow plans, a pending reform under the SMP that the authorities intend to complete under the program.

28. **In this context, the fiscal structural reform agenda aims also at improving the performance of revenue administration.** The government attaches prime importance to strengthening the technical and human capacities and improving governance of tax and customs institutions. Reforms on the organization and management of tax administration are ongoing with financial and technical support from international donors. Regarding customs, concrete measures will be undertaken in the short term to optimize customs clearance procedures and, more generally, to modernize the Customs General Directorate (MEFP ¶31). The SYDONIA++ system will be extended to the main customs points and scanners will be made operational in coming months, particularly at a critical post in the frontier with Cameroon.

29. **Fiscal sustainability will be safeguarded through improvements in debt management.** Debt management has been complicated by the fragmentation of borrowing responsibilities. The authorities' short-term strategy in this area involves: (i) strengthening the recently reactivated inter-ministerial debt analysis commission (CONAD) in charge of analyzing and issuing a reasoned opinion on all debt proposals in advance to their signature through the adoption of regulatory and institutional frameworks in line with recent technical assistance recommendations from Afritac Central and the World Bank (structural benchmark for end-September); and (ii) increasing transparency on debt figures and activities through the production and dissemination of debt management annual reports. Centralizing external borrowing powers within the Ministry of Finance is a medium-term objective to be achieved within the timeframe of the program consistent with a CEMAC regulation (MEFP ¶32). This step will require an update of the legal, regulatory, and institutional frameworks.

D. Additional Reforms Aimed at Reinforcing an Inclusive and Sustainable Economic Growth

30. **Progress towards the Millennium Development Goals (MDGs) and a sustained decline on poverty imply a strong focus on rural areas, young people, and women.** While the capital N'Djamena has shown a sharp decline in poverty in the last decade, poverty incidence remains high in rural areas, where a vast majority of households live in an environment unfavorable to access to education and jobs (e.g., less than 10 percent of the population live in households where the head has a salaried job). The authorities' efforts increasingly target these rural areas, with specific measures focused on youth, women, and the organization of the informal sector (MEFP ¶34-36). For instance in the agricultural area, the authorities are undertaking support mechanisms, like the promotion of irrigation, provision of seeds, and farm mechanization. International partners are increasing their financial assistance for rural development through non-governmental organizations working on livestock and agriculture.

31. **Improving the business environment is a critical objective in order to foster private sector development and new sources of non-oil growth.** Chad trails its peers in most dimensions

of the World Bank's "Doing Business" indicators, suffering from bottlenecks in infrastructure, labor quality, and access to finance. The authorities' strategy to promote a more favorable environment for the private sector will continue to be based on the implementation of a program to enhance the business climate, a program to strengthen SMEs, and a promotion strategy for investments and exports (MEFP ¶38-39). The recent introduction of a computerized monitoring of commercial contracts with the Ministry of Finance and Budget should improve the business environment for private contractors. In addition, the government is focused on the implementation of ambitious public investment plans in infrastructure as a way to remove critical bottlenecks, particularly on roads and energy. Expanding electricity supply is a government priority through improvements of existing infrastructure and interconnection projects with neighboring countries (MEPF ¶40).

32. **Reducing financial exclusion should help promote growth and development**. The financial sector in Chad is under-developed and with major challenges to financial access. Some financial intermediation indicators continue to improve. For instance, household deposit accounts with commercial banks per 1,000 adults increased from 3.5 in 2008 to almost 10 in 2012, and SME depositors more than doubled between 2008 and 2012. However, those indicators still remain low and substantially below those of peer CEMAC countries. An adequate credit reporting system still needs to be developed and microfinance institutions account for a very small proportion of the financial system. The authorities are aware of these situations and their strategy is based on the recommendations of the 2011 FSAP, with a focus on access to financial services in rural areas (MEFP ¶41).

E. Reaching the HIPC Completion Point

33. **Chad is the only remaining decision point country, having reached the HIPC decision point back in 2001**. Obtaining debt relief under the Enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) would improve debt sustainability prospects and provide additional room for priority fiscal spending. The debt relief could exceed US$850 million and would imply a reduction in debt service of at least US$40 million per year over the next 20 years, and a reduction in the external debt stock by up to a half (in nominal terms). Remaining HIPC relief from the Fund is estimated at SDR 8.5 million. A detailed debt reconciliation exercise will need to be conducted to firm up these estimates prior to reaching the HIPC Completion Point. A simulation undertaken in the DSA assuming multilateral debt relief only (due to the lack of more detailed information from other creditors) suggests that the risk of debt distress would fall to moderate. Nevertheless, debt vulnerabilities would require prudent fiscal and debt management policies going forward as well as progress in diversifying the economy.

34. **Satisfactory performance under the proposed ECF-supported program could pave the way for Chad to achieve the HIPC Completion Point by the first half of 2015**. Reaching the Completion Point will require satisfactory performance of at least six months under the ECF-supported program, one-year satisfactory implementation of the PRSP (the National Development Plan 2013-15), and the implementation of HIPC triggers (mainly covering priority sectors and governance issues, Table 8). Regarding the last two requirements, two specific governance-related actions are to be complied with in coming months: the publication of quarterly

procurement bulletins and implementation of a governance strategy and action plan. The World Bank is assisting the authorities on those specific issues and a joint Fund-Bank assessment (JSAN) will be prepared on the annual program report being currently prepared by the authorities on the NDP implementation. The Completion Point could be achieved in the first half of 2015 if performance in the first review (based on an end-December 2014 test date) is deemed satisfactory, and Chad has satisfactorily completed the Completion Point triggers.

PROGRAM MODALITIES, SAFEGUARDS, AND RISKS

35. **The authorities have requested a three-year arrangement under the ECF in an amount of 120 percent of quota (SDR 79.92 million)**. An ECF arrangement reflects the medium-term nature of Chad's balance of payments financing needs. The proposed access is in line with the norm, considering that current total outstanding PRGT access is close to zero. The amount would be disbursed in seven semi-annual installments (Table 11), with a slightly frontloaded disbursement schedule that reflects the larger financing needs in 2014 and 2015 that arise due to the projected oil revenue profile over the program period. The first test date will be December 2014, with indicative targets for September 2014. Afterwards, semi-annual reviews will be synchronized with December and June test dates, except for the final review that will have end-May 2017 as its test date.

36. **Conditionality.** Quantitative targets will be set on the non-oil primary balance, net domestic government financing, the (non-) accumulation of domestic and external arrears, poverty-reducing social spending, and the contracting or guaranteeing of non-concessional external debt (MEFP Table 1). Structural conditionality for 2014 was set in line with priorities and capacity constraints, focusing on putting in place basic institutions in the areas of PFM and debt management (MEFP, Table 2). Additional structural conditionality for 2015-16 will be proposed at the time of the first review. The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU).

37. **Staff has been conducting annual monitoring of safeguards developments at the BEAC since 2010.** Consistent with the safeguards policy requirement for regional central banks, the BEAC was subject to a quadrennial assessment in 2013. It occurred against the backdrop of significant change at the BEAC to address governance challenges and control failures that emerged in 2009, and led to close engagement in the period after through close IMF monitoring of safeguards "rolling measures" in the context of new program requests and reviews for CEMAC countries. The 2013 assessment found that risks remain elevated and that annual IMF staff visits to monitor priority recommendations and progress on the BEAC's reform plan would continue as part of the safeguards "rolling measures" approach. Consistent with this strategy, a safeguards staff visit to the BEAC was conducted from April 1-9, 2014. Staff concluded that the BEAC has made good progress in implementing recommendations from the 2013 assessment and is advancing its reform plan to strengthen controls at the bank. That said, the BEAC continues to face challenges on institutional autonomy and broader governance reforms remain paramount in the medium-term.

38. **Chad's capacity to repay the Fund is adequate (Table 12).** Assuming full drawing under the proposed arrangement, Fund credit outstanding would reach a maximum of 0.6 percent of GDP and about 1.6 percent of exports of goods and services in 2019. During the repayment period, debt service to the Fund would peak at 0.1 percent of GDP and 0.9 percent of tax revenue in 2022. The expected debt relief under the HIPC initiative, along with the envisaged fiscal adjustment and structural reforms under the program, will also secure the downward trajectory for Chad's debt, which would further augment Chad's repayment capacity on new loans.

39. **There are significant economic, institutional, and political risks to program implementation, which program measures help to partly mitigate**. Security and humanitarian issues (mostly from the region), weak institutions, and a potential fall in international oil prices are the main sources of risk for the program. In addition, strict control over spending commitments needs to be maintained, including on infrastructure projects being planned for the 2015 African Union summit and on transfers to loss-making state-owned enterprises. Debt management procedures need to be strengthened to avoid unplanned borrowing commitments. To help mitigate risks, the program includes institutional reforms in the areas of PFM (including through enhanced controls on emergency spending procedures) and debt management. Still, and as noted above, the assistance of the international community would be vital to help Chad address any new security and related humanitarian issues.

STAFF APPRAISAL

40. **Chad's satisfactory performance under the SMP has demonstrated the authorities' ability to implement an upper credit tranche program.** In particular, the NOPD continued to be gradually reduced despite spending pressures arising from the difficult regional security situation. The structural benchmark on DAOs—a key test of commitment across Ministries to strengthened fiscal management—was also met. While the implementation of other benchmarks has been mixed, delays have related to unforeseen technical barriers that are being currently tackled.

41. **Economic growth should be strong in coming years, but the macroeconomic framework remains heavily dependent on fiscal oil revenue projections.** Chad is projected to face an uneven oil revenue profile in the years ahead, with a decline in 2015 to precede a significant uptick in 2016 and 2017, which is expected to be followed by a steady decrease until the exhaustion of oil reserves barring new oil discoveries. Among other sectors, agriculture should remain a driving force behind non-oil growth.

42. **The 2014 fiscal program is appropriately anchored on a gradual reduction of the NOPD, with the partial usage of extraordinary oil-related revenues enabling expenditure smoothing in the face of still weak oil revenues.** The revised 2014 budget appropriately captures the impact of the 2013 oil advances on debt service, the lower than originally projected fiscal oil revenues, and additional (one-off) infrastructure investments to host the African Union summit in 2015. Managing these pressures while keeping the original NOPD target will require using a large

portion of the extraordinary revenues linked to the settlement of a dispute with an oil company and cutting transfers (but protecting social priority spending).

43. **A smooth decline in the NOPD over the medium term is warranted to maintain fiscal sustainability.** Staff agrees that an NOPD falling to around 14 percent of non-oil GDP over the medium term is consistent with spending stability and fiscal sustainability. To that effect, part of the extraordinary oil revenues should be used to cover the 2015 financing needs, while fiscal buffers can be accrued over 2016-17 to help Chad prepare for exogenous shocks.

44. **Strengthened PFM systems are needed to enhance fiscal control and improve the efficiency of spending.** Progress made in recent years is commendable, but much remains to be done. The government's Action Plan for the Modernization of Public Finances provides a sound basis for further reforms with the support of international donors. In this context, the authorities are committed to improve spending monitoring and control, restrict further the use of emergency spending procedures, enhance fiscal reporting, improve cash management, and revise oil revenue transparency provisions in light to recent changes to the oil sector structure. In addition, the structural fiscal reform agenda includes institutional changes to improve debt management and the operations of tax and customs administrations. Recent non-concessional borrowing reflected special circumstances and the authorities' commitment not to rely on non-concessional borrowing going forward is welcome.

45. **Reforms to improve governance and the business climate are critical for sustained and inclusive growth.** The authorities intend to take advantage of the African Union summit to reduce infrastructure bottlenecks in N'Djamena, while expanding nationwide electricity supply including through interconnection projects with neighboring countries. At the same time, some concrete actions will have to be singled out for implementation from the authorities' program to enhance the business climate to tackle the specific concerns raised by the private sector. In this regard, the planned modernization of state operations and the reform of the public administration should help improve the perception of Chad among investors. The authorities' initiatives targeted at SMEs, rural areas, young people and women, are important to achieve a more inclusive and sustainable economic growth and reduce poverty in a sustainable and permanent manner.

46. **There are significant economic, institutional, and political risks to program implementation.** A sustained decline in oil prices would result in fiscal oil revenue shortfalls and sharp spending adjustments in the context of limited financing options. Further deterioration of the security situation, including through regional spillovers, could generate fiscal challenges as already shown by the increased need for assistance to displaced population from C.A.R. Institutional and domestic political risks to the program remain, but should be curbed by the authorities' strong commitment to reach the HIPC completion point and a reinforced engagement by international donors including through significant pledges of support at the recent donor conference.

47. **Staff supports the government of Chad's request for a 3-year ECF arrangement with access equivalent to 120 percent of quota.**

Table 1. Chad: Selected Economic and Financial Indicators, 2010–17

	2010	2011	2012	2013		2014	2015	2016	2017
			Prel.	Prog.[1]	Prel.	Projections			
	(Annual percentage changes, unless otherwise indicated)								
Real economy									
GDP at constant prices	13.6	0.1	8.9	3.9	3.9	9.6	6.7	9.7	6.9
Oil GDP	-1.1	-0.3	-4.0	3.5	-6.8	30.3	15.8	32.0	14.2
Non-oil GDP	17.3	0.2	11.6	4.0	5.9	6.3	4.9	4.9	4.9
GDP deflator	6.4	8.6	1.1	-1.2	0.9	4.5	2.1	2.5	0.6
Non-oil GDP deflator	-3.0	2.5	-4.0	0.7	3.7	3.5	3.8	2.2	2.4
Consumer price index (period average)	-2.1	1.9	7.7	2.6	0.2	2.8	3.1	3.0	3.0
Consumer price index (end of period)	-2.2	10.8	2.1	5.0	0.9	3.7	3.0	3.0	3.0
Oil prices									
WEO (US$/barrel)[2]	79.0	104.0	105.0	102.5	104.1	104.2	97.9	93.0	90.0
Chadian price (US$/barrel)[3]	73.6	97.7	102.0	100.4	103.9	103.0	97.9	93.0	88.6
Oil production (in millions of barrels)	44.7	43.6	41.2	38.6	36.5	48.9	57.4	76.5	88.0
Exchange rate FCFA per US$ (period average)	494.4	471.4	510.2	497.0	493.9	…	…	…	…
Money and credit[4]									
Net foreign assets	13.3	25.3	14.8	-10.2	-2.6	0.3	1.8	18.9	20.8
Net domestic assets	12.0	-11.0	-1.3	18.6	11.2	9.1	7.1	-11.8	-13.3
Of which : net claims on central government	7.2	-18.8	-13.1	9.9	10.0	1.5	-0.4	-16.7	-22.3
Of which : credit to private sector	10.7	9.0	12.9	8.9	2.8	8.9	6.6	4.4	8.7
Broad money	25.3	14.2	13.4	8.4	8.6	9.5	9.0	7.1	7.5
Income velocity (non-oil GDP/broad money)	6.6	5.9	5.6	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.	23.3	22.3	-4.1	-7.4	-8.4	31.5	12.4	25.1	9.9
Imports of goods and services, f.o.b.	18.1	11.3	3.8	-0.5	-6.3	27.2	7.3	14.9	5.1
Export volume	-5.6	-2.8	-2.9	-5.3	-10.4	25.5	15.8	28.4	12.2
Import volume	13.6	4.5	4.9	-0.2	-5.1	26.4	7.7	14.9	4.5
Overall balance of payments (in percent of GDP)	0.1	2.9	1.7	-1.2	-0.2	-0.1	-0.3	1.7	1.9
Current account balance, including official transfers (in percent of GDP)	-9.0	-5.6	-8.7	-5.4	-9.5	-7.2	-7.1	-5.9	-4.2
Terms of trade	25.6	18.2	-0.2	-2.0	3.5	4.1	-2.6	-2.7	-2.6
External debt (in percent of GDP)	20.1	20.3	20.3	20.3	22.7	26.4	22.8	19.6	17.3
NPV of external debt (in percent of exports of goods and services)	30.9	48.2	39.4	55.4	56.3	63.1	53.0	40.8	34.9
	(In percent of non-oil GDP, unless otherwise indicated)								
Government finance									
Revenue and grants	26.7	34.6	35.0	27.7	26.8	28.8	26.7	30.2	31.5
Of which : non-oil	8.1	7.6	8.1	8.3	9.0	8.9	9.2	9.8	10.3
Expenditure	32.2	31.3	34.4	31.1	30.3	29.3	29.0	30.0	29.9
Current	19.2	17.9	16.5	17.0	17.0	15.5	14.8	15.4	15.5
Capital	13.1	13.3	17.9	14.1	13.3	13.9	14.2	14.5	14.4
Non-oil primary balance (commitment basis, excl. grants)[5]	-20.1	-19.6	-20.1	-18.1	-17.5	-15.9	-14.1	-14.6	-14.0
Overall fiscal balance (incl. grants, commitments basis	-5.5	3.3	0.7	-3.3	-3.5	-0.5	-2.3	0.2	1.6
Overall fiscal balance (incl. grants, cash basis)	-4.2	0.6	2.2	-3.3	-6.4	-0.5	-2.5	0.3	1.7
Total debt (in percent of GDP)[6]	25.6	29.1	27.4	28.1	31.0	31.9	28.0	24.0	21.2
Of which : domestic debt[7]	5.5	8.8	7.0	7.8	8.3	5.5	5.2	4.4	3.9
Memorandum items:									
Nominal GDP (in billions of CFA francs)[7]	5,279	5,736	6,314	6,753	6,624	7,591	8,267	9,296	10,000
Of which: non-oil GDP	3,999	4,108	4,400	4,833	4,830	5,317	5,793	6,206	6,671
Nominal GDP (in billions of US$)[7]	10.7	12.2	12.4	13.6	13.4	15.8	17.6	20.0	21.8
Of which: non-oil GDP	8.1	8.7	8.6	9.7	9.8	11.1	12.3	13.3	14.5

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

[1] IMF, Chad-Staff Report for the Staff Monitored Program (EBS/13/103).

[2] WEO 2014 Winter Production.

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

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

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

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

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

Table 2. Chad: Real GDP per sector, 2010–17

(Annual percentage change, unless otherwise indicated)

	Weight[1]	2010	2011	2012 Prel.	2013	2014	2015	2016	2017
					Projections				
Primary sector	44	16.1	-7.6	11.8	-6.2	14.7	9.0	15.6	8.9
Agriculture	12	49.8	-25.3	46.9	-10.9	7.8	5.1	4.9	4.7
Food crops	11	54.1	-27.4	50.6	-12.0	7.5	4.7	4.6	4.5
Industrial crops	1	-7.2	20.6	-1.2	11.0	12.0	10.8	9.2	7.3
Livestock, Forestry and Fishing	11	1.9	3.9	1.2	3.0	2.8	2.5	2.2	2.2
Mining and Quarrying	3	13.6	12.0	12.1	13.4	6.0	5.1	4.3	4.0
Oil and Gas Extraction	19	3.3	-1.1	-6.5	-11.4	34.1	17.2	33.3	15.0
Secondary sector	12	10.2	9.0	8.5	23.2	1.9	-1.3	2.1	2.7
Manufacturing (non petroleum)	1	9.9	11.3	12.2	35.0	14.4	11.9	10.1	8.1
Of which : cotton processing	0	-51.6	51.1	31.4	16.5	11.0	5.5	5.0	4.5
Handicrafts	5	9.7	9.0	4.3	13.4	4.8	5.2	5.2	4.6
Utilities	0	10.1	10.1	14.3	14.0	5.6	4.5	3.6	3.2
Construction	6	10.0	2.0	7.7	29.8	-3.3	-11.2	-9.0	-2.9
Of which : oil related	2	-50.2	-31.5	20.8	73.4	0.5	-1.9	-3.6	-2.6
Refinery	…	…	…	79.1	31.2	4.0	7.1	42.0	8.7
Tertiary sector	41	11.5	4.9	6.5	8.4	8.2	7.3	6.7	6.2
Commerce, transport	22	16.5	1.7	6.2	10.1	9.6	8.4	7.3	6.6
Commerce	20	17.6	1.0	7.1	9.5	9.0	7.8	6.7	6.0
Transport	3	8.8	7.5	-0.8	15.0	13.8	12.7	11.7	10.7
General government	7	-2.9	5.2	4.2	5.0	5.0	3.5	3.5	3.0
Other	12	10.1	11.0	8.1	7.0	7.0	7.0	7.0	6.7
Duties and taxes on imports	2	18.1	18.9	3.5	4.7	4.7	4.7	4.7	4.7
Total GDP	100	13.6	0.1	8.9	3.9	9.6	6.7	9.7	6.9
Oil GDP (including investment)	20	-1.1	-0.3	-4.0	-6.8	30.3	15.8	32.0	14.2
Non-oil GDP	80	17.3	0.2	11.6	5.9	6.3	4.9	4.9	4.9

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

[1] Average share of 2005–10 GDP.

Table 3. Chad: Fiscal Operations of the Central Government, 2010–17

(In billions of CFAF, unless otherwise indicated)

	2010	2011	2012	2013		2014			2015	2016	2017
			Prel.	Prog.	Prel.	LFI	LFR[1]	Prog.		Prog.	
Total revenue and grants	1,069	1,422	1,542	1,341	1,294	1,587	1,488	1,534	1,546	1,873	2,101
Revenue	1,000	1,331	1,375	1,224	1,181	1,444	1,346	1,391	1,398	1,714	1,931
Oil	676	1,017	1,020	821	749	976	874	920	863	1,104	1,245
Non-oil	324	314	355	403	433	468	471	471	535	610	685
Tax	313	296	339	378	420	438	451	451	514	572	637
Non-tax	11	18	16	25	13	30	20	20	21	38	48
Grants	69	91	167	117	113	142	142	142	148	159	171
Budget support	0	0	0	0	5	0	0	0	0	0	0
Project grants	69	91	167	117	108	142	142	142	148	159	171
Expenditure	1,289	1,284	1,512	1,501	1,464	1,541	1,560	1,560	1,680	1,861	1,992
Current	766	736	726	822	823	857	822	822	859	958	1,033
Wages and salaries	216	250	283	343	333	356	344	344	377	403	434
Goods and services	111	87	123	128	136	139	128	128	139	186	200
Transfers and subsidies	411	364	291	315	320	331	300	300	298	323	347
Subsidies and non-security transfers	191	163	197	253	246	281	245	245	…	…	…
Exceptional security	220	201	95	62	74	50	55	55	…	…	…
Interest	29	35	28	36	34	30	50	50	46	46	52
Domestic	14	25	16	18	10	14	25	25	24	22	20
External	16	10	12	17.8	24	15	25	25	22	24	32
Investment	522	548	787	679	641	684	737	737	821	903	959
Domestically financed	392	416	543	492	491	492	545	545	529	590	622
Foreign financed	130	132	243	187	149	192	192	192	292	313	337
Overall balance (incl. grants, commitment)	-220	137	30	-160	-169	46	-72	-26	-134	12	110
Non-oil primary balance (excl. grants, commitment)[2]	-805	-804	-886	-875	-848	-851	-846	-846	-817	-904	-936
Change in balances payable[3]	-159	-166	-109	-247	-231			-120	-120	-109	-116
Float[4]	142	50	117	246	91			120	109	116	119
Errors and omissions	66	3	59	…	0	…	…	…	…	…	…
Overall balance (incl. grants, cash)	-170	25	96	-161	-309	46	-72	-26	-145	19	113
Financing	170	-25	-96	161	309	…	…	26	145	-19	-113
Domestic financing	58	-22	-139	169	80	…	…	134	126	-154	-228
Bank financing	48	-110	-117	76	34	…	…	22	14	-154	-228
Central Bank (BEAC)	48	-106	-93	78	37	…	…	-12	-16	-154	-228
Deposits	-23	-100	-68	80	60	…	…	0	-13	-149	-222
Advances (net)	76	0	-21	0	-21	…	…	-21	-21	-21	-21
IMF (reimbursement)	-6	-5	-4	-2	-2	…	…	9	18	16	15
Commercial banks	0	-5	-24	-2	-3	…	…	33	30	0	0
Non-bank financing (net)	0	88	-25	93	46	…	…	-88	6	0	0
Privatization and other exceptional receipts[5]	10	1	3	0	0	0	310	201	107	0	0
Foreign financing	112	-3	43	-7	230	-34	-145	-108	19	136	115
Loans (net)	112	-3	43	-7	198	-34	-145	-136	-2	116	95
Disbursements	157	41	76	70	338	50	50	79	144	154	166
Budget borrowings[6]	141	0	0	0	296	0	0	29	0	0	0
Project loans	61	41	76	70	42	50	50	50	144	154	166
Amortization	-45	-44	-33	-77	-140	-84	-195	-215	-146	-39	-71
Debt relief/rescheduling	…	…	…	…	32	0	0	28	20	20	20
HIPC	…	…	…	…	0	…	…	0	20	20	20
Other[7]	…	…	…	…	32	…	…	28	0	0	0
Financing gap	…	…	…	0	…	96	20	0	0	0	0
Memorandum items:											
Non-oil GDP	3,999	4,108	4,400	4,833	4,830	5,318	5,318	5,317	5,793	6,206	6,671
Bank deposits (mostly BEAC)	105	205	274	173	214	…	…	214	227	376	598
(In months of domestically-financed spending)	1.1	2.1	2.6	1.6	2.0	…	…	1.9	2.0	2.9	4.3
BEAC statutory advances	209	209	188	188	167	…	…	146	125	104	83

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 2014, amounts in excess of float, represent clearance of arrears, accrued in prior fiscal years.

[4] Difference between committed and cash expenditure.

[5] Extraordinary receipts linked to a settlement of a dispute with an oil company are assumed over 2014-15.

[6] The oil sales advance with Glencore Energy in 2013 in an amount of US$600 million (about CFAF 296 billion) was recorded as budget borrowings.

[7] In June 2013 Chad and Libya agreed in a bilateral arrangement to reschedule debt service payments that were due on nonconcessional debt contracted in 2010-11.

Table 4. Chad: Fiscal Operations of the Central Government, 2010–17

(In percent of non-oil GDP, unless otherwise indicated)

	2010	2011	2012	2013		2014			2015	2016	2017
			Prel.	Prog.	Prel.	LFI	LFR[1]	Prog.		Prog.	
Total revenue and grants	26.7	34.6	35.0	27.7	26.8	29.8	28.0	28.8	26.7	30.2	31.5
Revenue	25.0	32.4	31.2	25.3	24.5	27.2	25.3	26.2	24.1	27.6	28.9
Oil	16.9	24.8	23.2	17.0	15.5	18.4	16.4	17.3	14.9	17.8	18.7
Non-oil	8.1	7.6	8.1	8.3	9.0	8.8	8.9	8.9	9.2	9.8	10.3
Tax	7.8	7.2	7.7	7.8	8.7	8.2	8.5	8.5	8.9	9.2	9.6
Non-tax	0.3	0.4	0.4	0.5	0.3	0.6	0.4	0.4	0.4	0.6	0.7
Grants	1.7	2.2	3.8	2.4	2.3	2.7	2.7	2.7	2.6	2.6	2.6
Budget support	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	1.7	2.2	3.8	2.4	2.2	2.7	2.7	2.7	2.6	2.6	2.6
Expenditure	32.2	31.3	34.4	31.1	30.3	29.0	29.3	29.3	29.0	30.0	29.9
Current	19.2	17.9	16.5	17.0	17.0	16.1	15.5	15.5	14.8	15.4	15.5
Wages and salaries	5.4	6.1	6.4	7.1	6.9	6.7	6.5	6.5	6.5	6.5	6.5
Goods and services	2.8	2.1	2.8	2.6	2.8	2.6	2.4	2.4	2.4	3.0	3.0
Transfers and subsidies	10.3	8.9	6.6	6.5	6.6	6.2	5.6	5.6	5.1	5.2	5.2
Subsidies and non-security transfers	4.8	4.0	4.5	5.2	5.1	5.3	4.6	4.6	…	…	…
Exceptional security[1]	5.5	4.9	2.2	1.3	1.5	0.9	1.0	1.0	…	…	…
Interest	0.7	0.9	0.6	0.7	0.7	0.6	0.9	0.9	0.8	0.7	0.8
Domestic	0.3	0.6	0.4	0.4	0.2	0.3	0.5	0.5	0.4	0.4	0.3
External	0.4	0.3	0.3	0.4	0.5	0.3	0.5	0.5	0.4	0.4	0.5
Investment	13.1	13.3	17.9	14.1	13.3	12.9	13.9	13.9	14.2	14.5	14.4
Domestically financed	9.8	10.1	12.3	10.2	10.2	9.3	10.3	10.3	9.1	9.5	9.3
Foreign financed	3.3	3.2	5.5	3.9	3.1	3.6	3.6	3.6	5.0	5.0	5.0
Overall balance (incl. grants, commitment)	-5.5	3.3	0.7	-3.3	-3.5	0.9	-1.3	-0.5	-2.3	0.2	1.6
Non-oil primary balance (excl. grants, commitment)[2]	-20.1	-19.6	-20.1	-18.1	-17.5	-16.0	-15.9	-15.9	-14.1	-14.6	-14.0
Change in balances payable[3]	-4.0	-4.0	-2.5	-5.1	-4.8	0.0	…	-2.3	-2.1	-1.8	-1.7
Float[4]	3.6	1.2	2.7	5.1	1.9	0.0	…	2.3	1.9	1.9	1.8
Errors and omissions	1.7	0.1	1.3		…	…	…	…	…	…	…
Overall balance (incl. grants, cash)	-4.2	0.6	2.2	-3.3	-6.4	0.9	…	-0.5	-2.5	0.3	1.7
Financing	4.2	-0.6	-2.2	3.3	6.4	…	…	0.5	2.5	-0.3	-1.7
Domestic financing	1.4	-0.5	-3.2	3.5	1.7	…	…	2.5	2.2	-2.5	-3.4
Bank financing	1.2	-2.7	-2.7	1.6	0.7	…	…	0.4	0.2	-2.5	-3.4
Central Bank (BEAC)	1.2	-2.6	-2.1	1.6	0.8	…	…	-0.2	-0.3	-2.5	-3.4
Deposits	-0.6	-2.4	-1.6	1.7	1.2	…	…	0.0	-0.2	-2.4	-3.3
Advances (net)	1.9	0.0	-0.5	0.0	-0.4	…	…	-0.4	-0.4	-0.3	-0.3
IMF (reimbursement)	-0.1	-0.1	-0.1	0.0	0.0	…	…	0.2	0.3	0.3	0.2
Commercial banks	0.0	-0.1	-0.5	0.0	-0.1	…	…	0.6	0.5	0.0	0.0
Non-bank financing (net)	0.0	2.1	-0.6	1.9	0.9	…	…	-1.7	0.1	0.0	0.0
Privatization and other exceptional receipts	0.2	0.0	0.1	0.0	0.0	0.0	…	3.8	1.8	0.0	0.0
Foreign financing	2.8	-0.1	1.0	-0.2	4.8	-0.6	-2.7	-2.0	0.3	2.2	1.7
Loans (net)	2.8	-0.1	1.0	-0.2	4.1	-0.6	-2.7	-2.6	0.0	1.9	1.4
Disbursements	3.9	1.0	1.7	1.4	7.0	0.9	0.9	1.5	2.5	2.5	2.5
Budget borrowings[6]	3.5	0.0	0.0	0.0	6.1	0.0	0.0	0.5	0.0	0.0	0.0
Project loans	1.5	1.0	1.7	1.4	0.9	0.9	0.9	0.9	2.5	2.5	2.5
Amortization	-1.1	-1.1	-0.8	-1.6	-2.9	-1.6	0.0	-4.0	-2.5	-0.6	-1.1
Debt relief/rescheduling	…	…	…	…	0.7	0.0	0.0	0.5	0.4	0.3	0.3
HIPC	…	…	…	…	…	…	…	0.0	0.4	0.3	0.3
Other[7]	…	…	…	…	0.7	...	...	0.5	0.0	0.0	0.0
Financing gap	…	…	…	…	…	1.8	0.4	0.0	0.0	0.0	0.0
Memorandum items:											
Non-oil GDP	3,999	4,108	4,400	4,833	4,830	5,318	5,318	5,317	5,793	6,206	6,671
Bank deposits (mostly BEAC)	2.6	5.0	6.2	3.6	4.4	…	…	4.0	3.9	6.1	9.0
(In months of domestically-financed spending)	1.1	2.1	2.6	1.6	2.0	…	…	1.9	2.0	2.9	4.3
BEAC statutory advances	5.2	5.1	4.3	3.9	3.5	…	…	2.7	2.2	1.7	1.3

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 2014, amounts in excess of float, represent clearance of arrears, accrued in prior fiscal years.

[4]Difference between committed and cash expenditure.

[5]Extraordinary receipts linked to a settlement of a dispute with an oil company are assumed over 2014-15.

[6]The oil sales advance with Glencore Energy in 2013 in an amount of US$600 million (about CFAF 296 billion) was recorded as budget borrowings.

[7]In June 2013 Chad and Libya agreed in a bilateral arrangement to reschedule debt service payments that were due on nonconcessional debt contracted in 2010-11.

Table 5. Chad: Balance of Payments, 2010–17

(Billions of CFA francs, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017
		Est.	Prel.	Projections				
Current account	-473	-323	-549	-626	-545	-587	-544	-418
Trade balance, incl. oil sector	422	623	486	388	488	687	1,160	1,444
Exports, f.o.b.	1,807	2,134	2,209	1,923	2,496	2,763	3,463	3,766
Of which: oil	1,602	1,847	1,905	1,593	2,145	2,392	3,071	3,353
Imports, f.o.b.	-1,385	-1,511	-1,723	-1,535	-2,007	-2,076	-2,303	-2,322
Services (net)	-1,017	-1,044	-1,160	-1,049	-1,214	-1,313	-1,567	-1,691
Income (net)	-176	-149	-153	-292	-362	-410	-499	-544
Transfers (net)	298	247	277	326	542	450	362	373
Official (net)[1]	22	17	57	150	310	210	118	120
Private (net)	276	230	220	225	232	240	244	254
Financial and capital account	88	271	395	615	535	562	698	604
Capital transfers	59	85	136	104	139	145	155	167
Foreign direct investment	273	259	296	257	-195	503	529	380
Other medium and long term investment	65	99	49	187	538	-13	104	83
Public sector	74	108	59	198	548	-2	116	95
Private sector	-9	-9	-10	-10	-11	-11	-12	-12
Short-term capital	-309	-172	-87	67	55	-73	-91	-26
Errors and omissions	508	347	243	…	…	…	…	…
Overall balance	5	169	108	-11	-10	-25	153	187
Financing	-5	-169	-108	11	0	-13	-189	-222
Net foreign assets (BEAC)	-5	-169	-108	11	0	-13	-189	-222
Financing gap	**0**	**0**	**0**	**0**	**-10**	**-38**	**-36**	**-36**
Exceptional Financing					10	38	36	36
IMF					10	18	16	15
Potential debt relief (HIPC)					0	20	20	20
Remaining gap					0	0	0	0
Memorandum items:								
Current account (in percent of GDP)	-9.0	-5.6	-8.7	-9.5	-7.2	-7.1	-5.9	-4.2
Exports (in percent of GDP)	34	37	35	29	33	33	37	38
Of which: oil	30	32	30	24	28	29	33	34
Imports (in percent of GDP)	-26	-26	-27	-23	-26	-25	-25	-23
FDI (in percent of GDP)	5.2	4.5	4.7	3.9	-2.6	6.1	5.7	3.8
Gross official reserves (imputed reserves, billions of USD)	0.6	1.0	1.2	1.2	1.2	1.2	1.6	2.1
(In months of imports of goods and services)	1.4	2.0	2.3	2.5	2.0	1.9	2.2	2.7
(Idem, excluding oil sector imports)	1.7	2.4	2.7	2.9	2.5	2.4	2.7	3.3

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

[1]A payment of CFAF 300 billion linked to a settelment of a dispute with an oil company is assumed to be transferred to the government over 2014-15

Table 6. Chad: Monetary Survey, 2009–17

(Billions of CFA francs)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
					Prel.		Proj.		
Net foreign assets	238.9	303.1	456.0	558.1	537.7	540.6	557.5	749.9	976.1
Central bank	227.4	262.0	430.5	538.6	527.9	527.9	541.0	730.2	952.4
Commercial banks	11.4	41.1	25.5	19.4	9.8	12.7	16.5	19.8	23.7
Net domestic assets	244.0	302.2	235.3	226.2	314.4	392.1	458.7	338.8	194.2
Domestic credit	313.9	403.6	349.6	347.6	465.4	538.6	614.1	504.6	372.1
Claims on the government (net)	141.4	176.0	62.4	-28.4	50.4	63.1	59.1	-110.8	-353.9
Treasury (net)	104.8	149.4	39.6	-40.9	35.7	48.4	44.4	-125.6	-368.6
Banking sector	104.8	149.4	39.6	-40.9	35.7	48.4	44.4	-125.6	-368.6
Central bank	145.2	202.2	86.7	28.6	96.9	76.0	42.1	-127.9	-371.0
Claims on general government	217.4	289.8	278.9	279.8	260.3	239.5	218.6	197.8	176.9
Liabilities to general government	-72.2	-87.6	-192.2	-251.2	-163.5	-163.4	-176.5	-325.7	-547.9
Commercial banks	-40.3	-52.8	-47.1	-69.5	-61.2	-27.7	2.3	2.3	2.3
Claims on general government	27.0	61.5	54.5	50.1	66.6	100.1	130.1	130.1	130.1
Liabilities to general government	-67.3	-114.3	-101.5	-119.7	-127.7	-127.7	-127.7	-127.7	-127.7
Fund position	38.3	8.3	5.9	2.5	0.0	0.0	0.0	0.0	0.0
Other non-treasury	36.5	26.6	22.8	12.5	14.7	14.7	14.7	14.7	14.7
Credit to the economy	171.8	223.6	278.1	367.3	389.6	465.4	527.2	572.2	667.3
Capital Accounts	-62.9	-64.8	-89.9	-104.7	-113.9	-126.4	140.4	155.8	172.9
Other items (net)	-0.4	-15.3	-0.3	-7.3	-27.5	-20.0	-15.0	-10.0	-5.0
Money and quasi money	482.9	605.3	691.3	784.3	852.1	932.8	1016.3	1088.8	1170.3
Currency outside banks	291.9	345.7	373.5	400.7	448.3	490.8	534.7	572.8	615.7
Demand deposits	158.0	223.0	258.9	326.0	336.3	368.1	401.0	429.7	461.8
Time and savings deposits	33.0	36.6	58.9	57.5	67.5	73.9	80.5	86.3	92.7
Memorandum items:									
Broad money (annual percentage change)	-4.6	25.3	14.2	13.4	8.6	9.5	9.0	7.1	7.5
Credit to the economy (annual percentage change)	21.0	30.2	24.4	32.1	6.1	19.5	13.3	8.5	16.6
Credit to the economy (percent of GDP)	3.9	4.2	4.8	5.8	5.9	6.1	6.4	6.2	6.7
Credit to the economy (percent of non-oil GDP)	4.9	5.6	6.8	8.3	8.1	8.8	9.1	9.2	10.0
Velocity (non-oil GDP)	7.3	6.6	5.9	5.6	5.7	5.7	5.7	5.7	5.7
Velocity (total GDP)	9.0	8.7	8.3	8.1	7.8	8.1	8.1	8.5	8.5

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

Table 7. Chad: Financial Soundness Indicators, 2007–12

	2007	2008	2009	2010	2011	2012
Capital Adequacy						
Regulatory capital / Risk-weighted assets	11.1	13.3	12.1	6.7	19.7	18.1
Asset Quality						
Gross nonperforming loans/Gross banking loans	11.2	8.0	10.4	12.1	9.8	8.7
Provisions / Nonperforming loans	84.4	70.2	64.6	73.5	75.6	57.4
Net nonperforming loans/Gross banking loans	1.7	2.4	3.7	3.2	2.4	3.7
Profitability						
Return on assets	2.7	3.9	1.3	3.7	2.4	2.8
Return on equity	26.3	36.4	11.4	39.4	11.7	19.9
Liquidity						
Liquid assets / Total assets	28.3	19.6	17.9	18.2	29.9	33.5
Liquid assets / Demand deposits	66.3	82.4	85.2	73.8	75.2	79.7
Banks' ratings (number of banks rated)						
Solid or Good	6	4	4	3	5	…
Fragile	0	1	1	1	2	…
Critical	0	1	1	2	0	…
Not rated	1	1	2	2	1	…
Total	7	7	8	8	8	…

Sources: BEAC/COBAC.

Table 8. Chad: Key Reforms and Objectives to be Achieved Before the Completion Point

Indicator	Comments
Poverty reduction strategy paper	
· Ensure that a fully participatory PRSP has been prepared and satisfactoriry implemented for at least one year, as evidenced by the joint staff assessment of the country's annual progress report	*The 2013 annual progress report of the 2013-15 National Development Plan is in progress, using a monitoring framework developed in 2013 under the support of the World Bank*
Macroeconomic stability	
· Continue maintenance of macroeconomic stability and satisfactory implementation of the PRGF-supported program	*The test date for the first review under the proposed ECF would be end-December 2014*
Governance	
· Make satisfactory progress in strengthening public expenditure management to facilitate the identification and tracking of poverty-related spending, as evidenced by the implementation for at least six months of the simplified and computerized expenditure circuit, and a functional expenditure tracking system for primary education services	*Progress has been made in interconnecting the integrated expenditure circuit with the Treasury and other sectoral ministries. The World Bank will assist in the preparation of a government report to evaluate the operation of the educational expenditure tracking system*
· Adopt a new law on public procurement and its application decrees; publish a quarterly bulletin on public procurement; complete audits by internationally reputed firms for the five largest procurement contracts granted in 2001; adopt the Budget Settlement Law for year 2000 before adoption of the Budget Law for year 2002; and similarly, adopt the Budget Settlement Law for year 2001 before adoption of the Budget Law for year 2003; and nominate judges for the commercial courts in the five largest cities	*The new public procurement law was adopted and related decrees published. Steps have also been taken to start publishing quarterly public procurement bulletins beginning in 2014. Final evaluation of the status of the Budget Settlement Law will consider developments in 2007-13.*
· Adopt a governance strategy and action plan in consultation with IDA and the IMF and implement it for at least one year	*A new governance action plan is in place as part of the NDP 2013-15, and 2013 performance of specific programs/projects will be evaluated alongside the NDP 2013 APR*

Table 8. Chad: Key Reforms and Objectives to be Achieved Before the Completion Point (Concluded)

Indicator	Comments
Priority sectors	
. *Health* —Ensure that at least 75 percent of all health districts and health centers across the country are operational, up from 68 percent in 1999	*Evaluation of this trigger will be based on the statistical yearbook 2012-13 available in July 2014.*
—Achieve a DPT3 vaccination rate of at least 40 percent up from 35 percent in 1999, and an assisted delivery rate of at least 20 percent, up from 15 percent in 1998	*Administrative data shows that DPT3 immunization rates rose to 82% in 2013. Evaluation of the delivery rate will be based on the statistical yearbook 2012-13 available in July 2014.*
· *HIV/AIDS and STIs* —Increase the sale of condoms through the social marketing project MASOCOT by at least 25 percent relative to about 2.239 million condoms sold in 2000.	*The sale of condoms AMASOT (the successor to MASOCOT) exceeded 5.9 million in 2013*
—Increase the treated cases of genital ulcers to at least 30000 per year, up from 12000 in 1998, and the treated cases of purulent urethritis to at least 40000 per year, up from 21000 per year in 1998. Decrease the prevalence of syphilis among pregnant women from 6 percent in 1998 to at most 4 percent	*Progress on original targets has been positive. Final evaluation will be based on the statistical yearbook 2012-13 available in July 2014.*
· *Education* —Increase the gross enrollment rate to at least 61 percent for girls and 89 percent for boys, up from 50 and 85 percent, respectively in 1998-99 —Reduce the repeater rate from 26 percent in 1998-99 to at most 22 percent	*The enrollment rate was 107% for boys and 82% for girls in 2012-2013, while the repeater rate was 25%*
· *Basic infrastructure* —Ensure that at least 50 percent of the all-year road network can be used throughout the year whereas now 80 percent of the road network cannot be used for three to five months during the rainy season	*The part of the national network used throughout the year stood at 37% in 2013.*
· *Rural development* —Increase access to potable water, to at least 32 percent, up from 27 percent in 2000 —Increase the percentage of agricultural families equipped with plows from 24 in 2000 to at least 26 —For livestock holders increase the number of water points by at least 10 percent, relative to 1138 water points in 2000	*The rate of access to potable water was at 46% in 2013.'s Equipment rate plows stood at 40% in 2013. The number of pastoral water points for livestock s' amounted to 1868 in 2013.*

Source: Chad: Decision Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, May 4, 2001

Table 9. Chad: SMP Quantitative Indicators, June 1 to December 31, 2013[1]

(Billions of CFA francs; cumulative from the beginning of the year, except where otherwise indicated)[1]

	30-Jun			30-Sep			31-Dec		
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status
Floor on non-oil primary budget balance	(468)	(455)	met	(672)	(652)	met	(876)	(856)	met
Ceiling on net domestic government financing	96	125	not met	157	22	met	175	38	met
Ceiling on the accumulation of domestic payment arrears by the government [2]	0	0	met	0	0	met	0	0	met
Ceiling on the accumulation of external payment arrears by the government or non-financial public enterprises [3]	0	0	met	0	0	met	0	0	met
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 (US$ million)[2 3 4]	12	312	not met	12	612	not met	12	612	not met
New guaranteed external debt contracted or guaranteed by the government or non-financial public enterprises (US$ million) [3]	0	300	not met	0	600	not met	0	600	not met
Floor for poverty-reducing social spending	140	173	met	220	258	met	330	335	met
Memo items: :									
Oil revenue	443	353		631	539		821	749	
Foreign budget support grants	0	0		0	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 10. Chad: Structural Conditionality Under the SMP

Measures	Proposed Due Dates	Status
Limit emergency spending procedures to no more than 20 percent of domestically financed spending (excluding wages, debt, and security spending)	End-Dec. 2013	Met
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	Not met. *Requires more time to complete work on distinguishing central government from broader public liabilities to commerical banks.*
Preparation and updating of a monthly treasury cash management plan (with a three-month rolling horizon).	End-Dec. 2013	Not met. *Needs to be supported by an improved oil revenue forecasting framework to be fully operational.*
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	Not met on time, but implemented with delay on January 2014
Submission to Parliament of a 2014 draft budget in line with the objective of gradually reducing the non-oil primary deficit	End-Oct. 2013	Met

Table 11. Chad: Proposed Schedule of Disbursements Under the ECF Arrangement, 2014–17

Amount (Million SDR)	**Available Date**	**Conditions for Disbursement**
13.31	August 1, 2014	Executive Board approval of the three year ECF arrangement
13.31	February 15, 2015	Observance of the performance criteria for December 31, 2014 and completion of the first review under the arragement
10.66	August 15, 2015	Observance of the performance criteria for June 30, 2015 and completion of the second review under the arragement
10.66	February 15, 2016	Observance of the performance criteria for December 31, 2015 and completion of the third review under the arragement
10.66	August 15, 2016	Observance of the performance criteria for June 30, 2016 and completion of the fourth review under the arragement
10.66	February 15, 2017	Observance of the performance criteria for December 31, 2016 and completion of the fifth review under the arragement
10.66	July 15, 2017	Observance of the performance criteria for May 31, 2017 and completion of the sixth review under the arragement

Sources: IMF Staff estimates and projections

Table 12. Chad: Indicators of Capacity to Repay the Fund, 2014–25

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Fund obligations based on existing credit												
Principal	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit												
Principal	0.4	0.4	0.0	0.0	0.0	0.0	4.0	8.5	12.8	16.0	16.0	12.0
Charges and interest	0.0	0.1	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1
Total obligations based on existing and prospective credit												
SDR millions	0.5	0.6	0.2	0.2	0.3	0.3	4.2	8.8	13.0	16.2	16.1	12.1
CFAF billions	0.3	0.4	0.1	0.2	0.2	0.2	3.0	6.3	9.4	11.6	11.6	8.7
Percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.4	0.4	0.3
Percent of debt service[1]	0.2	0.2	0.2	0.1	0.2	0.1	2.1	3.6	5.3	5.6	4.8	3.3
Percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Percent of tax revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.5	0.8	0.9	0.8	0.6
Percent of quota	0.7	0.8	0.3	0.3	0.4	0.4	6.4	13.1	19.5	24.2	24.2	18.1
Outstanding IMF credit based on existing and prospective drawings												
SDR millions	13.7	37.3	58.6	79.9	79.9	79.9	75.9	67.4	54.6	38.6	22.7	10.7
CFAF billions	10.1	27.3	42.7	58.0	57.5	57.2	54.3	48.5	39.3	27.8	16.3	7.7
Percent of exports of goods and services	0.4	0.9	1.1	1.4	1.5	1.6	1.5	1.4	1.2	0.9	0.5	0.2
Percent of debt service[1]	5.3	15.9	61.5	51.7	48.8	45.1	37.0	27.5	22.3	13.4	6.7	2.9
Percent of GDP	0.1	0.3	0.5	0.6	0.6	0.5	0.5	0.4	0.3	0.2	0.1	0.1
Percent of tax revenue	1.1	3.1	4.8	6.4	6.1	5.8	5.1	4.2	3.2	2.1	1.1	0.5
Percent of quota	20.6	56.0	88.0	120.0	120.0	120.0	114.0	101.2	82.0	58.0	34.0	16.0
Net use of IMF credit (SDR millions)	12.9	23.6	21.3	21.3	0.0	0.0	-4.0	-8.5	-12.8	-16.0	-16.0	-12.0
Disbursements	13.3	24.0	21.3	21.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.4	0.4	0.0	0.0	0.0	0.0	4.0	8.5	12.8	16.0	16.0	12.0
Memorandum items:												
Exports of goods and services (CFAF billions)	2,665.4	3,017.8	3,731.9	4,043.6	3,786.6	3,554.0	3,530.2	3,486.1	3,363.9	3,231.5	3,181.7	3,141.0
External Debt service (CFAF billions)[1]	190.2	172.0	69.5	112.2	117.9	126.7	147.0	176.5	176.1	207.6	241.7	265.8
Nominal GDP (CFAF billions)	7,454.8	8,186.9	9,211.5	9,909.9	10,096	10,491	10,935.1	11,432.6	11,863.2	12,383.8	12,953.4	13,565.9
Tax revenue (CFAF billions)	948.3	891.7	892.8	905.3	936.3	991.3	1,067.7	1,159.0	1,228.8	1,327.4	1,438.0	1,561.2
Quota (SDR millions)	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6	66.6

Source: IMF staff estimates and projections.

[1]Total external debt service includes IMF repurchases and repayments.

Table 13. Multi-year Fiscal Structural Reforms

Area	Priorities/Actions	Timeframe
1. Public Financial Management	a. Streamline existing spending processes and reduce the use of emergency spending procedures (DAO)---to 12 percent of domestically-financed spending (excluding debt and wages) by 2017---and regularizing them systematically during the fiscal year	Short and medium term
	b. Computerize the accounting system and integrate it within the expenditure chain, with effective implementation from January 1, 2015 at the latest, to be able to monitor the entire expenditure chain from commitment to final payment.	Short term
	c. Prepare quarterly budget execution reports on the basis of existing data	Short term
	d. Abide by public procurement procedures, in accordance with the Public Contract Code	Short term
	e. Consolidate the revenue chain with the Integrated System for Tax Management (SIGI) expected to be developed by end-2014, thus helping to enhance tax revenue	Medium term
	f. Preparation of rolling cash management plans (with a three-month horizon)	Medium term
	g. Strengthen the national legal framework by transpozing CEMAC guidelines into the newly harmonized framework for public finance management	Medium term
2. Tax Policy	a. Reform of direct taxation, specifically the personal income tax	Medium term
	b. Update and tune-up of oil revenue forecasting models to include new oil projects and new technical parameters of existing oil projects	Short term
	c. Harmonize tax exemptions with the CEMAC tax guidelines	Medium term
	d. Reduce VAT exemptions	Medium term
	e. Update the General Tax Code, bringing together all the new laws introduced since 2006 in order to ensure transparency and efficiency in their application	Medium term
3. Tax and Customs Administrations	a. Enhancement of planning and management of the reforms of the tax and customs administrations, including the design, development and follow-up of the related action plans.	Medium term
	b. Improvement of the organization and management of the tax administration by (i) enhancing the role of the Directorate General for Taxation (introduce performance indicators for management, collection, disputes) and (ii) category-based management of taxpayers by using turnover (chiffre d'affaires) as the only classification criterion for each tax regime	Medium term
	c. Improvement of the organization and management of the tax administration by (i) enhancing the role of the Directorate General for Taxation (introduce performance indicators for management, collection, disputes) and (ii) category-based management of taxpayers by using turnover as the only classification criterion for each tax regime	Medium term
	d. Improvement of tax operations intended to (i) locate and register all taxpayers within a reasonable period of time, including those who file under the general flat rate or withholding tax (IGL) and update the taxpayer registry, (ii) improve the responsiveness of the departments in dealing with situations of default, (iii) prepare a risk-based audit program, and (iv) reinforce collection proceedings to reduce tax arrears	Medium term
	e. Strenghtened organization and management of the customs administration services, including the headquarters' functions	Medium term
	f. Rollout of mobile scanners to optimize customs clearance procedures	Medium term
	g. Extension of the ASYCUDA++ system to the main provincial Customs posts	Medium term

Table 13. Multi-year Fiscal Structural Reforms (Concluded)

Area	Priorities/Actions	Timeframe
4. Debt Management	a. Strengthen the powers of CONAD by (i) finalizing its reorganization decree and related texts (guidance and operational procedures); (ii) implementing a strategy for publicizing its activities (especially on the Internet); (iii) establishing a permanent secretariat; and (iv) training the personnel of the Debt Department and members of the Technical Team for Debt Sustainability Analysis (ETAVID) on the review of financing offers and on the risks associated with debt management	Short term
	b. Production of an annual report on debt management, after (i) cleaning up and updating the debt database; (ii) auditing the debt database; and (iii) training the staff of the Debt Department on the use and maintenance of SYGADE (debt management and analysis program)	Short term
	c. Centralization within a single Ministry of power to contract external debt is a medium-term objective, coupled with the implementation of the Organic Law on Finance Laws	Medium term

Sources: IMF Staff and Chadian authorities.

Appendix I. Letter of Intent

N'Djamena, July 21, 2014

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

Dear Madame Managing Director:

In light of the challenging security conditions since 2005, Chad has been unable to implement programs with the International Monetary Fund (IMF), given the constraints observed in budget execution, characterized by overruns on budget appropriations for security and national defense.

The government has nonetheless continued to engage in discussions with Fund staff, and the encouraging results recorded in connection with budget outturn for 2011 and 2012 led to the approval of a staff-monitored program on July 31, 2013, covering the period June 1st-December 31, 2013. The reviews of this program (September and December 2013) were broadly satisfactory, despite the unfavorable environment noted above. This performance paved the way for the negotiations that began in April 2014 with a view to approving a new three-year arrangement supported by the Extended Credit Facility (ECF) (2014-2017).

The government's economic and financial policy efforts have been complicated not merely by the effects of conflicts originating in neighboring countries, but also by the government's concern to reconcile the stabilization of national and subregional security with the government's development programs. In fact, for several years now, our country has been a refuge for thousands of refugees and repatriated individuals from Darfur (Sudan) and Libya. This situation has been exacerbated by the events of 2012 in Mali which triggered the intervention of Chad's armed forces in February 2013, as well as by the crisis in CAR with its destabilizing effects in 2013. Today, Chad continues to accommodate and give refuge to all the Chadians leaving CAR, as well as CAR refugees. These major security and humanitarian shocks are compounded by the recurrent risks of food crises caused by rainfall shortages.

The Chadian government is hereby requesting an arrangement to implement a three-year program supported by the Extended Credit Facility (ECF). The objectives and measures contained in this program are set forth in the attached Memorandum on Economic and Financial Policies (MEFP). This program focuses on gradually reducing the primary non-oil budget deficit (relative to non-oil GDP), an objective which will be pursued over the three years of the program, in an effort to ensure the medium-term sustainability of government finance and debt.

Other quantitative criteria and structural benchmarks will strengthen compliance with fiscal discipline. Accordingly, the government intends to press ahead with structural reforms in general—and in particular, recent PFM reforms whose favorable impact on non-oil revenues is already visible—as well as measures related to public debt management. Among reforms connected with public financial management, the government undertakes to achieve a steady and sustainable decrease throughout the program in the use of exceptional budgetary procedures (*dépenses avant ordonnancement*).

The government expects that the satisfactory implementation of this new program during the first six months as well as the attainment of the other completion point triggers, including execution of the National Development Plan (PND) as reflected in the 2013 assessment report, will enable Chad to reach the completion point under the HIPC Initiative in early 2015 and to benefit from long-awaited relief of multilateral and bilateral debt. This ECF-supported program will help to catalyze the mobilization of the external resources required to pursue the implementation of the PND, with the aim of reducing poverty and significantly enhancing the living conditions of the general public.

The government believes that the policies and measures set forth in the MEFP will help to achieve the program objectives. The government will adopt any further measures required for this purpose. The Chadian authorities will consult with the IMF on the adoption of any additional measures in advance of revisions to the policies contained in the MEFP, in accordance with IMF policies on such consultations. To facilitate program monitoring and assessment, the government has a negotiating committee within the Ministry of Finance which will report all required information to Fund staff in a regular and timely manner, pursuant to the Technical Memorandum of Understanding (TMU).

In closing, the government agrees to the publication of this Letter, the attached MEFP, the TMU, and the IMF staff report on this ECF arrangement.

Very truly yours,

/s/

BEDOUMRA KORDJE
Minister of Finance and Budget
Republic of Chad

Attachments:

I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies for 2014–17

INTRODUCTION

1. **This Memorandum on Economic and Financial Policies (MEPF)** describes the economic performance of Chad under the staff-monitored program (SMP) for the period from June 1st to December 31, 2013, as well as the medium-term economic policies of the Government as part of the request for a three-year arrangement under the Extended Credit Facility (ECF).

2. **Chad remains a fragile country, facing serious challenges, including security, whose institutions and capacity are in the process of being strengthened**. However, the country is enjoying a period of internal political stability, the longest since it became independent. The Government wishes to take advantage of this favorable context to advance its development and anti-poverty objectives. It thus wishes to pursue its program of priority investments, in order to anticipate an inevitable decline in oil revenues unless new fields are discovered.

3. **The SMP highlighted the determination of the Authorities to continue the macroeconomic progress achieved in recent years**. The Government wishes to capitalize on its initial success by implementing an agenda of economic reforms supported by an ECF-supported program, which satisfactory implementation is a condition for achieving the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative. This program is consistent with the 2013-2015 National Development Plan (NDP). The NDP was designed as a step in strengthening the foundations of economic and social growth, with the objective of devising and implementing strategies intended to make Chad an emerging market country in 2025, in accordance with the vision of the President of the Republic, the Head of State.

RECENT ECONOMIC TRENDS AND PERFORMANCES IN RELATION TO THE SMP

A. Relatively good recent economic performance

4. **Over the last four years (2010 to 2013), real non-oil GDP growth exceeded 8 percent per year on average**. It again reached 3.9 percent in 2013, in accordance with the initial objective of the SMP. Oil GDP contracted in 2012 and 2013, due to a larger than anticipated decline in oil production from mature fields.

5. **Inflation is under control**. Despite liberalized prices for certain products (such as cement or petroleum products), consumer prices rose only 2 percent at the end of 2012 and virtually not at all in 2013, due to the significant drop in food prices that followed the sharp increase in agricultural output in 2012. Since 2010, the Government, through the National Program for Food Security (NPFS), has made efforts to modernize agriculture, by providing farmers with tractors and seeds while encouraging private initiatives for the development of off-season crops through irrigation. The effects of this policy are the quasi-permanent presence of

vegetables on markets, including during the dry season, and the significant improvement of agricultural production in the last two crop years, helping to control inflation. The Government is committed to increase efforts and capitalize on these gains in the objective of achieving food self-sufficiency. For this purpose, an important place is given to the modernization of agriculture.

6. **Government efforts led to a regular and significant reduction in the non-oil primary deficit (NOPD), calculated in relation to the non-oil GDP**, from 20.1 percent in 2010 to 17.6 percent in 2013. In fact, the overall fiscal balance, which showed a deficit of more than 9 percent of non-oil GDP in 2010, was slightly positive in 2012. However, oil revenues in 2013 were some CFAF 72 billion less (or 1.5 percent of non-oil GDP) than the budget target. That meant an overall budget deficit of some 6 percent of non-oil GDP. This revenue shortfall was due to a number of short-term economic factors, including: i) problems encountered by their gas-based electricity generation system forced the Esso consortium to reduce its production and incur additional production costs by turning to diesel and fuel oil; ii) delays in the start-up of new fields and related technical problems concerning the operation of the oil pipeline; and iii) the decision to receive the royalties due from the CNPC in the form of diesel fuel for electricity generation.

7. **In 2013, Government efforts allowed an increase in non-oil tax revenues of 0.9 percent of non-oil GDP**. This performance is explained to the implementation of action plans by the main revenue-collecting agencies (Income Tax and Customs), specifically by expanding the tax base, combating evasion and strengthening the capacities of the personnel of those agencies. Although they remain low compared to those of other oil-producing countries in the region, non-oil tax revenues have nevertheless reached 8.7 percent of non-oil GDP, the highest level in the last ten years.

8. **After improving in 2011, the current account deficit of the balance of payments has deteriorated over the past two years to 9.5 percent of GDP in 2013 primarily due to the decline in oil exports**. The external financing need is partly covered by foreign direct investment (FDI) flows, mostly linked with the oil sector, which amounted to 4 percent of non-oil GDP in 2013. Consequently, international reserves covered 2.5 months of imports of goods and services as of December 2013, compared to 2.3 months a year earlier.

B. Despite an unfavorable environment (regional insecurity, falling oil revenues), the SMP showed generally satisfactory results

9. **The Government demonstrated determination in adhering to the main budget policy indicators of the program, specifically the NOPD**. Despite lower oil revenues than expected, the NOPD objective was in fact met throughout the program due to the good performance of non-oil revenues and a better control of the overall growth of primary expenditure. The floor for poverty-reducing social expenditures was also observed.

10. **The period covered by the SMP was also marked by major on-going efforts to limit recourse to emergency expenditure procedures bypassing the normal expenditure chain (expenditures before authorization - *dépenses avant ordonnancement (DAO)*)**, and the program objectives in this area were also achieved. All of the ministries and administrations were instructed to comply strictly with procedures currently in force. The Government is determined to significantly reduce the share of such expenditures in total fiscal expenditures. The use of DAO will be strictly limited to dealing with real emergencies, in particular with the unpredictability associated to the security situation and to natural disasters. Nonetheless, DAOs will be systematically regularized.

11. **The Government reaffirms the importance it attaches to ensuring sustainable public debt**. As evidence of its determination, it cancelled the US$2 billion non-concessional loan framework agreement it had signed with a foreign banking institution that was undermining the prospects for debt sustainability. However, when faced with exceptional circumstances (i.e., the temporary drop in oil revenues mentioned above, emergency financing of security spending due to the regional context, delays in securing domestic financing), the Government contracted a loan with an oil company, in the form of advances on petroleum sales.

12. **Most of the structural benchmarks were observed**. In particular, the ceiling for DAOs was observed, while steps were taken to quickly regularize them in line with the recommendations of the technical assistance missions from the Fund Fiscal Affairs Department. However, some delay was recorded in the implementation of some reforms (such as reconciling the data of the Treasury and the Central Bank on net bank claims on the State) due to their complexity and capacity shortages, despite technical assistance from the Fund and other development partners.

C. The Chadian State expanded its participation in the oil sector through a commercial operation that improves fiscal oil revenue over the long-term

13. **The Chadian State decided to take advantage of the decision by Chevron to sell its participation in the Esso consortium operating in the Doba oil fields by purchasing those shares.** Following that operation, the State is holding:

- 25 percent of the consortium operating in Doba;
- 21.5 percent of the oil transport company TOCTO ;
- 21.3 percent of the oil transport company COTCO.

To finance this acquisition, SHT negotiated a financial arrangement at commercial terms with Glencore Energy amounting to US$1.25 billion that allows SHT to leverage part of the value of future cargoes originally belonging to Chevron’s "Badoit" over the next four years. During that period, SHT will be able to cover both its share of the consortium’s cash calls (operating and capital expenditures) as well as the acquisition financial costs (amortization and interests) and the establishment of a temporary reserve fund of about US$130 million that will be returned to the state after the four years. As part of the acquisition, the Government will collect US$100 million from Chevron in 2014 to settle potential past tax liabilities.

14. **The Government emphasizes the strategic nature and the positive financial return of this acquisition**:

- The country obtains a major productive asset and enhances its expertise in upstream oil operations;
- The benefits of the operation will surpass its costs due to the fact that the state will receive 100 percent of associated profits compared to 60 percent in corporate income tax that was going to be paid by Chevron. In this context, fiscal oil revenues will be higher than originally forecasted over the remainder of the consortium's operations. However, while the acquisition's financing will lead to some reduction in fiscal oil revenues during its repayment period, those shortfalls will be relatively limited and offset soon thereafter. Furthermore, thanks to the US$100 million tax settlement with Chevron, the net budgetary impact is slightly positive for 2014.

ECONOMIC AND FINANCIAL POLICIES FOR 2014-2017

15. **The Government intends to implement an economic and financial program covering the 2014-17 period to consolidate the results achieved in 2013 under the SMP**. The main objective is to strengthen non-oil economic growth in order to fight poverty while reinforcing macroeconomic and financial stability. With that goal, given the expectation of protracted balance of payments problems in connection with the projected reduction in oil revenues, the Government wants to request a three-year arrangement under an ECF. The Government also expects this arrangement to serve as a catalyst in mobilizing financing from bilateral and multilateral partners.

16. **The Government intends to pursue the implementation of reforms undertaken during the SMP and to supplement them when appropriate with new reforms**. These reforms are structured around the four following priorities: (i) ensure the viability of public finances in order to consolidate macroeconomic stability; (ii) reinforce the institutions responsible for public financial management; (iii) make economic growth sustainable and more inclusive in order to fight poverty; (iv) reach the completion point of the Highly Indebted Poor Countries (HIPC) Initiative in order to obtain additional flexibility in social spending and priority investments.

A. Securing fiscal sustainability by continuing the downward trend of the non-oil primary deficit (NOPD) and adopting a cautious debt policy

17. **The National Assembly adopted on June 24th, 2014 a Revised Budget Law (RBL) fixing the target NOPD at 15.9 percent of non-oil GDP**, a sign of the authorities' commitment to ensure fiscal sustainability which requires a gradual reduction of the NODP given the downward trend in oil revenues.

18. **The Government reaffirms its commitment to a sustained reduction of the NOPD to 14 percent of non-oil GDP by 2017**, a level consistent with the double objective of ensuring the debt sustainability and the possibility of creating fiscal buffers. In all, the NOPD, relative to non-oil GDP, would be reduced by nearly a third, falling from around 20 percent in 2010 to 14 percent in 2017.

19. **This adjustment will not negatively impact non-oil GDP growth that will increase by 5 to 6 percent per year in real terms**. Non-oil GDP growth would be driven first of all by factors linked to the diversification of the economy, including the activities in the services sector and the rural areas. Growth will also be driven by some major investment projects that meet multiple needs in terms of infrastructure, some of which are externally financed.

20. **The Government is committed to refrain from contracting new external non-concessional loans**. The more recent non-concessional advance oil sales with Glencore Energy were motivated by extraordinary circumstances, in particular the recent financing of a commercial acquisition of strategic assets with a positive financial return. In any event, the Government will ensure that all external financing agreements comply with standard requirements of debt concessionality and sustainability under the HIPC initiative and IMF-supported programs (including by subjecting all debt proposals to the analysis and reasoned opinion of ETAVID–Technical Team for Debt Sustainability Analysis-and CONAD–National Debt Analysis Commission) and keep the Fund and World Bank staff abreast of such issues.

21. **The Initial Budget Law (IBL) for 2014 planned a NODP of 16 percent of non-oil GDP and included a financing need of about CFAF 96 billion**. While holding the NODP level almost unchanged, the RBL is consistent with the provisional budget for concessional external financing (including the disbursements planned as part of the ECF arrangement) and domestic lending. In addition, the RBL reflects more realistic projections for oil and non-oil revenues, as well as new commitments on security, investment and debt service:

- Additional capital expenditures (CFAF 53 billion, or 1 percent of non-oil GDP) and exceptional security expenditures (CFAF 5 billion, or 0.1 percent of non-oil GDP) became necessary because of the organization of the summit of the African Union in June 2015 and the shocks from conflicts that originate in neighboring countries (Libya, Central African Republic, Cameroon and Sudan). Today, in addition to thousands of refugees and returnees from Darfur (Sudan), Chad continues to welcome and support all Chadian leaving Central African Republic and Central African refugees.

- Extra expenditure for debt service (CFAF 136 billion or 2.6 percent of non-oil GDP) was necessary to take into account the impact of Glencore borrowing and the sovereign bond issued in 2013 and not included in the IBL.

- Oil revenues will be lower by 1.1 percent of non-oil GDP, compared to the target set in the IBL, mainly due to a more pronounced decline than initially expected in the Esso Consortium production.

22. **To maintain the initial goal of a NOPD of about 16 percent of non-oil GDP in 2014, the Government will increase the non-oil revenue collection (CFAF 4 billion) and will save on primary current expenditures**. This reduction in spending, which remains in the framework of expenditure rationalization policy, will total CFAF 59 billion (1.1 percent of non-oil GDP) and will be distributed as follows: goods and services (CFAF 12 billion, or 0.2 percent of non-oil GDP), wages and salaries (CFAF 11 billion, or 0.2 percent of non-oil GDP) and transfers and subsidies excluding security-related expenditure (CFAF 36 billion, or 0.7 percent of non-oil GDP).

23. **The revised budget preserves the expenditures required to improve the poverty reduction indicators** in line with the strategy outlined by the Government in the NDP. This will allow for significant progress toward achieving the HIPC triggers, especially in the fields of education and health.

24. **To cover the overall budget deficit equivalent to 0.5 percent of non-oil GDP, the Government has identified the following additional resources**:

- The use of exceptional receipts from the renewal or extension of mobile phone licenses and from the settlement of disputes with oil companies for a total amount of CFAF 201 billion;

- The issuance of Treasury bills for a net amount of CFAF 35 billion in 2014;

- The rollover of amortizations due from the loan from Glencore in 2013 amounting to US$60 million (CFAF 28.8 billion);

- The rollover of amortizations due from a loan with a CEMAC member amounting to CFAF 10 billion;

25. **For 2015, the Government will submit a draft 2015 Budget Law to Parliament, with a NODP target equivalent to 14.1 percent of non-oil GDP.** However, this target should be adjusted up to a maximum of 15 percent of non-oil GDP should additional receipts be identified (see details in the attached TMU). Only a limited fraction (up to CFAF 20 billion) of excess receipts in 2014 could be spent this year, with any remainder being allocated to the financing of a higher

NOPD in 2015. In addition, the Government will implement measures to improve public financial management based on the recommendations of Fund technical assistance missions.

B. Over the three years of the program, the Government will implement a reform program articulated around four main priorities:

Priority 1: ensure fiscal sustainability in order to promote macroeconomic stability.

26. **Reconciliation of data between the Treasury and the BEAC on the net claims from the banking system on the Government remains a major objective of the Government**, given its importance to the process of creating a single Treasury account and reinforcing cash flow management. Efforts to identify and review all of the accounts of public entities on the books of commercial banks, undertaken by the joint Treasury/BEAC team, will make it possible to reconcile and update the database by end-December 2014.

27. **Limiting recourse to DAOs is an objective to which the Government attaches utmost importance**. The government wants to set a credible and achievable pace of reduction, even if the ultimate goal is to minimize DAOs. One of the structural benchmarks included in the ECF-supported program therefore consists of a specific undertaking with respect to the maximum amount of DAO in the total of domestically financed expenditures (excluding wages and debt service).

28. **Accordingly, the Government undertakes to implement the following reforms**:

- Streamline the existing expenditure processes and reduce the use of emergency expenditure procedures. By 2017, DAOs will be reduced to less than 12 percent of domestically financed expenditures (excluding debt and salaries) at a pace to be specified by the Government in the structural benchmarks of the ECF-supported program. In any case, DAOs will be systematically regularized in the course of the fiscal year;

- Consolidate the revenue chain, with the Integrated System for Tax Management (SIGI) expected to be developed by end-2014, thus helping to enhance tax revenue;

- Computerize the government accounting system and integrate it within the expenditure chain, with effective implementation from January 1, 2015 at the latest, to be able to monitor the entire expenditure chain from commitment to final payment. Chad is in negotiations for the choice of the Integrated Accounting System of Burkina Faso, for the transfer of which an agreement in principle has been reached;

- Prepare quarterly budget implementation reports on the basis of existing data; however, concerning public enterprises, the Government will encourage them to comply with the provisions of OHADA law on the publication of financial statements;

- Abide by public procurement procedures, in accordance with the Public Contract Code. The government wants to reduce the proportion of mutual agreement or negotiated contracts and to give priority to competitive bidding. The activity report of the public procurement authority published in March 2014 shows the progress already made in 2013, when the proportion of mutual agreement or negotiated contracts dropped to less than 10 percent (44 percent of the total value of contracts awarded), compared with 54 percent (and 82 percent by value) in 2012. Moreover, the Government has embarked on a reform to separate the control and regulation functions of public procurement (currently devolved to the Public Procurement Authority-OCMP) to be in line with international standards by 2016, including the principles set out in the Paris Declaration of 2006. The Public Contract Information and Management System (SIGMP), developed with the support of the African Development Bank, will be operational. Similarly, the Comprehensive Training Plan (PGF), drawn up with the assistance of the European Union, will be implemented. The quarterly newsletter on public procurement, whose publication was interrupted in 2010 for lack of funding, saw the publication of a first issue at end-March 2014 by OCMP. It will henceforth be published on a regular basis on State resources;
- Establish a rolling cash-flow management plan with a quarterly horizon;
- Reinforce the national legal framework by transposing CEMAC guidelines into the newly harmonized framework for public finance management;

29. **The Government is committed to improve tax policy**, by:

- Undertaking a reform of direct taxation, specifically the personal income tax;
- Updating and optimizing models for forecasting oil revenues to include new petroleum projects and the new technical parameters of existing projects;
- Aligning tax exemptions with CEMAC guidelines;
- Reducing VAT exemptions;
- Updating the General Tax Code, which will bring together all the new laws introduced since 2006 in order to ensure transparency and efficiency in their application.

Priority 2: strengthen the fiscal institutions

30. **Improvements in public financial management go hand in hand with improvements in the functioning of the relevant institutions**. That is why the Government attaches prime importance to strengthening the technical and human capacities and improving governance of tax, customs or debt management institutions. These two measures are important for improving customs operations and ultimately increasing the associated revenues.

31. **Given this objective, the Government will undertake or initiate the following reforms**:

- **Enhancement of planning and management of the reforms of the tax and customs administrations**, including the design, development, and follow-up of the related action plans;

- **Improvement of the organization and management of the tax administration** by (i) enhancing the role of the Directorate General for Taxation (introduce performance indicators for management, collection, disputes) and (ii) category-based management of taxpayers by using turnover (*chiffre d'affaires*) as the only classification criterion for each tax regime;

- **Sound management of human and material resources**, including the use of results-based management methods. In order to control the wage bill, a physical and biometric census of State employees was launched in February 2014. This work will be pursued and is expected to be completed by end-October 2014;

- **Improvement of tax operations** intended to (i) locate and register all taxpayers within a reasonable period of time, including those who file under the general flat rate or withholding tax (IGL) and update the taxpayer registry, (ii) improve the responsiveness of the departments in dealing with situations of default, (iii) prepare a risk-based audit program, and (iv) reinforce collection proceedings to reduce tax arrears;

- **Extension of the ASYCUDA++ system to the main provincial Customs posts**. This project will strengthen and modernize the Customs General Directorate of the Republic of Chad and aims to achieve two main objectives: lower non-tariff costs to trade and transport on the one hand, check fraud and corruption at border crossings on the other hand. This project is part of the project of interconnecting the Customs of CEMAC member countries, and the transit corridor between Douala in Cameroon and N'Djamena in Chad is one of two pilot sites for this regional project;

- **Rollout of mobile scanners to optimize customs clearance procedures**. The Directorate General of Customs of the Republic of Chad has acquired four mobile scanners since end-2012. A platform is being built in Ngueli, an important customs post on the border with Cameroon, which should facilitate the use of two (2) scanners during the second half of 2014. This will expedite clearance procedures and increase the level of customs revenue by minimizing false declarations thanks to the inspection of the contents of containers through the scanner. The two (2) other scanners will be installed in Koutéré (Moundou) to the south and in Adre to the east, two major Customs stations inside the country.

32. **With regard to improving debt management, the Government is aware that the involvement of multiple ministries can result in breakdowns**. Accordingly, the Government established the CONAD (National Debt Analysis Commission) in 2004, and it has just reaffirmed its commitment by the adoption by the Council of Ministers of a decree to reorganize CONAD in order to give it more powers. As a result, it undertakes to implement to following reforms:

- **Strengthen the powers of CONAD** by (i) finalizing its reorganization decree and related texts (guidance and operational procedures); (ii) implementing a strategy for publicizing its activities (especially on the Internet); (iii) establishing a permanent secretariat; and (iv) training the personnel of the Debt Department and members of the Technical Team for Debt Sustainability Analysis (ETAVID) on the review of financing offers and on the risks associated with debt management;

- **Production of an annual report on debt management**, after (i) cleaning up and updating the debt database; (ii) auditing the debt database; and (iii) training the staff of the Debt Department on the use and maintenance of SYGADE (debt management and analysis program);

- **Centralization within a single Ministry of power to contract external debt** is a medium-term objective, coupled with the implementation of the Organic Law on Finance Laws.

Priority 3: make economic growth sustainable and more inclusive, in order to fight against poverty more effectively

33. **The Government's vision is to consolidate economic and financial stability in order to create the foundations of sustained and shared economic growth**. The Government is determined to lay the groundwork for strong economic growth in order to achieve a significant reduction in poverty.

34. **This strategy continues to be based on the 2013-2015 NDP** and seeks to improve the quality of life of the whole population, in particular young people and women, by stressing the rural zones, which are the most affected by poverty. It is based on ambitious plans for public investment in infrastructures, especially transportation, energy, housing, and interconnections that will foster regional integration.

35. **The Government strategy seeks as well to move toward the achievement of MDGs** through access to quality basic health services, universal elementary education, and water supply and sanitary services for the whole population.

36. **To make growth more inclusive, the Government intends to promote employment** by organizing the informal sector, engaging in development actions intended to reduce rural exodus, and encouraging the development of national competencies.

37. **The Government is committed to improving transparency in State operations**. To make its activities visible and communicate with the public on public finances, the Ministry of Finance and Budget, with the support of the US Embassy, has initiated the establishment of an Internet website. The reform of public procurement is a priority, as is enhancement of transparency in oil revenues. The operations of the Esso Consortium have been already relatively easy to monitor, thanks to the procedures introduced as part of the oil revenue management program developed jointly with the World Bank in the early 2000s. But efforts must be undertaken with respect to the new oil companies (e.g. CNPC and Griffiths/Caracal) which are operating with different fiscal regimes and the expanded operations of SHT as a partner in the Esso consortium. Chad is also determined to implement corrective measures to comply with the Extractive Industries Transparency Initiative (EITI). Thus, the 2013-2015 EITI-Chad National Action Plan was adopted by the National High Committee on December 30, 2013. The action plan, which is currently being implemented, comprises eight (8) components which are expected to help Chad to meet the requirements for acquiring the status of compliant country and perpetuate the initiative. The corrective measures prepared will be presented to the board of directors on August 23, 2014.

38. **As for improving the business climate, the Government intends to continue efforts already made to develop a more conducive business environment**. Some measures are necessary, specifically to facilitate the creation and development of businesses. In addition, there are bottlenecks in terms of infrastructures, job quality and access to the financial sector. The Government intends to strengthen its dialogue with the private sector based inter alia on the proposals contained in the White Paper published by the National Employers Council of Chad.

39. **As part of actions to improve the country performance under the World Bank Doing Business indicators, the Government has made much effort to make the environment more attractive for business**. However, it is aware that targeted actions are still required, especially in the field of communications. Accordingly, an inter-ministerial group has been established and is working round the clock to that end. For instance, the Ministry of Finance and Budget launched in May 2014 a software for the monitoring of cases requiring a signature (ASDAV), to enable accurate monitoring of the progress of contracts and applications for payments from enterprises in the context of their relationship with the Ministry. This tool should streamline those processes and avoid lengthy and tedious procedures by limiting physical visits to the Ministry. This software should also generate significant productivity gains in the administrative work. Finally, by reducing the risk of corruption, the monitoring and control afforded by ASDAV are contributing to good governance.

40. **The development of energy infrastructure (in particular electric) is a government priority**. With less than 4 percent of the population using this source of energy, supply suffers a large deficit and electricity consumption per capita remains one of the lowest in the world, with high tariffs. Government action is organized around two axes:

- On the one hand, investments are being made in N'Djamena and in major cities to rehabilitate or expand the electricity network, while improving the supply for smaller towns and rural areas through the development of small local units and the use of renewable energy (mainly solar) ;

- On the other hand, the interconnection of the national electricity grid with the one of other countries in the region having excess capacity could help solve this supply constraint. A study for a project of electrical interconnection between Cameroon and Chad was launched earlier this year through funding from the ADB. This project aims to develop a 700 km power transmission line between Ngaoundere, Maroua (Cameroon) and Ndjamena, a 250 km ramp between Maroua (Cameroon), Mogrom, and Ndjamena (Chad), and a program of rural electrification along each of these electric corridors.

41. **The Government is aware that financial exclusion (limited access to financial services) is a major obstacle to growth and development in Chad**. The efforts devoted to increasing access to financial services will therefore be continued, taking into account the recommendations made in the Financial Sector Assessment Program (FSAP). Initiatives to strengthen financial intermediation have been launched, and the Government intends to concentrate its efforts on access to financial services in rural areas.

Priority 4: reach the completion point under the Highly Indebted Poor Countries (HIPC) Initiative

42. **The Government has given priority to reaching the completion point of the HIPC Initiative as quickly as possible**. In conjunction with the World Bank, it will deploy all actions possible to observe the remaining triggers, including the satisfactory implementation of a program supported by the Fund under the ECF. The efforts made to ensure attainment of the structural triggers of the completion point of the HIPC Initiative are continuing with the support of development partners.

43. **In addition to new sources of financing that could be derived from reaching the HIPC completion point, the Government expects to rely on the ECF-supported program to encourage a number of technical and financial partners to increase their level of activities in Chad**. A technical conference on resource mobilization was held on June 20 and 21, 2014 in Paris, France, with pledges made of around CFAF 1,000 billion (US$2 billion), which would close the 2013-2015 NDP financing gap that was estimated at 40 percent of its original cost, and finance the National Food Security Program (PNSA 2014-2021). Reaching the completion point would catalyze sufficient external resources for the 2014-2015 NDP and for the 2016-2020 five-year plan (for which a concept note is being finalized).The ultimate goal is to mobilize additional resources from both traditional donors and from new emerging countries to increase project aid for priority sectors in order to enhance the resiliency of vulnerable groups and thus reduce poverty.

TECHNICAL ASSISTANCE NEEDS

44. **To ensure the program's success, the Government is requesting the support of the International Monetary Fund staff in the following areas**:

- Implementation of the Organic Law on public finance (LOLF) and migrating from a means-based to a program-based budget;
- Updating and optimizing the model for forecasting oil revenue, in particular by taking into account the specificity of the activities of oil companies which had no activities in Chad when the existing model was developed;
- Development and management of the monthly cash management plan;
- Reform of the income tax and of tax expenditures;
- Aligning budgetary and accounting nomenclatures with the CEMAC community guidelines;
- Transposing the guidelines in the Table of State Financial Operations (TOFE).

45. **Moreover, the quality of statistical data in Chad must continue to be improved.** On balance of payments statistics, affected by the low return of questionnaires sent to companies operating in Chad, the government will impose financial penalties for non-reporting. For this purpose, it will revise the Act regulating statistical activities in Chad. In addition, the Government will ask the Fund technical assistance to improve the quality of statistics relative to GDP and inflation.

MONITORING , EVALUATION, AND REVIEW OF THE PROGRAM

46. **To track the implementation of measures and the achievement of the objectives of its program, the Government of Chad has instituted a monitoring, evaluation and review mechanism**, through a Negotiation Committee within the Ministry of Finance, which is in constant communication with Fund staff. It has also drawn up a progress report for monitoring the performance of various departments of the Ministry, in particular with regard to the status of implementation of the reforms falling within their competence.

47. **The program will be monitored semiannually by the IMF Executive Board on the basis of monitoring indicators and structural benchmarks** (Tables 1 and 2, appended). Such indicators have been outlined in the Technical Memorandum of Understanding (TMU—Attachment II). The first year of the program will give rise to two reviews. The first will be based on performance criteria at end-December 2014, and the second on performance criteria at end-June 2015.

48. **During the program period, the Government agrees that it will not introduce or intensify any restrictions on payments and transfers related to current international transactions**, or introduce multiple currency practices, conclude bilateral payment agreements that are inconsistent with Article VIII of the Fund Articles of Agreement, or impose or intensify import restrictions for balance of payments purposes. In addition, the authorities agree to adopt, in consultation with Fund staff, any new financial or structural measures that could prove necessary for the program to succeed.

Table 1. Chad: Quantitative Performance Criteria and Indicative Targets under the ECF Arrangement

(Billions of CFA francs; cumulative from the beginning of the year, except where otherwise indicated)[1]

	End-September 2014 Indicative Targets	End-December 2014 Performance Criteria	End-June 2015 Performance Criteria	End-December 2015 Indicative Targets
Floor on non-oil primary budget balance	(649)	(846)	(450)	(817)
Ceiling on net domestic government financing	179	134	114	126
Ceiling on the accumulation of domestic payment arrears by the government [2]	0	0	0	0
Ceiling on the accumulation of new external payment arrears by the government or non-financial public enterprises [3]	0	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 (US$ million)[2 3]	0	0	0	0
Floor for poverty-reducing social spending	263	394	196	435
Memo items: :				
Oil revenue	644	920	388	863
Oil revenue, extraordinary oil-related revenue and receipts of privatization or renewal of telecommunication licenses	654	1,121	388	969
Foreign budget support grants	0	0	0	0

Sources: Chadian authorities; and IMF staff forecasts.

1. Quantitative Performance Criteria and Indicative Targets are clearly defined in the TMU.
2. Since end-June 2014.
3. To be respected continuously.

Table 2. Structural Conditionality for 2014

Measures	Due Dates	Macro-criticality
Prepare and publish quarterly budget execution reports on the basis of existing data	End-Sept. 2014	Medium
Adopt a regulatory framework for debt management, particularly a referral and operating procedure, in line with technical assistance recommendations by the World Bank and AFRITAC Central	End-Sept. 2014	Medium
Submission to Parliament of a 2015 draft budget targeting an NOPD of 14.1 percent of non-oil GDP	End-Oct. 2014	High
Limit emergency spending procedures to no more than 17 percent of domestically financed spending in 2014 (excluding wages and debt	End-Dec. 2014	High

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 July 1, 2014-June 30, 2017 prepared by the authorities of Chad. It describes more specifically:

a). reporting procedures;
b). definitions and computation methods;
c). quantitative targets;
d). adjusters of the quantitative targets;
e). structural benchmarks
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 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: Société Tchadienne des Eaux (STE), Société Nationale d'Electricité (SNE), Société Tchadienne des Postes et de l'Epargne (STPE), Cotontchad Société Nouvelle (SN), Société des Hydrocarbures du Tchad (SHT), TOUMAÎ Air Tchad, Nouvelle Société Tchadienne des Textiles (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. **Extraordinary oil-related revenue**, whose definition is given below, is excluded from oil revenue.

6. **Extraordinary oil-related receipts** is defined as resources that come from the resolution of disputes between companies operating in the oil sector in Chad and the Government in connection

with their tax obligations or potential violations regarding environmental standards or any other legal obligations.

7. **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, receipts from privatization or from the granting or renewal of licenses, and placement proceeds on Government assets and grants are not considered as Government revenue for the purposes of the ECF arrangement. It is appropriate to show separately oil revenue, as defined in paragraph 5 above, in the breakdown of total government revenue.

8. **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.

9. **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.

10. For the purposes of this memorandum, the terms **debt** is defined as follows:

- the term "**debt**" is as defined in point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, attached to the Executive Board decision No. 6230-(79/140), as amended, 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;

- 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.

11. For the purposes of this memorandum, the term **arrears** is defined as any debt obligations (as defined in paragraph 10 above) that have not been amortized in conformity with the conditions specified in the pertinent contract establishing them.

- **Domestic payment arrears** are the sum of (i) *payment arrears on expenditure* and (ii) *payment arrears on domestic debt*.

    - ***Payment arrears on expenditures*** 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 plus payment arrears on domestic debt, while floating debt represents "balances payable" whose maturity does not go beyond the 90 days deadline. As of end March 2014, the expenditure arrears stock stood at CFAF 50.97 billion, while the floating debt stock stood at CFAF 65.35 billion at the same date.

    - **Payment arrears on domestic debt** 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;

- **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.

12. **Loan concessionality**. Debt is considered concessional if it includes a grant element of at least 35 percent.[1] The grant element is the difference between the nominal value of the loan and its present value, expressed as a percentage of the nominal value. The present value of the debt at the date on which it is contracted is calculated by discounting the debt service payments at the time of the contracting of the debt.[2] The discount rate used for this purpose is 5 percent.

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

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

15. **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,[3] 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.

16. **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.

[1] The IMF website gives an instrument (link hereafter) that allows the calculation of the grant element for a wide range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

[2] The calculation of concessionality takes into account all aspects of the loan agreement, including maturity, grace period, schedule, commitment and management fees commissions. The computation of the grant element for loans from the Islamic Development Bank (IsDB) will take into account the existing agreement between the IsDB and the Fund.

[3] 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.

C. Quantitative Targets

17. 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 12 above.

- A **ceiling on the net domestic financing to the government**. The net domestic financing to government is defined in paragraph 15. The net domestic financing ceiling does not apply to the new agreements on internal debts restructuring and arrears securitization. For any new loans beyond a cumulative amount of CFAF 50 billion, 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.

- A **zero ceiling for the accumulation of domestic arrears by the government** from end-June 2014. Domestic arrears are the sum of payment arrears on expenditure and payment arrears on domestic debt as defined in paragraph 10 above. This will be measured as changes in stock.

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

- A **floor on poverty-reducing social spending**. Poverty-reducing social spending is defined in paragraph 14.

- A **zero ceiling for new non-concessional external debt (excluding normal trade financing) contracted or guaranteed by the government and non-financial public enterprises, with a maturity of more than one year**: Debt is non-concessional if it includes a grant element of less than 35 percent (as described in paragraph 12). Normal short-term credits for imports are excluded because those operations are automatically amortized since the proceeds from the sale of imports is used to repay the debt. This ceiling will be evaluated continuously.

D. Adjusters of quantitative targets

18. To take into account factors or changes beyond the government's control, various quantitative targets for 2014 will be adjusted, as follows:

- 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.

- If the total of oil revenue, extraordinary oil-related receipts (as defined in paragraph 6) and receipts of privatization or renewal of telecommunication licenses is greater than the amount programmed, the following adjustments can be made:

    - the **floor for the non-oil primary balance** can be adjusted downward by 50 percent of the additional receipts, up to a maximum of CFAF 20 billion.

    - the **ceiling on net domestic financing of the government** can be adjusted downward by the remainder of the additional receipts.

- Specific current expenditure for the support of "retournés" from the Central African Republic (or other neighboring countries) and financed by donations from external technical and financial partners will be excluded from the calculation of the non-oil primary fiscal balance for compliance with program targets.

E. Structural Benchmarks

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

- The limit in using DAOs to a maximum of 17 percent of total domestically-financed expenditure in 2014 applies to all types of expenditure, only excluding wages and debt service. This limit applies to DAOs at the end of the fiscal year, including the complementary period.

- Draft Budget Law 2015: the non-oil primary deficit (NOPD) target may be adjusted up if the sum of oil-related revenue (including extraordinary receipts) and non-oil related exceptional receipts exceeds CFAF 969 billion in 2015, but up to a maximum equivalent to 15 percent of non-oil GDP.

20. New structural benchmarks for 2015 will be proposed on the occasion of the first review of the program.

Summary of Data to be Reported		
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 and Budget (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 and Budget General Budget Directorate DGB DGTCP 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 and Budget (General Budget Directorate)	Monthly, within 30 days of month-end
Details by project financed domestically, execution of the investment budget, with the information organized by Ministry	Ministry of Finance and Budget (General Budget Directorate)	Quarterly, within 30 days of the end of the quarter.
Details, by externally financed project; investment budget execution; information organized by Ministry	Ministry of Finance and Budget (DGB) Ministry of Plan and International Cooperation (DGCI)	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 and Budget (Financial Control) /SGG (OCMP/Procurement Directorate)	Monthly, within 30 days of month-end

Summary of Data to be Reported (Concluded)		
Details on the servicing of the domestic debt and payment arrears of the government[1]	Ministry of Finance and Budget (Debt Directorate, DCP)	Quarterly, within 30 days of the end of the quarter.
Details on the servicing of the external debt of the government[2]	Ministry of Finance and Budget 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 and Budget (Debt Directorate) Ministry of Plan 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 system, interest rates[3]*		Monthly, within 45 days of month-end
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 (preliminary data)
Gross external debt	Ministry of Finance and Budget DGT (Debt Directorate)	Annually, within 90 days of year end

[1] Including Maturities.
[2] Including the breakdown by currency and maturity
[3] Both market-based and officially determined, including discounts, money market rates, and rates on treasury bills, and bonds and other securities.

CHAD

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

July 24, 2014

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

Chad's public domestic and external debt indicators have remained relatively stable in the last few years. However, the risk of debt distress remains high even after the decision to cancel the non-concessional Master Facility Agreement (MFA) signed with the Eximbank of China in August 2011, and the US$ 1.4 billion oil sales advance contracted in mid-2014 to finance the purchase of a 25 percent stake in the largest oil consortium operating in Chad. The projected steady decline in oil exports and associated fiscal revenues (barring new discoveries) is a critical challenge over the medium-term requiring a steady fiscal adjustment and economic diversification.

BACKGROUND

Recent Developments in Public External Debt

1. **Chad's external public debt has hovered around 20 percent of GDP since the start of oil production in 2003/04.** Debt owed to multilateral institutions and traditional bilateral donors has been basically constant in nominal terms over that period. Chad has instead relied more on non-traditional creditors (i.e., Libya, China) and commercial credits to address its financing needs, including to tackle its infrastructure deficit.

2. **The Chadian authorities have taken steps to tackle the debt sustainability concerns identified in the 2012 Article IV DSA**. In December 2013, the authorities formally communicated to Eximbank China their decision to cancel the US$2 billion (14.9 percent of 2013 GDP) Master Facility Agreement (MFA) signed in August 2011 noting that the MFA is not legally in force in Chad as it was neither formally approved by the National Assembly, nor and had disbursement taken place under the MFA.

3. **The external public debt-to-GDP ratio is estimated to have risen from 19.9 percent of GDP in 2012 to 22.7 percent of GDP in 2013 mainly on account of external commercial borrowing in the form of oil sales' advances**. The authorities signed two agreements in May and August of 2013 for a total of US$600 million (4.5 percent of GDP) with a commercial partner (Glencore Energy). These two loans are non-concessional and have to be reimbursed over a two-year period (against crude oil shipments).[1]

4. **A new commercial borrowing operation which was contracted by SHT (a state-owned oil company) to finance the purchase of Chevron's shares in Chad's largest oil consortium in June 2014, is estimated to have elevated external public sector debt to 26.6 percent of GDP in 2014.** To finance the acquisition of income-generating assets, SHT contracted a loan from Glencore Energy for a total of US$ 1.4 billion under commercial terms. The loan is to be repaid against crude oil shipments over four years (2014-18). This financing modality is similar to standard "carried equity" schemes used to finance the participation of governments as partners in oil joint ventures. Those schemes are typically not classified as "debt".[2] However, in this particular case staff sees a case for treating the operation with Glencore Energy as debt mainly because the prepayment agreement specifies that other crude oil belonging to the government could eventually be used to repay the oil sales advances in case of shortfalls.

[1] The DSA simulation assumes that the US$600 million loan is amortized over two years starting in 2014.

[2] See for example the discussion on the Decision Point document for the Republic of Congo (EBS/06/17, Appendix II).

Table 1. Chad: External Debt Stock at Year-End, 2001–2013
(Billions of CFA francs)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Est.	2013 Est.
Total	794.3	786.3	736.6	797.2	898.9	896.2	794.0	782.3	781.8	1,066.8	1,301.3	1,311.5	1,501.8
(Percent of GDP)	56.0	50.2	40.9	30.2	25.6	23.1	19.2	16.9	17.9	20.2	22.7	19.9	22.7
Multilateral	678.1	687.7	652.5	715.3	810.2	805.5	718.6	706.6	677.7	757.7	742.2	741.9	680.7
IMF	65.3	67.3	57.0	47.7	47.5	37.4	25.4	19.0	12.9	8.3	5.2	2.5	0.9
World Bank/IDA	380.6	398.3	394.0	444.5	507.8	486.1	453.4	422.0	402.7	439.5	422.3	423.3	398.2
African Development Fund/Bank	182.8	169.8	159.9	168.5	179.8	205.8	173.7	182.4	185.5	208.7	210.2	204.5	191.7
EIB	3.9	7.9	7.3	13.0	13.0	12.4	9.9	9.8	8.7	9.4	10.0	10.3	2.0
Others	45.5	44.4	34.2	41.6	62.0	63.8	56.2	73.4	67.9	91.8	94.4	101.3	87.9
Bilateral	116.2	98.6	84.1	81.9	88.8	90.7	75.4	75.7	104.1	309.1	270.6	257.3	518.9
Paris Club official debt	30.2	25.8	24.0	25.2	24.3	23.2	23.6	19.2	16.6	32.0	16.1	17.4	13.9
Non-Paris Club official debt	86.1	72.7	60.1	56.7	64.4	67.5	51.8	56.5	87.5	277.2	254.5	240.0	505.0
of which: China, People's Republic	28.6	25.4	22.0	13.6	15.4	13.9	-	3.5	20.4	125.1	43.8	24.7	23.3
Libya	-	-	-	-	-	-	-	-	-	96.2	144.2	153.1	138.2
India	-	-	-	-	-	11.3	14.8	22.7	21.4	22.9	22.3	21.3	18.9
State-Guaranteed											288.5	312.3	302.3

Sources: World Bank, Chadian authorities, selected creditors and staff estimates.

The concept of debt used here includes both contracted and guaranteed debt. The end-2013 external public debt stocks are estimated by staff based on World Bank Debt Reporting System (DRS) with recent updates for end-2012 debt stock numbers (which are still preliminary), Chad's debt management office's estimates of 2013 disbursements and amortization, and Ministry of Economy and Planning estimates of 2013 project loan disbursements. The official external debt stock data underestimate the actual level of external debt. Most notably, the debt registry does not capture the loans from China for the state's stakes in the joint-venture refinery and in the Baoré cement factory, and other government-guaranteed debt. Also, project loan disbursements are recognized only after a long lag. Both text tables have discrepancies with corresponding fiscal or balance of payments flow estimates, giving rise to residuals in the sustainability analyses.

Status of Implementation of Debt Relief Initiatives

5. **The authorities are seeking to achieve debt relief under the HIPC Initiative**. Chad reached the HIPC decision point in 2001, but several previous efforts to attain the completion point failed due to political instability, insufficient commitment to reforms, and weak implementation capacity, including insufficient fiscal controls. In May 2013, the authorities approved a new Poverty Reduction Strategy (PRS) covering the period 2013-15 (a joint IDA-IMF Staff Advisory Note was issued to the Executive Board in July 2013 (EBD/13/50)). In July 2013, an SMP for the period June-December 2013 was approved by Fund management, which was completed satisfactorily.[3] The successful completion of the SMP opened the way

[3] The SMP aimed at sustaining recent improvements in macroeconomic outcomes, while advancing public financial management reforms and implementing Chad's new PRS. Most quantitative targets were met, including those on the underlying fiscal policy stance (the NOPD), the level of poverty-reducing social spending, and arrears' accumulation. However, the oil sales advance operation implied that the ceilings on contracting or guaranteeing new non-concessional external debt were surpassed.

for an ECF request, which could unlock debt relief under the HIPC and MDRI Initiative, if the first review of the IMF supported program is completed and the authorities comply with the HIPC floating completion point conditions.[4]

6. Realizing debt relief under the Enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) would help significantly reduce external debt and provide important fiscal space to address development needs. Debt relief under the MDRI would cover the full stock of MDRI-eligible debt owed to IDA and the African Development Fund that is outstanding at the date that the Completion Point is reached. In nominal terms, this could total about US$850 million and would imply a reduction in debt service of about US$40 million per year over the next 20 years. A scenario which assumes potential debt relief from multilaterals only (about US$850 million)[5] would result in a moderate risk of debt distress, but the PV of the debt-to-export ratios would still be close to its threshold toward the end of the projection period in the baseline scenario. This scenario is preliminary and a detailed debt reconciliation exercise based on most recent debt data will need to be conducted to firm up these estimates and include potential debt relief from other creditors before reaching the HIPC completion point.

Recent Developments in Public Domestic Debt

7. The stock of public domestic debt has grown, reaching 7.7 percent of GDP at end-2012 (and an estimated 8.3 percent of GDP in 2013). This growth was the result of drawing on central bank statutory advances, the sale of over CFAF 100 billion of five-year savings bonds (in 2011), and a CFAF 50 billion loan from Republic of Congo (in 2012). The stock of public domestic debt includes a balance of CFAF 50.3 billion in treasury arrears. In 2013, the authorities placed a five year savings bonds for CFAF 90.2 billion in the CEMAC regional market with a 6 percent coupon and contracted a CFAF 15 billion loan from Equatorial Guinea. Treasury arrears have declined to CFAF 40 billion at end-December 2013 from CFAF 50.3 billion at end-December 2012.

[4] The World Bank and IMF have been closely working with the authorities on assessing compliance with the HIPC floating completion point conditions.

[5] These estimates are preliminary. No detailed information is available for the other creditors that would also potentially provide debt relief.

Table 2. Chad: Stock of Domestic Debt at Year-End, 2006-2013

	2006	2007	2008	2009	2010	2011	2012	2013
Total	122.3	123.1	142.7	238.6	286.9	464.1	483.6	550.5
(Percent of GDP)	3.2	3.0	3.1	5.5	5.4	8.1	7.7	8.3
Central Bank statutory advances	-	17.0	21.6	141.6	208.6	208.6	187.7	166.9
Rescheduled debts	71.8	48.6	56.8	58.2	67.9	52.9	44.8	43.7
Treasury arrears	24.8	26.1	41.1	25.7	3.1	56.4	50.3	39.9
Legal commitments	13.2	12.5	10.8	10.1	4.6	21.2	49.8	70.5
Standing payment orders	11.5	18.1	11.5	2.1	1.8	3.1		
National Savings Bond	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
2011 Savings Bond	-	-	-	-	-	121.0	100.0	83.3
Republic of Congo	-	-	-	-	-	-	50.0	40.0
Equatorial Guinea	-	-	-	-	-	-	-	15.0
2013 Savings Bond	-	-	-	-	-	-	-	90.3

Source: Chadian authorities.

Debt Burden Thresholds under the Debt Sustainability Framework

8. **For the purpose of defining debt burden thresholds under the Debt Sustainability Framework (DSF), Chad is classified as a weak policy performer.** Chad's rating on the World Bank's Country Policy and Institutional Assessment (CPIA) improved to 2.6 in CY2013 (on a scale from 1 to 6) reflecting significant progress in governance during 2013.

Table 3. External Public Debt Burden Thresholds for "Weak Policy Performers" Under the Debt Sustainability Framework

Present value of external debt in percent of:	
GDP	30
Exports	100
Revenue	200
External debt service in percent of:	
Exports	15
Revenue	18

Source: 2011 IDA Country Performance ratings (methodology and results).

DSA ASSUMPTIONS

9. **The assumptions underpinning the DSA are in line with those under the previous DSA and reflect the newly adopted policy of a uniform discount rate of 5 percent, the cancellation of the US$2 billion non concessional MFA, and the contracting of two non concessional oil sales' advance operations (US$600 million in 2013 to cover budget shortfalls and US$ 1.4 billion contracted by the State in June 2014 to finance the purchase of income-generating equity shares in the largest oil**

consortium operating in Chad). The DSA analysis is conducted over a baseline (current policies) scenario that reflects the stated intentions of the authorities to pursue fiscal consolidation, while protecting priority spending and investing adequately in physical infrastructure to prepare the country for the post-oil era. The financing needs in 2014 are small compared to other years (amid the high exceptional oil related receipts linked to the settlement of a legal dispute) and are mostly covered through multilateral borrowing from the IMF, the African Development Bank and the Islamic Development Bank (70 percent). Over the medium to long term it is assumed that multilateral and bilateral borrowing stabilize at 55 and 45 percent respectively. Due to the new commercial loan the grant element drops in 2014 before increasing again in 2015 and stabilizing over the medium and long run to about 35 percent.

10. Oil production and revenue: Chad's medium- and long-term macroeconomic outlook is characterized by a temporary sharp increase in oil production in 2014–16 and a steady decline of oil production over the subsequent sixteen-year projection period (Box 1).[6]

- Oil production is expected to rise from 100,000 bpd in 2013 to about 225,000 bpd in 2016-17. This second oil boom will likely be temporary; proven reserves in the new fields are much smaller than those in the original Doba basin and will also likely be nearly exhausted around 2030. Hence, oil production and exports are projected to decline steadily to negligible levels beyond 2030. Obviously, these prospects might change with new oil exploration activities.
- Chad's oil trades below the WEO reference price, reflecting a quality discount and transport[7] cost. For the medium term (five-year horizon) the price of Chadian oil is assumed to drop from US$103.9 per barrel (all discounts included) in 2013 to about US$87.8 per barrel in 2017–18, in line with the trend projected in the IMF's World Economic Outlook (WEO). Over the long term, the price is assumed to increase by 2 percent per year in U.S. dollar terms (consistent with the assumption used by the IMF in long-term projections for other sub-Saharan African countries).

11. Fiscal policy: The analysis assumes a sustained fiscal adjustment throughout the entire projection in transition to the post-oil era, with the non-oil primary deficit (NOPD) reduced from about 16 percent of non-oil GDP in 2014 to 14-15 percent of non-oil GDP by 2018. The increase in oil production over the medium-term is expected to push oil revenues above 18 percent of non-oil GDP in 2016-17. Over the

[6] Oil production at the Doba oilfield (exploited by the Esso-led consortium) started in 2003, reached its peak of 63 million barrels in 2005 and, absent other oil developments, will decline with annual output projected to become negligible beyond 2030. In 2011, oil production began at a second oil field, Bongor, operated by CNPC (about one-third the size of the Doba field). At present, Bongor produces crude oil at a rate of about 15,000 barrels per day as feedstock for the oil refinery, resulting in a near complete substitution of petroleum product imports. Exports of crude oil from Bongor are expected to start in 2014 and reach 105,000 bpd in 2017. Oil from another smaller operator (Caracal, formerly Griffiths) started to be produced in late 2013 and are expected to peak at 60,000 bpd in 2016.

[7] The discount ranged from US$2.6 to US$7.2 in 2013, partly reflecting developments in global energy markets with the increased importance of shale gas and specifically oil exports from Angola, Saudi Arabia and South Sudan. Future quality discounts will also reflect the quality of oil from the new shippers (CNPC and Caracal).

longer term, it is assumed that dwindling oil revenues will be partly offset by a decline of total government spending from 30.3 percent of non-oil GDP in 2013 to 23 percent in 2033-34, while the NOPD will be adjusted gradually to reach 0.8 percent of non-oil GDP by 2033. The latter is projected to be achieved mainly by: (i) increasing non-oil revenues (from about 9 percent of non-oil GDP at present to about 18 percent of non-oil GDP by 2034); (ii) reducing total investment outlays from over 14 percent of non-oil GDP to below 10 percent of non-oil GDP; and (iii) cutting recurrent spending, notably, by streamlining transfers and subsidies to public enterprises (at present, jointly accounting for about 5.5 percent of non-oil GDP).

Box 1. Macroeconomic Assumptions, 2013–2033

Baseline Scenario:

Real GDP growth is driven by a sharp growth of oil production in the next four years and a steady decline in oil production over the following seventeen years with upside risk over the short and long run given current and future oil exploration activities. A moderate scaling-up of foreign-financed investments (see below) is assumed to raise non-oil GDP growth in the medium term (5.2 percent in 2014–18). Beyond that, non-oil GDP growth is assumed to stabilize at 4.2 percent in the long term. Inflation is assumed to stabilize at 3 percent, consistent with the CEMAC convergence criterion. The external current account will remain in deficit throughout the forecasting period although it will shrink rapidly in 2014–17, with the increase in oil exports. With the decline in oil production over the long-term, the current account deficit is expected to increase due to the drop in exports however the deficit is contained since oil related imports are decreasing as well.

The fiscal outlook features a temporary increase in oil revenues in the medium term but a decline in the long term. The authorities are assumed to reduce the NOPD to 13 percent of non-oil GDP by 2018. In the medium and long term, the authorities adjust by increasing non-oil revenue effort, streamlining exceptional security spending and subsidies to public enterprises, while maintaining an appropriately high level of investment and social spending to ensure steady growth and poverty reduction (the policy actions underlying these structural changes are listed in the SR, section C).

External financing: Project loans are assumed to pick up from about 1 percent of non-oil GDP in 2013-14 to 2.5 percent of non-oil GDP over 2015-19 and then fall to 2.1 percent of non-oil GDP in the long term. Project grants will increase from about 2.5 percent of non-oil GDP in 2013-14 to 2.6 percent of non-oil GDP over 2015-17 and 2.7 percent of non-oil GDP for the remainder of the forecasting period. This is assumed based on historical averages, with 60 percent grants and 40 percent in loans from official multilateral and bilateral creditors. The baseline does not take into account HIPC and MDRI debt relief for which Chad is eligible.

The domestic financing assumptions include reimbursement of BEAC statutory advances by 2015, no accrual of domestic arrears, and limited issuance of domestic debt instruments from 2015 onward.

Text Table 1. Chad: Medium-Term Projections

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2014–17 Avg.	2018–34 Avg.
Real GDP growth (percent per year)	0.1	8.9	3.9	9.6	6.7	9.7	6.9	3.1	3.3	8.2	2.9
Oil	-0.3	-4.0	-6.8	30.3	15.8	32.0	14.2	-3.1	-2.8	23.1	-5.8
Non-oil	0.2	11.6	5.9	6.3	4.9	4.9	4.9	4.9	5.0	5.3	4.2
Consumer price inflation (percent per year)	1.9	7.7	0.2	2.8	3.1	3.0	3.0	3.0	3.0	3.0	3.0
External current account balance (percent of GDP)	-5.6	-8.7	-9.5	-7.2	-7.1	-5.9	-4.2	-4.5	-4.7	-7.1	-5.6
					(In percent of non-oil GDP)						
Government revenue and grants	34.6	35.0	26.8	28.8	26.7	30.2	31.5	33.3	31.6	29.3	25.7
Of which: oil revenue	24.8	23.2	15.5	17.3	14.9	17.8	18.7	19.9	17.7	17.2	8.6
Of which: grants	2.2	3.8	2.3	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.7
Government expenditure (commitment basis)	31.3	34.4	30.3	29.3	29.0	30.0	29.9	31.1	30.7	29.5	26.5
Overall fiscal balance (incl. grants; cash basis)	0.6	2.2	-6.4	-0.5	-2.5	0.3	1.7	2.9	1.1	-0.3	-0.5
Non-oil primary fiscal bal. (excl. grants; commitment basis)	-19.6	-20.1	-17.5	-15.9	-14.1	-14.6	-14.0	-14.8	-13.9	-14.7	-7.1
Memorandum items:											
Chadian crude oil price (US$/barrel)	97.7	102.0	103.9	103.0	97.9	93.0	88.6	86.9	85.5	95.6	97.2

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

EXTERNAL DEBT DSA

Baseline (Current Policies) Scenario

12. **The evolution of external debt beyond 2014 is driven by a reasonable volume of project and budget support loans from both traditional and non-traditional donors**. There is no external private debt in Chad. Apart from the newly contracted loan in the form of an oil sales advance new borrowing is projected to be mainly on concessional terms from multilaterals (70 percent)[8], Paris Club official (20 percent) and non-Paris Club official (10 percent), in the medium to long run it is assumed that Chad borrows 55 percent from multilaterals, 35 percent from the Paris Club and 10 percent from non-Paris Club officials. Due to the new commercial loan, the average concessionality of new borrowing (assuming a discount rate of 5 percent) drops in 2014 to 0.4 percent but returns to an average of 35 percent over the remainder of the estimation period (Figure 1a).

13. **The comparison of the current baseline scenario with the baseline featured in the 2013 DSA reveals some differences reflecting the new commercial borrowing in the form of an oil sales advance of US$ 1.4 billion, increases in Chad's oil production projections, and lower financing needs.** On the one hand, the new loan pushes external debt temporarily up in 2014 to 26.6 percent of GDP while the extraordinary oil-related receipts linked to the settlement of disputes with oil companies reduces the government's borrowing needs in 2014. On the other hand, Chad's participation in the Esso oil consortium leads to higher cash inflows and thus lowers financing needs in the long run and based on more recent information from the companies exploiting the newer oil fields, oil production projections

[8] Amid the high revenues from the environmental fine, the financing needs in 2014 are minimal and can be mostly covered through assumed Fund disbursements under the ECF and already approved loans from the African Development Bank and the Islamic Development Bank. For these reasons, the share of multilateral borrowing in 2014 is higher than in other years.

have been revised upwards. This in turn has led to higher oil exports and fiscal oil revenue projections over the medium and long term. For these reasons, debt accelerates less fast and apart from the debt service-to-revenue ratio which is only breached in 2015 (amid the new oil sales advance loan operation), debt-to-revenue and export ratios are much lower compared with the last DSA. Moreover, in the last DSA the most extreme shock (which was a drop in export growth in 2014–15) resulted in overly high debt-to-export ratios due to a high standard deviation over the past 10 years (linked to sky-rocketing growth in oil exports in 2003-04 when Chad started to produce oil). To adjust for this structural break, the standard deviation of exports is now estimated only for 2005-12. While a drop in exports is still the most extreme shock, the debt-to-export ratios over the long run is more reasonable now.

14. Under the baseline scenario, all but one of the external indebtedness indicators remain below their critical thresholds, indicating a high risk of external debt distress. The present value of external public and publicly-guaranteed debt falls below 15 percent of GDP starting in 2017 and remains well below the 30 percent of GDP threshold throughout the end of the projection horizon (Figure 1b). With the projected steady decline in oil exports beyond the 2013–17 horizon, the PV of debt is expected to rise relative to exports, but does not exceed the critical threshold and remains within the 10 percent band below the threshold till the end of the projections. Since the debt service-to-revenue ratio is breached under the baseline scenario and the ratio in 2015 is above the 10 percent band, Chad is assessed to currently have a high risk of debt distress. However, assuming the debt profile does not change, the debt rating would decline to a borderline moderate/high case after 2015.

Stress Tests

15. Under the shock scenario that assumes that key macroeconomic variables remain at their ten-year average values, the debt burden indicators, except for the debt service-to-revenue ratio, do not breach the sustainability thresholds. However, Chad's external debt burden indicators are highly sensitive to a negative shock to exports (e.g., an oil price shock). Across all indicative debt burden thresholds, the most extreme shock is a drop in export growth in 2014–15 (i.e., a one-standard-deviation drop in exports over the historical average): debt would be on a path breaching all indicative debt burden thresholds. This underscores the need for greater diversification of the economy.

16. The result of an additional shock scenario which assumes a permanent decline in oil prices, supports the high risk of external debt distress assessment. If oil prices were to fall persistently by 10 percent, two external indebtedness indicators (debt-to-exports and debt service-to-export) will breach their respective threshold under the baseline scenario. Whereas the PV of debt-to-exports is calculated to cross the threshold in 2030 and passing the 10 percent band by 2032, the critical threshold for the debt service-to-export ratio is only breached at the beginning of 2032.

PUBLIC DEBT DSA

17. The inclusion of domestic debt in the analysis does not fundamentally alter the assessment of Chad's debt sustainability. Given the moderate size of Chad's domestic debt, the baseline adjustment in the non-oil primary balance, and expected oil revenues, the public debt indicators are driven mainly by the external debt component. The domestic debt component would fall from 8.3 percent of GDP in 2013 to

3.6 percent of GDP in 2018 but will continuously rise thereafter until it reaches about 4.7percent of GDP 2033. Altogether, the public debt stock decreases to less than20 percent of GDP in 2018 before rising continuously until it stabilizes around 22 percent of GDP in 2031-33 which is 11 percentage points of GDP lower compared to the DSA under the 2013 Article IV consultation.

18. Despite this relatively low debt stock, standard stress tests indicate significant sustainability risks. In particular, reflecting the narrow base of an economy highly dependent on volatile oil and agriculture sectors, a temporary shock to real GDP growth in 2014-2015 would substantially impair public debt sustainability (Most Extreme Shock in Figure 2 and Bound Test B1 in Table 2a).

THE AUTHORITIES' VIEWS

19. The authorities continue to believe that improved oil revenue prospects and debt relief through the HIPC process would substantially dampen debt sustainability concerns. The authorities acknowledged potential concerns on debt sustainability by the recent decision to cancel the MFA with Eximbank China as a signal of the importance that they attach to this issue. On the newly contracted external loan for the 25 percent stake in the oil consortium, the Chadian government stresses that it supported the acquisition of an income-generating asset with a positive overall financial return and that it should not be classified as "debt" as it is equivalent to the standard "carried equity" schemes applied in many developing (and liquidity constrained) countries to facilitate their participation in oil joint ventures. They acknowledged the upward revision of oil revenue projections, but they are confident of further increases on the basis of new exploration rounds to be conducted following a geological mapping exercise. At the same time, they emphasized the need for debt relief to create fiscal space for additional development spending (including foreign-financed). Finally, they highlighted that strengthened economic management should help allay debt sustainability concerns and the resultant expected improvement of the CPIA score would lead to an increase of external debt burden thresholds.

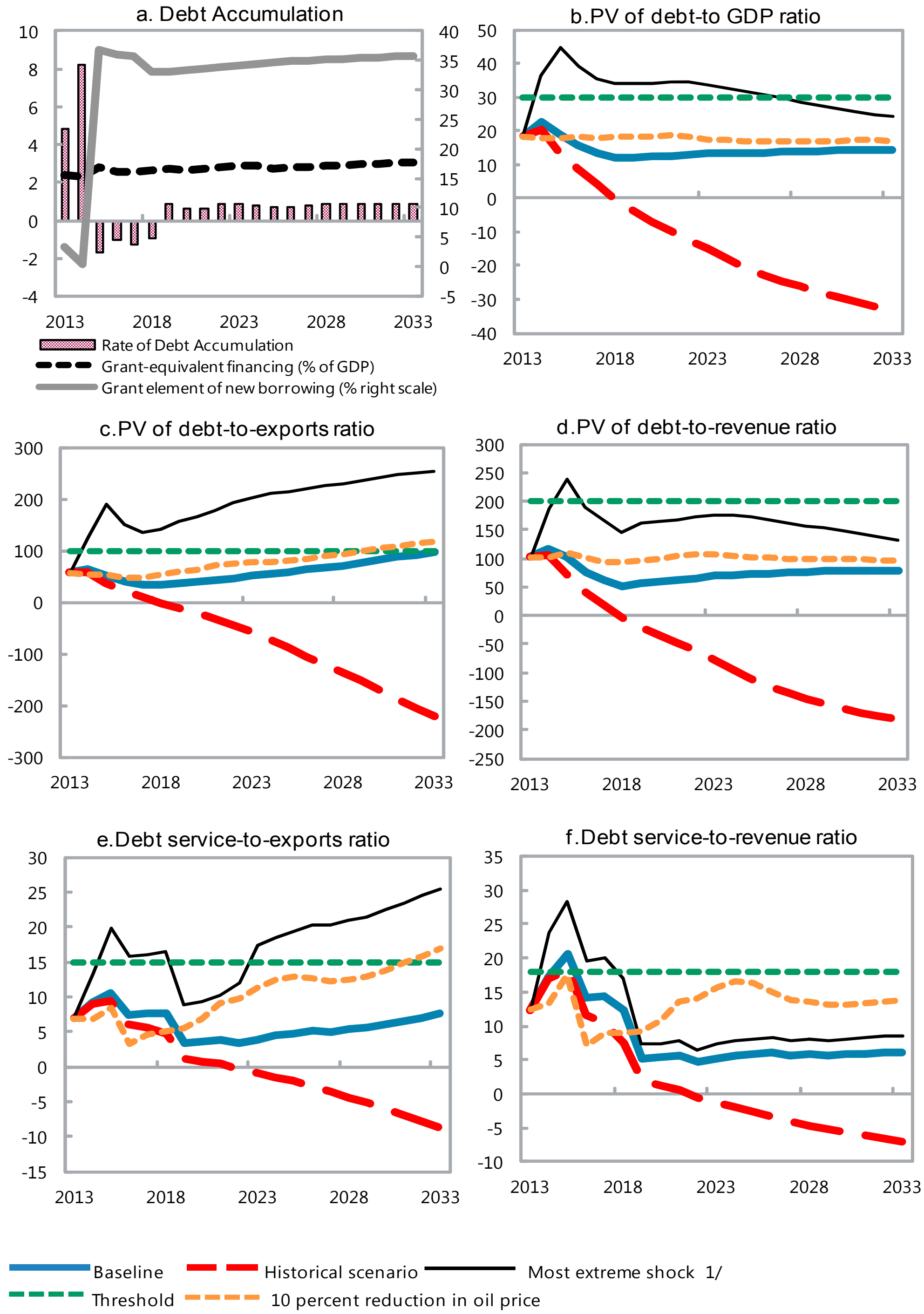
DEBT DISTRESS CLASSIFICATION AND CONCLUSIONS

20. In staff's assessment, despite improved oil production and revenue prospects in the next few years, Chad faces a high risk of debt distress. This is due to the steady decline in oil exports and associated fiscal revenues over the long term. While the government's decision to cancel the US$2 billion non concessional MFA with the Eximbank of China significantly improves the debt distress rating compared to the 2012 Article IV DSA, Chad still remains at high risk of debt distress despite a sustained fiscal adjustment unless it adopts a prudent external borrowing policy. Sustained fiscal adjustment is a necessary but not sufficient condition for minimizing the risk of debt distress. Given the exhaustibility and volatility of oil revenues, fiscal adjustment needs to be complemented by a prudent external borrowing policy and further progress in diversifying the economy. Obtaining debt relief under the HIPC initiative would reduce the debt distress to moderate, but borrowing policies would still need to be prudent.

21. Progress toward the HIPC completion point (including improvements in the CPIA score) would substantially reduce Chad's debt vulnerabilities. In addition to continued pursuit of fiscal consolidation and a prudent external borrowing policy, institutional and governance reforms should pave the way for debt relief under the HIPC process and increased access to concessional borrowing sources, thereby reducing the country's debt vulnerabilities.

Baseline Scenario

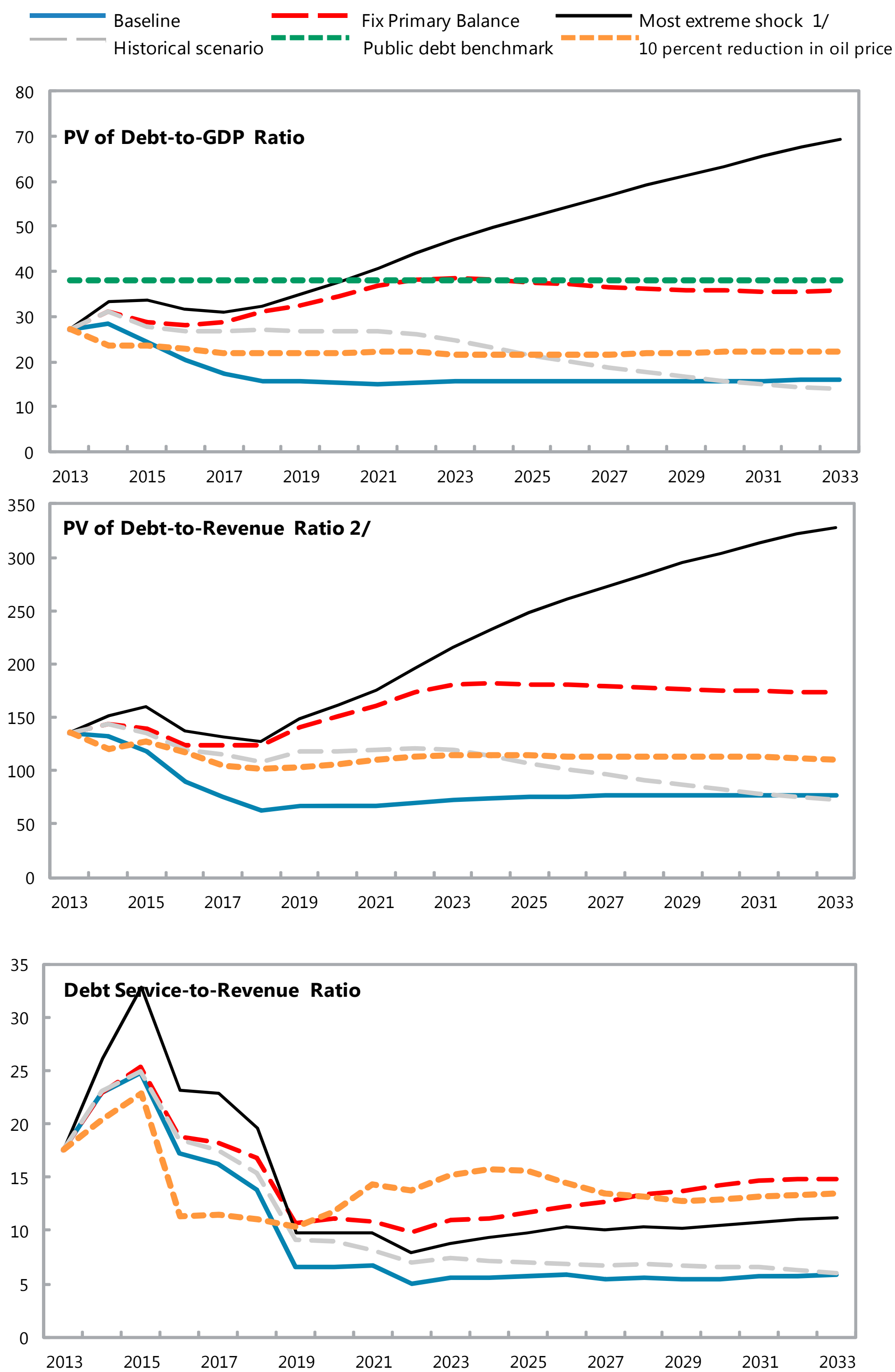
Figure 1. Chad: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2023. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Chad: Indicators of Public Debt Under Alternative Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2023.

2/ Revenues are defined inclusive of grants.

Table 1a. Chad: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010-2033

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	25.6	29.1	27.4			31.0	31.9	28.0	24.0	21.2	19.7		20.5	22.0	
of which: foreign-currency denominated	20.1	21.4	19.9			22.7	26.2	22.6	19.5	17.2	16.1		18.4	20.7	1.3
Change in public sector debt	1.7	3.5	-1.7			3.7	0.9	-3.9	-4.0	-2.8	-1.4		0.3	0.1	
Identified debt-creating flows	1.5	-4.4	-4.2			0.5	-8.2	-4.9	-6.2	-5.4	-4.3		0.2	-0.3	
Primary deficit	4.0	-2.8	-1.4	0.7	4.2	1.1	-2.2	-1.5	-3.5	-4.0	-4.1	-2.4	0.7	0.3	0.4
Revenue and grants	20.2	24.8	23.4			20.1	21.6	20.7	22.6	23.2	25.1		21.4	20.7	
of which: grants	1.3	1.6	2.5			2.2	2.2	2.0	1.9	1.9	2.0		2.2	2.4	
Primary (noninterest) expenditure	24.3	22.0	22.0			21.2	19.4	19.2	19.1	19.2	21.0		22.1	21.0	
Automatic debt dynamics	-2.4	-1.6	-2.7			-0.1	-3.0	-1.8	-2.5	-1.2	0.0		-0.4	-0.6	
Contribution from interest rate/growth differential	-4.7	-0.7	-3.5			0.6	-2.2	-1.0	-2.0	-0.7	0.5		-0.4	-0.6	
of which: contribution from average real interest rate	-1.8	-0.7	-1.1			1.6	0.5	1.0	0.5	0.8	1.1		0.2	0.0	
of which: contribution from real GDP growth	-2.9	0.0	-2.4			-1.0	-2.7	-2.0	-2.5	-1.6	-0.6		-0.5	-0.7	
Contribution from real exchange rate depreciation	2.3	-0.9	0.8			-0.7	-0.8	-0.8	-0.5	-0.5	-0.5		...	...	
Other identified debt-creating flows	-0.2	0.0	0.0			-0.5	-3.0	-1.5	-0.2	-0.2	-0.2		-0.2	0.0	
Privatization receipts (negative)	-0.2	0.0	0.0			0.0	-2.6	-1.3	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			-0.5	-0.4	-0.2	-0.2	-0.2	-0.2		-0.2	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.2	7.9	2.5			3.1	9.0	1.0	2.2	2.6	2.9		0.1	0.4	
Other Sustainability Indicators															
PV of public sector debt	...	...	21.9			27.2	28.6	24.5	20.4	17.4	15.7		15.5	15.8	
of which: foreign-currency denominated	...	...	14.5			18.8	22.9	19.1	15.9	13.4	12.0		13.3	14.5	
of which: external	...	...	14.5			18.8	22.9	19.1	15.9	13.4	12.0		13.3	14.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.6	-1.9	0.8			4.6	2.8	3.6	0.4	-0.2	-0.6		1.9	1.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	93.6			135.3	132.1	118.2	90.3	75.2	62.6		72.3	76.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	105.0			151.8	147.3	131.1	98.6	81.9	67.9		80.8	86.5	
of which: external 3/	...	...	69.4			105.3	117.9	102.4	76.8	63.1	52.1		69.4	79.3	
Debt service-to-revenue and grants ratio (in percent) 4/	2.9	3.6	9.5			17.6	22.9	24.8	17.2	16.3	13.8		5.5	5.8	
Debt service-to-revenue ratio (in percent) 4/	3.1	3.9	10.7			19.7	25.6	27.5	18.8	17.8	15.0		6.2	6.6	
Primary deficit that stabilizes the debt-to-GDP ratio	2.3	-6.3	0.3			-2.5	-3.1	2.4	0.5	-1.1	-2.6		0.4	0.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	13.5	0.1	8.9	9.0	10.0	3.9	9.6	6.7	9.7	6.9	3.1	6.7	2.6	3.1	2.9
Average nominal interest rate on forex debt (in percent)	1.0	2.2	3.4	1.4	0.8	3.3	4.1	3.7	3.3	2.9	2.4	3.3	2.3	2.0	2.2
Average real interest rate on domestic debt (in percent)	...	...	-0.7	-0.7	...	7.1	0.0	3.3	2.3	4.1	5.8	3.8	3.1	3.1	3.2
Real exchange rate depreciation (in percent, + indicates depreciation	15.9	-4.4	4.3	-4.8	14.4	-3.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.4	8.6	5.4	6.6	8.3	-3.2	4.5	2.1	2.5	0.6	-1.1	0.9	1.8	2.0	1.8
Growth of real primary spending (deflated by GDP deflator, in percer	0.1	-0.1	0.1	0.1	0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	3.4	0.4	36.8	35.9	35.8	33.0	24.2	34.1	35.7	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

Table 2a.Chad: Sensitivity Analysis for Key Indicators of Public Debt 2013-2033

		Projections						
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	27	29	24	20	17	16	15	16
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	27	31	28	27	27	27	25	14
A2. Primary balance is unchanged from 2013	27	31	29	28	29	31	39	36
A3. Permanently lower GDP growth 1/	27	29	26	24	22	23	40	104
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	27	33	34	32	31	32	47	69
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	27	34	35	30	26	25	24	23
B3. Combination of B1-B2 using one half standard deviation shocks	27	34	34	30	28	27	33	42
B4. One-time 30 percent real depreciation in 2014	27	36	31	26	22	20	19	19
B5. 10 percent of GDP increase in other debt-creating flows in 2014	27	36	32	27	24	22	22	21
PV of Debt-to-Revenue Ratio 2/								
Baseline	135	132	118	90	75	63	72	77
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	135	143	135	119	115	109	120	72
A2. Primary balance is unchanged from 2013	135	144	140	124	124	123	180	173
A3. Permanently lower GDP growth 1/	135	136	127	103	95	89	181	473
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	135	152	160	137	131	127	216	329
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	135	158	168	131	113	98	113	111
B3. Combination of B1-B2 using one half standard deviation shocks	135	157	162	132	119	108	155	202
B4. One-time 30 percent real depreciation in 2014	135	166	149	114	95	80	91	93
B5. 10 percent of GDP increase in other debt-creating flows in 2014	135	168	154	119	102	88	101	101
Debt Service-to-Revenue Ratio 2/								
Baseline	18	23	25	17	16	14	6	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	18	23	25	18	18	15	7	6
A2. Primary balance is unchanged from 2013	18	23	25	19	18	17	11	15
A3. Permanently lower GDP growth 1/	18	23	26	18	18	16	11	30
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	18	25	29	22	21	19	13	24
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	18	23	26	21	20	15	8	9
B3. Combination of B1-B2 using one half standard deviation shocks	18	24	27	21	20	17	10	15
B4. One-time 30 percent real depreciation in 2014	18	26	33	23	23	20	9	11
B5. 10 percent of GDP increase in other debt-creating flows in 2014	18	23	26	21	17	15	8	8

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Table 3a .Chad: External Debt Sustainability Framework, Baseline Scenario, 2010-2033 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**20.1**	**20.3**	**20.3**			**22.7**	**26.4**	**22.8**	**19.6**	**17.3**	**16.2**		**18.5**	**20.9**	
of which: public and publicly guaranteed (PPG)	20.1	20.3	20.3			22.7	26.4	22.8	19.6	17.3	16.2		18.5	20.9	
Change in external debt	0.7	0.2	0.1			2.4	3.7	-3.6	-3.2	-2.3	-1.1		0.5	0.2	
Identified net debt-creating flows	1.3	-1.3	2.7			4.8	-1.1	-0.6	-1.8	-0.9	1.1		3.8	5.4	
Non-interest current account deficit	**8.8**	**5.2**	**7.7**	**7.0**	**14.7**	**8.8**	**6.4**	**6.2**	**5.2**	**3.7**	**4.1**		**4.7**	**6.0**	5.2
Deficit in balance of goods and services	11.3	7.3	10.2			10.0	9.6	7.6	4.4	2.5	3.1		5.7	8.1	
Exports	37.9	40.7	36.8			32.4	36.1	36.6	40.2	40.5	37.3		25.9	14.9	
Imports	49.1	48.0	47.0			42.4	45.6	44.1	44.6	43.0	40.4		31.6	23.0	
Net current transfers (negative = inflow)	-5.6	-4.3	-4.2	-4.9	1.5	-4.9	-7.1	-5.4	-3.9	-3.7	-3.9		-3.9	-3.2	-3.6
of which: official	-0.4	-0.3	-0.9			-1.5	-4.1	-2.5	-1.3	-1.2	-1.3		-1.3	-1.3	
Other current account flows (negative = net inflow)	3.2	2.2	1.6			3.8	4.0	4.1	4.7	4.9	4.9		2.8	1.2	
Net FDI (negative = inflow)	**-5.2**	**-4.5**	**-4.5**	**-9.6**	**9.3**	**-3.9**	**-6.4**	**-6.1**	**-5.7**	**-3.8**	**-2.9**		**-0.9**	**-0.4**	-0.9
Endogenous debt dynamics 2/	**-2.4**	**-2.1**	**-0.5**			**-0.1**	**-1.1**	**-0.7**	**-1.3**	**-0.7**	**-0.1**		**0.0**	**-0.2**	
Contribution from nominal interest rate	0.2	0.4	0.6			0.7	0.8	0.9	0.7	0.5	0.4		0.4	0.4	
Contribution from real GDP growth	-2.3	0.0	-1.7			-0.8	-1.9	-1.6	-1.9	-1.2	-0.5		-0.4	-0.6	
Contribution from price and exchange rate changes	-0.3	-2.4	0.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-0.5**	**1.5**	**-2.6**			**-2.5**	**4.8**	**-3.0**	**-1.4**	**-1.5**	**-2.2**		**-3.3**	**-5.3**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	14.5			18.3	22.7	19.0	15.8	13.3	12.0		13.2	14.4	
In percent of exports	...	...	39.4			56.3	62.9	51.9	39.3	32.9	32.1		51.1	96.7	
PV of PPG external debt	**...**	**...**	**14.5**			**18.3**	**22.7**	**19.0**	**15.8**	**13.3**	**12.0**		**13.2**	**14.4**	
In percent of exports	**...**	**...**	**39.4**			**56.3**	**62.9**	**51.9**	**39.3**	**32.9**	**32.1**		**51.1**	**96.7**	
In percent of government revenues	**...**	**...**	**69.4**			**102.1**	**117.0**	**101.8**	**76.2**	**62.6**	**51.7**		**69.0**	**78.8**	
Debt service-to-exports ratio (in percent)	**1.5**	**2.2**	**3.2**			**6.8**	**9.2**	**10.5**	**7.3**	**7.6**	**7.6**		**3.9**	**7.6**	
PPG debt service-to-exports ratio (in percent)	**1.5**	**2.2**	**3.2**			**6.8**	**9.2**	**10.5**	**7.3**	**7.6**	**7.6**		**3.9**	**7.6**	
PPG debt service-to-revenue ratio (in percent)	**3.1**	**3.9**	**5.7**			**12.4**	**17.1**	**20.5**	**14.2**	**14.5**	**12.3**		**5.3**	**6.2**	
Total gross financing need (Billions of U.S. dollars)	0.5	0.2	0.6			1.0	0.5	0.7	0.5	0.6	0.9		1.3	3.1	
Non-interest current account deficit that stabilizes debt ratio	8.1	5.0	7.6			6.5	2.7	9.8	8.4	6.0	5.2		4.2	5.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	13.5	0.1	8.9	9.0	10.0	3.9	9.6	6.7	9.7	6.9	3.1	6.7	2.6	3.1	2.9
GDP deflator in US dollar terms (change in percent)	1.4	13.9	-2.6	10.2	11.9	0.0	7.7	3.9	3.7	2.0	0.4	3.0	1.8	2.0	1.8
Effective interest rate (percent) 5/	1.0	2.2	3.4	1.4	0.8	3.3	4.1	3.7	3.3	2.9	2.4	3.3	2.3	2.0	2.2
Growth of exports of G&S (US dollar terms, in percent)	23.3	22.3	-4.1	49.6	84.7	-8.4	31.5	12.4	25.1	9.9	-4.6	11.0	-3.9	0.2	-1.5
Growth of imports of G&S (US dollar terms, in percent)	18.1	11.3	3.8	13.0	23.8	-6.3	27.2	7.3	14.9	5.1	-2.6	7.6	-1.2	2.2	0.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	3.4	0.4	36.8	35.9	35.8	33.0	24.2	34.1	35.7	34.7
Government revenues (excluding grants, in percent of GDP)	18.9	23.2	20.9			17.9	19.4	18.6	20.7	21.3	23.1		19.2	18.3	19.0
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.5			0.4	0.4	0.5	0.6	0.6	0.7		0.9	1.6	
of which: Grants	0.1	0.2	0.3			0.3	0.4	0.4	0.4	0.4	0.4		0.6	1.1	
of which: Concessional loans	0.1	0.1	0.1			0.1	0.1	0.2	0.2	0.2	0.2		0.3	0.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.4	2.3	2.8	2.6	2.6	2.6		2.9	3.1	2.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			32.4	19.4	68.8	68.4	68.3	66.9		70.1	71.1	70.4
Memorandum items:															
Nominal GDP (Billions of US dollars)	10.7	12.2	12.9			13.4	15.8	17.6	20.0	21.8	22.6		27.7	45.2	
Nominal dollar GDP growth	15.1	14.0	6.0			4.0	18.1	10.9	13.8	9.1	3.5	9.9	4.4	5.2	4.7
PV of PPG external debt (in Billions of US dollars)			1.9			2.5	3.6	3.4	3.2	2.9	2.7		3.7	6.6	
(PVt-PVt-1)/GDPt-1 (in percent)						4.8	8.2	-1.7	-1.0	-1.3	-0.9	1.3	0.9	0.8	0.8
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	14.5			18.3	22.7	19.0	15.8	13.3	12.0		13.2	14.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	39.4			56.3	62.9	51.9	39.3	32.9	32.1		51.1	96.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.2			6.8	9.2	10.5	7.3	7.6	7.6		3.9	7.6	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

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

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b. Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033

(In percent)

		Projections						
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	18	23	19	16	13	12	**13**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	18	20	13	9	4	-1	**-15**	-33
A2. New public sector loans on less favorable terms in 2013-2033 2	18	24	20	17	15	14	**18**	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	18	25	23	19	16	14	**16**	17
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	18	31	39	34	31	30	**30**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	18	25	22	18	16	14	**15**	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	18	30	32	28	25	24	**24**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	18	36	45	39	35	34	**34**	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	18	32	26	22	19	17	**18**	20
PV of debt-to-exports ratio								
Baseline	56	63	52	39	33	32	**51**	97
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	56	57	37	21	10	-2	**-58**	-222
A2. New public sector loans on less favorable terms in 2013-2033 2	56	66	55	43	37	38	**71**	164
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	56	63	52	40	33	32	**51**	97
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	56	125	190	151	135	141	**203**	253
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	56	63	52	40	33	32	**51**	97
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	56	85	88	70	62	63	**93**	127
B5. Combination of B1-B4 using one-half standard deviation shocks	56	120	158	125	113	117	**168**	208
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	56	63	52	40	33	32	**51**	97
PV of debt-to-revenue ratio								
Baseline	102	117	102	76	63	52	**69**	79
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	102	105	72	41	18	-3	**-79**	-181
A2. New public sector loans on less favorable terms in 2013-2033 2	102	122	108	83	71	62	**96**	134
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	102	131	122	92	75	62	**83**	94
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	102	162	211	166	146	129	**155**	117
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	102	129	119	89	73	60	**80**	92
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	102	157	173	135	117	102	**125**	103
B5. Combination of B1-B4 using one-half standard deviation shocks	102	187	239	189	166	147	**176**	131
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	102	163	142	106	87	72	**96**	110

Table 3b.Chad: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033 (continued)

(In percent)

Debt service-to-exports ratio

Baseline	7	9	10	7	8	8	**4**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	7	9	9	6	6	5	**-1**	-9
A2. New public sector loans on less favorable terms in 2013-2033 2	7	9	12	10	10	5	**4**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	7	9	10	7	8	8	**4**	8
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	7	13	20	16	16	16	**17**	25
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	7	9	10	7	8	8	**4**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	7	9	11	8	9	9	**8**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	7	12	16	13	13	13	**14**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	7	9	10	7	8	8	**4**	8

Debt service-to-revenue ratio

Baseline	12	17	21	14	14	12	**5**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	12	17	18	12	11	7	**-1**	-7
A2. New public sector loans on less favorable terms in 2013-2033 2	12	17	23	20	20	7	**5**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	12	19	25	17	17	15	**6**	7
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	12	17	22	17	17	15	**13**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	12	19	24	16	17	14	**6**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	12	17	22	16	16	14	**10**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	12	19	25	19	19	17	**15**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	12	24	28	20	20	17	**7**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	23	23	23	23	23	23	**23**	23

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

INTERNATIONAL MONETARY FUND

CHAD

REQUEST FOR A THREE-YEAR ARRANGMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

July 24, 2014

Prepared By

The African Department
(In collaboration with other departments)

CONTENTS

RELATIONS WITH THE IMF

As of April 30, 2014

Membership Status		Joined: July 10, 1963
General Resources Account	**SDR Million**	**% of Quota**
Quota	66.60	100.00
Fund holdings of currency (Exchange Rate)	63.67	95.60
Reserve Tranche Position	2.93	4.40
SDR Department	**SDR Million**	**%Allocation**
Net cumulative allocation	53.62	100
Holdings	0.07	0.13
Outstanding Purchases and Loans	**SDR Million**	**%Quota**
ECF Arrangements	0.84	1.26

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF[1]	Feb 16, 2005	May 31, 2008	25.20	4.20
ECF[1]	Jan 07, 2000	Jan 06, 2004	47.60	42.40
ECF[1]	Sep 01, 1995	Apr 30, 1999	49.56	49.56

[1] Formerly PRGF

Projected Payments to Fund [2]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming			
	2014	**2015**	**2016**	**2017**
Principal	0.42	0.42		
Charges/Interest	0.05	0.07	0.07	0.07
Total	0.47	0.49	0.07	0.07

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

Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of the Central African Economic and Monetary Community (CEMAC). As with other regional central banks, the BEAC is subject to a safeguards assessment every four years. The 2013 quadrennial assessment spanned a period of extensive change at the BEAC and occurred 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 governance, strengthening key safeguards, and building capacity. In addition, a series of safeguards "rolling measures" were agreed between the BEAC and the IMF, as a basis since 2009 to move forward with new IMF program requests and periodic reviews for BEAC members using IMF resources. The 2013 assessment found that the BEAC has made some progress in reinforcing its safeguards framework, but risks remain elevated and further reforms are needed to fully restore sound governance and control. Although the internal and external audit mechanisms have improved, the implementation of the BEAC Reform Plan, initially adopted in 2011, is slower than planned and its target completion date has been delayed to 2014. Governance at the BEAC continues to be undermined by a legal framework that does not adequately protect institutional autonomy, and problematic partial adherence of several member states to the reserves pooling obligation that is fundamental to the operation of the currency union. The assessment also indicated that continued weaknesses in governance are exacerbated by a number of risks, including a less secure environment for the accounting and IT systems that raise concerns about the quality of financial controls and information. The assessment identified measures needed to strengthen the safeguards framework, including through amendments to the BEAC charter and significant effort and commitment to achieve implementation of the reform and modernization plan.

Exchange Rate Arrangement

Chad maintains an exchange system that is free from restrictions and multiple currency practices on payments and transfers for current international transactions. The exchange rate arrangement (de jure and de facto) is classified as a conventional peg. The BEAC common currency is the CFA franc, which was formerly pegged to the French franc and is now pegged to the euro. Repurchase of CFA franc banknotes exported outside the BEAC zone was suspended on August 2, 1993. Effective January 12, 1994, the CFA franc was devalued by 50 percent in foreign currency terms, and the exchange rate was adjusted from F 1 = CFAF 50 to F 1 = CFAF 100. Since January 1, 1999, the CFA franc has been pegged to the euro at the rate of EUR 1 = CFAF 655.957.

Article IV Consultations

Chad is on the 12-month cycle. The next Article IV consultation is expected to take place by February 2015.

Technical Assistance

Department	Purpose	Time of Delivery
FAD (AFRITAC)	Tax and Customs Administration	April 2014
FAD (AFRITAC)	National Accounts	March 2014
FAD (AFRITAC)	Public Financial Management	March 2014
FAD (AFRITAC)	Tax Administration	February 2014
FAD (AFRITAC)	Asset and Liability Management	January 2014
FAD	Debt Management and Reporting	January 2014
FAD	Public Financial Management	November 2013
FAD	Public Financial Management	September 2013
FAD	Implementation of CEMAC directives	September 2013
FAD	Tax and Customs Administration	August 2013
FAD (AFRITAC)	Public Financial Management	April - May 2013
FAD (AFRITAC)	National Accounts	March 2013
FAD (AFRITAC)	Public Financial Management	February 2013
FAD (AFRITAC)	Tax Administration	April 2013
FAD (AFRITAC)	Customs Administration	March 2013
MCM (AFRITAC)	Debt Management	March 2013
STA (AFRITAC)	National Accounts	December 2013
STA (AFRITAC)	National Accounts	July 2013
STA (AFRITAC)	National Accounts	February 2013
STA (AFRITAC)	National accounts	November 2012
FAD (AFRITAC)	Public financial management	October 2012
FAD	Customs administration	October 2012
FAD (AFRITAC)	Tax administration	September 2012
FAD (AFRITAC)	Public financial management	September 2012
FAD	Customs follow-up mission	July 2012
FAD (AFRITAC)	Public financial management	June 2012
STA (AFRITAC)	National accounts	June 2012
FAD (AFRITAC)	Tax administration	May-June 2012
STA (AFRITAC)	National accounts	May 2012
FAD	Resource revenue management	April-May 2012
FAD (AFRITAC)	Public financial management	March-April 2012
FAD (AFRITAC)	Tax administration	February 2012
STA (AFRITAC)	National accounts	November-December 2011
FAD (AFRITAC)	Public financial management	November 2011
FAD (AFRITAC)	Public financial management	September 2011

FAD (AFRITAC)	Customs	September 2011
STA (AFRITAC)	National accounts	August 2011
MCM	Banking system vulnerabilities	January 2011
FAD (AFRITAC)	Tax administration	February 2011
FAD (AFRITAC)	Tax administration	September-October 2010

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

A joint IMF-World Bank mission conducted an FSAP for Chad during May 25–June 10, 2011, building on the mission that conducted a regional FSAP for CEMAC countries during January 30–February 9, 2006.

A ROSC Data Module mission visited Chad May 26–June 8, 2005.

Resident Representative

There has been no Fund Resident Representative in N'Djamena since October 2010.

JMAP BANK–FUND MATRIX

Title	Products	Mission Timing	Expected Delivery
A. Mutual Information on Relevant Work Programs			
The World Bank work program in the next 12 months	1. HIPC completion report	March 2014 September 2015	Q-I 2015
	2. Additional Financing for Capacity building in public expenditure management	February 2014	Q-II 2014
	3. Non concessional borrowing note	June 2014	Q-II 2014
	4. Country Partnership Framework		Q-III 2014
The Fund work program in the next 12 months	1. ECF negotiation	April 2014	July 2014
	2. ECF first review and HIPC completion report	March 2015	April 2015
	Technical Assistance		
	FAD: Oil Revenue Forecasting	FY2015	FY2015
	STA: National accounts	FY2015	FY2015
B. Requests for Work Program Inputs			
Fund request to Bank	Periodic update on World Bank program in Chad		
Bank request to Fund	1. Macroeconomic frameworks for Debt Sustainability analyses	Ongoing	
	2. Information on non concessional financing of budget or projects	Ongoing	
C. Agreement on Joint Products and Missions			
Joint products	1. Joint Bank-Fund Debt Sustainability Assessments		July 2014 March 2015
	2. HIPC Completion report		April 2015
	3. JSAN on PRSP APR		April 2015

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has capacity-related shortcomings, but is broadly adequate for surveillance. There is scope for improvement in quality, coverage, and timeliness in most macroeconomic datasets. The authorities have recently taken the initiative to improve the macroeconomic database, particularly the national accounts. The 2007 Report on the Observance of Standards and Codes (ROSC) found that the statistical system was weak and suffers from a shortage of both financial and human resources.

National accounts: The authorities have revised national accounts estimates, moving from the 1968 System of National Accounts (SNA) to the 1993 SNA and rebasing the data to 2005 as the base year. Final Annual National Accounts are available until 2010 and have been backcasted through 1995-2005. Provisional figures are also available for 2011-2012. However, compilation remains weak owing to inadequate funding for the Institut National de la Statistique, des Etudes Economiques et Démographiques (INSEED) and high staff turnover. In addition, dissemination of data and metadata to the public could be improved by more timely releases, provision of more detailed information, and enhanced dissemination through the internet.

Price statistics: The Harmonized Consumer Price Index (HCPI) is of rather good quality. However, it covers only the capital city and the reporting lag sometimes exceeds two months. The regional authorities are working to improve the quality of the HCPI in each of the Central African Economic and Monetary Community (CEMAC) countries.

Government finance statistics: Data weaknesses create uncertainty about the central government's actual fiscal position and hamper debt sustainability analysis. Staff is compelled to prepare estimates of central government financial operations from disparate administrative sources that may or may not fully reconcile with domestic bank financing or changes in net indebtedness.

Monetary statistics: Banque des Etats de L'Afrique Centrale (BEAC) reports the expected core monetary and financial indicators, within the expected lag, through the standardized report forms (SRFs). A key shortcoming of monetary and financial statistics is the lack of clear reconciliation between the domestic banking sector's net credit to the government and the implicit financing in the weak government financial accounts. In addition, the depository corporations' survey omits the large number of microfinance operations in the country.

Balance of payments: Weaknesses in Chad's balance of payments data create uncertainty about its actual external position and hamper debt sustainability analysis. Customs-based data are unreliable and suffer from coverage problems, to the extent that they are not relied upon for balance of payments or national income estimation. BEAC prepares balance of payments data and submit to BEAC headquarters for validation with the long time lag. Staff must estimate current and capital flows from disparate administrative sources, to supplement the official balance of payments. The IMF Statistics Department has recommended tighter coordination among the CEMAC, INSEED, and other agencies in order to improve data coverage. BEAC headquarters is coordinating technical reforms to improve data quality and timeliness.

II. Data Standards and Quality

Chad has been a participant in the IMF's GDDS since September 24, 2002. GDDS metadata and plans for improvement need to be updated.	A Data ROSC was published in August 2007.

III. Reporting to STA (Optional)

Only international liquidity, monetary statistics, GDP, and prices are currently reported to STA for publication in the *International Financial Statistics (IFS)*. Chad has not yet been able to resume reporting of detailed data for publication in the *Government Finance Statistics Yearbook*. Annual fiscal data through 2001 have been reported and are included in the *IFS* database. The BEAC has yet to submit test monetary and financial statistics using the standardized report forms. Chad has yet to submit BOP and IIP data to STA.

Chad: Table of Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items: Data Quality: Methodological Soundness[8]	Memo Items: Data Quality – Accuracy and Reliability[9]
Exchange rates	Daily	Daily	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities[1]	02/2014	04/2014	M	M	M		
Reserve/base money	02/2014	04/2014	M	M	M	LO, LNO, LNO, LO	LO, O, O, LO, NA
Broad money	02/2014	04/2014	M	QM	M		
Central bank balance sheet	02/2014	04/2014	M	M	M		
Consolidated balance sheet of the banking system	02/2014	04/2014	M	M	M		
Interest rates[2]	03/2014	04/2014	MI	QM	M		
Consumer price index	03/2014	05/2014	M	M	M		
Revenue, expenditure, balance and composition of financing[3] – general government[4]	03/2014	05/2014	Q	Q	Q	LO, LNO, LO, LO	O, LO, LO, LO, NO
Revenue, expenditure, balance and composition of financing[3]–central government	03/2014	05/2014	Q	Q	Q		

Chad: Table of Common Indicators Required for Surveillance (concluded)							
Stocks of central government and central government-guaranteed debt[5]	03/2014	05/2014	Q	Q	Q		
External current account balance	2012	04/2014	A	A	A	O, O, O, LO	LO, LO, O, O, O
Exports and imports of goods and services	2012	04/2014	A	A	A		
GDP/GNP	2013	04/2014	A	A	A	LNO, LO, LNO, LO	LNO, LNO, LNO, LNO, LNO
Gross external debt	01/ 2014	04/ 2014	Bi-M	Bi-M	Bi-M		
International investment position[6]	NA	NA	NA	NA	NA		

[1] Any reserve assets pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

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

[3]Foreign, domestic bank, and domestic nonbank financing.

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

[5] Including currency and maturity composition.

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

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

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

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

Press Release No. 14/381
FOR IMMEDIATE RELEASE
August 1, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves New US$122.4 Million ECF Arrangement for Chad

The Executive Board of the International Monetary Fund (IMF) today approved a new three-year arrangement under the Extended Credit Facility (ECF) for a total amount equivalent to SDR 79.92 million (about US$122.4 million), 120 percent of quota for Chad. The approval will enable the first disbursement of an amount equivalent to SDR 13.31 million (about US$20.4 million).

The new ECF arrangement is expected to address the country's protracted balance of payments' problems—which resulted from a reduction in oil revenues, maintain adequate international reserves' coverage, and play a catalytic role for bilateral and multilateral assistance.

At the conclusion of the Executive Board's discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"Chad's macroeconomic performance has been relatively strong, despite major regional security issues requiring the strengthening of security measures along its borders and increased humanitarian assistance to refugees and returning nationals. Medium term prospects are generally favorable. The commencement of activities in new fields is expected to significantly boost oil production and exports over the next few years, while, non-oil GDP should continue to increase at a sustained rate.

"The new ECF-supported program is anchored on accelerating reforms to strengthen fiscal institutions and support growth, while maintaining fiscal discipline. A smooth decline in the non-oil primary deficit over the medium-term is warranted to ensure fiscal sustainability in light of a projected exhaustion of oil reserves. Structural fiscal reforms are critical to increase fiscal space, enhance fiscal control, and improve the efficiency of public spending. Key objectives include a further reduction in the use of emergency spending procedures, improving fiscal accounting and reporting, and strengthening cash management and forecasting.

"Achieving the country's medium-term growth and development objectives will require improving the business environment, including addressing bottlenecks in infrastructure, labor quality, and access to finance. In addition to ambitious public investment plans in infrastructure, promoting a more favorable environment for the private sector and the implementation of the authorities' strategy to enhance financial inclusion—which appropriately focuses on rural areas—are critical to foster new sources of non-oil growth.

"Sustained implementation of the ECF-supported program should help catalyze additional financial resources from international donors and foreign direct investment flows to more effectively tackle development needs and foster economic growth, in addition to being a key step for reaching the HIPC Completion Point."

Program Summary

The program's macroeconomic framework is predicated upon high economic growth and low inflation. Real GDP is projected to grow at around 8 percent annually from 2014–17, primarily due to new oil-related projects coming fully on-stream by 2016. However, after peaking in 2017, oil production is expected to fall steadily in the absence of new oil discoveries. Inflation should remain around the Central African Economic and Monetary Community target of 3 percent a year.

The ECF arrangement will promote policies to:

(i) ensure fiscal sustainability
(ii) strengthen fiscal institutions and governance
(iii) promote sustained and inclusive growth over the medium term
(iv) facilitate the move to the Highly Indebted Poor Country Completion Point

Structural reforms will ramp up progressively over the course of the program given limited institutional capacity and an expected gradual increase in donors' technical and financial support. The program will initially focus on the more pressing areas, while the following phases should concentrate on deepening structural reforms in support of inclusive non-oil growth. Social and other priority spending will be safeguarded. This commitment is incorporated as a performance criterion under the ECF arrangement and aims at achieving the objectives of the current National Development Plan.

Recent Economic Developments

Chad's macroeconomic performance was relatively strong in 2013. GDP grew by 3.9 percent in 2013, despite a contraction in oil production. Non-oil GDP expanded by 5.9 percent, down from 11.6 percent in 2012. Inflation fell sharply in 2013, with the annual average rate at only 0.2 percent from 7.7 percent in 2012 due to a fall in food prices.

The fiscal situation improved markedly last year. The non-oil primary deficit (NOPD) fell by 2.5 percent of non-oil GDP in 2013, thanks to a significant increase in non-oil revenue and a contraction in domestically-financed investment spending. Higher tax collection increased non-oil revenue by close to 1 percent of non-oil GDP. However, the overall fiscal balance on a cash basis posted a sizable deficit (6.4 percent of non-oil GDP) as oil revenues fell significantly below budget levels.

The external current account deficit is estimated to have widened to 9.5 percent of GDP due to a decline in oil exports. FDI inflows are estimated to have declined slightly in 2013 but still covered about 40 percent of the external current account deficit, with the remainder financed by public sector borrowing.

The banking system is relatively sound. Its total assets grew by 23 percent in 2013, to reach FCFA 850 billion, equivalent to 13 percent of GDP. The banking sector remains exposed to the public sector, and therefore, vulnerable to shocks associated with fluctuations in the oil revenues.

Statement by Mr. Ngueto Tiraina Yambaye, First Alternate Executive Director for Chad
August 1, 2014

My Chadian authorities thank the Executive Board, Management and staff for the continuous support and valuable advice on macroeconomic policies. They, especially, appreciate Fund staff advice during the implementation of their staff-monitored program (SMP) in 2013 as well as the candid dialogue they have had with staff in recent months leading to the request of an arrangement under the Extended Credit Facility.

As Directors are aware, the regional and external environment surrounding Chad and the Chadian economy have been adversely affected in recent years by conflicts and security situations in neighboring countries and lower external demand. Chad had to take urgent measures to meet these obligations and has contributed actively to international efforts to restore order in neighboring countries. It was also faced with recurrent expenditures to cope with heightened security and terrorism threats, and assistance to refugees fleeing affected areas. These have had a significant negative impact on the economic and financial situation of the country. Nevertheless, the Government of Chad is successfully reconciling security and economic development objectives.

I PERFORMANCE UNDER THE SMP AND REQUEST FOR AN ECF

Despite this challenging environment and lower-than-projected oil revenues, the Government implemented the SMP in a broadly satisfactory manner, with most quantitative indicators at end-September and end-December 2013 being met. In particular, they adhered to the main budget policy indicators, including the NOPD and the threshold for poverty-reducing social expenditures.

Most structural benchmarks under the SMP were observed albeit some with delays often due to capacity constraints The institutional and technical complexity of a remaining structural measure—preparing and updating a monthly treasury cash management plan—made it difficult to integrate cash planning with public procurement plans and, therefore, challenging to meet the benchmark within the lifespan of the SMP. However, improvements in public procurement will be pursued by aligning procedures in this area with international standards.

Building on the progress achieved under the SMP and given the protracted balance of payments problems over the medium term due to the trend reduction in oil revenue and the development needs of the country, my Chadian authorities are requesting Fund assistance under the Extended Credit Facility. The program will help to reduce vulnerabilities to external shocks and will provide continuity with the recent SMP. The National Development Plan (NDP) was presented to donors at a Round Table Conference in Paris last July and received strong pledges of support. My authorities hope that they can count on partners to deliver on existing commitments and on additional pledges to close the NDP's financing gap.

As laid out in their Letter of Intent and Memorandum of Economic and Financial Policies (MEFP), the program aims at: (i) ensuring fiscal sustainability and enhancing macroeconomic stability; (ii) strengthening fiscal institutions; (iii) fostering economic growth including through diversification; and making it more inclusive; and (iv) reaching the completion point under the HIPC Initiative and serving as a catalyst to mobilize financing from bilateral and multilateral partners. The debt relief will enable the authorities to allocate more resources to poverty alleviation. My authorities are confident that the policies and reforms presented in their MEFP will allow meeting their objectives.

II. RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

The Chadian economy has experienced a rebound since 2010, averaging a real non-oil GDP growth above 8 percent per year. In 2013, growth rate reached 3.9 percent. Inflation remains contained, despite price liberalization for certain products, thanks to efforts made by the government to modernize agriculture and raise food supply through the *Programme National pour la Sécurité Alimentaire* (National Program for Foods Security). The Chadian authorities intend to build on these gains to make further progress towards food self-sufficiency.

On the fiscal side, the authorities have brought the non-oil primary deficit (NOPD) down to 17.6 percent of non-oil GDP in 2013 from 20.1 percent in 2010, through continuous efforts to raise revenue, notably the implementation of action plans of the income tax and customs agencies, and a better control of current spending. More specifically on revenue mobilization, actions have been focused on expanding the tax base, combating evasion and enhancing the capacities of the collection agencies. As a result, the non-oil tax revenues have reached about 9 percent of non-oil GDP—the highest level in the past ten years—but the authorities understand that there is considerable room for further improvement.

Regarding the external sector, the decline in oil exports stemming from existing fields maturing has led to the worsening of the current account deficit to reach 9.5 percent of GDP last year, putting pressures on the balance of payments despite foreign direct investment (FDI) inflows. As a consequence, international reserves stood at 2.5 months of coverage of imports of goods and services at end 2013. Oil production is projected to grow anew with the new fields coming on stream. However, the balance of payments remains subject to fluctuations of international oil prices and unexpected adverse events in the oil production process such as the recent energy shortage.

While convinced of the need to diversify the economy and sources of revenue, the Chadian authorities are of the view that positive prospects in the oil sector—stemming from oil exploration activities and new fields—should provide them some leeway in conducting the necessary structural reforms and allow fiscal space for public investment in a gradual but steadfast fiscal consolidation plan. In this vein and for longer-term development objectives, the Chadian State has acquired shares in the largest oil consortium operating in the country, Esso. This strategic acquisition will generate positive financial returns; provide the country with a major productive asset and the opportunity to enhance national expertise in upstream oil operations; and bring in significantly higher fiscal revenues as early as 2018.

III. MEDIUM-TERM CHALLENGES AND POLICIES

My Chadian authorities will build on the progress achieved under the SMP to implement medium-term policies and reforms that will enhance fiscal sustainability mainly through strengthened PFM; ensure macro stability; improve the business environment to promote a private sector-led and job creating growth; promote the structural transformation of the economy; and significantly reduce poverty. The success of the ambitious program will require technical assistance from the Fund and other partners in various areas, notably implementation of program-based budgets; update and optimization of the oil revenue forecasting model; developing and managing the monthly cash management plans, tax expenditures; quality of statistical data; and adapting budgetary and accounting nomenclatures as well as the presentation of the State Financial Operations to the CEMAC community guidelines.

Fiscal Policies and Reforms

My Chadian authorities' pursuit of lower NOPD ratios throughout the 2014-2017 program will meet the objectives of promoting fiscal and debt sustainability and creating fiscal buffers. The NOPD will continue to serve as anchor of the authorities' fiscal consolidation efforts by bringing down this balance in a gradual but steady manner. Efforts to this end will include increased non-oil revenue collection and containment of primary current expenditures while preserving poverty reduction outlays. The overall budget deficit for 2014, equivalent to 0.5 percent of non-oil GDP will be covered by additional identified resources, notably exceptional revenues in the mobile phone and oil sectors; issuance of Treasury bills; rollover of amortizations due from the oil sale advances and from a loan with a CEMAC member.

Ensuring fiscal sustainability will also require fiscal structural and institutional reforms. Therefore, the Chadian authorities envisage an ambitious reform agenda, which is well sequenced and mindful of the progressively improving capacities. The agenda is well described in the authorities' memorandum, and the technical and human capacities of the relevant fiscal institutions will be strengthened along the lines described in the authorities' MEFP (paragraph 31).

Ensuring Debt Sustainability

The Chadian authorities reiterate the importance they attach to ensuring sustainable public debt. They will refrain from contracting new external non-concessional loans. As a demonstration of their commitment to debt sustainability, they have cancelled an important infrastructure financing agreement—Master Financial Agreement (MFA)—with a foreign banking institution, amounting to US$2 billion, on grounds of insufficient concessionality.

They will subject all debt proposals to the analysis of the two structures in charge of providing binding opinions on all new loans proposals (the Chadian Team on Debt Analysis and Sustainability, *ETAVID*, and the National Commission for Debt Analysis, *CONAD*) whose capacities are being enhanced. The authorities also strive to strengthen communication within the government, and between the government and the Fund on debt-related issues. In this regard, the government has received—and will continue to receive—technical assistance from the World Bank and AFRITAC Centre to improve debt management.

Sustainable and Inclusive Growth

My authorities' strategy to sustain growth and achieve significant reduction in poverty leans on consolidating economic and financial stability, promoting employment by organizing the informal sector, improving education and training, and access to basic infrastructures and public services (electricity, water supply, roads) notably in rural areas. Chad endeavors to transform its economy by diversifying sources of growth towards agriculture and livestock sectors which also carry strong potential to make growth more inclusive.

The authorities are committed to further improve governance and transparency in public operations and enhance the business environment. In this vein, the reform of the public procurement and compliance with the Extractive Industries Transparency Initiative (EITI) remain priorities. The Government will also pursue and enhance dialogue with the private sector to favor its development. Finally, building on strengthened stability of the banking sector achieved through the recent restructuring of state-owned banks and on the recommendations made in the FSAP, further measures will be geared at increasing access to financial services, notably in rural areas, and at developing and organizing the microfinance sector.

IV. CONCLUSION

The economic situation of Chad has improved markedly since peace was restored, enabling the authorities to implement important economic measures which are helping the country to move towards macroeconomic stability. As institutional and financial constraints remain key impediments to Chad reaching its development goals, the authorities will rely on the Fund to provide technical assistance, especially in the fiscal area, and in catalyzing donor resources while assisting in meeting the requirements for debt relief under the HIPC Initiative. Chad urgently needs Fund assistance to meet balance-of-payments needs in the face of volatile oil revenue and to pave the ground for long-term development. I would, therefore, appreciate the support of the Executive Board to my Chadian authorities' request of Fund assistance under the Extended Credit Facility.